

10 Things You Should Know About Buying Auto Insurance

1. How is Your Insurance Rate Determined?

Two factors determine what you pay for auto insurance. The first factor is underwriting and the second factor is rating. Insurance companies underwrite to assess the risk associated with an applicant, group the applicant with other similar risks and decide if the company will accept the application. Based on the results of the underwriting process, the rating assigns a price based on what the insurer believes it will cost to assume the financial responsibility for the applicant's potential claim.

Each company adopts its own rating system, although there are general guidelines that all companies follow.

The single greatest influence on the rating process is claim frequency. This does not mean how many times you specifically have made an insurance claim, although that will have an additional effect. Claim frequency measures how often an insured event occurs within a group relative to the number of policies contained in that group. Persons sharing characteristics with high claims groups will be charged more for insurance coverage.

2. Specific Factors that Affect Your Rate

- *Your driving record* – drivers with previous violations or accidents are considered to be higher risk
- *Your geographic territory* – urban areas have more claims than rural areas
- *Your gender and age* – males have more accidents; certain age groups have more claims
- *Your marital status* – married people show lower rates of claims
- *Prior insurance coverage* – if you have been cancelled for non-payment of premiums
- *Vehicle use* – higher annual mileage results in higher exposure to risk
- *Make and model of your vehicle* – luxury and sports cars average a higher number of claims

3. Ask Your Agent About Discounts

Discounts are awarded because the insurance company sees you as a “better risk.” Here are some discounts you should look for: multiple vehicles, driver education courses, good student, safety devices, anti-theft devices, low mileage, good driver/renewal, auto/home package and dividends. Not all states offer all discounts, so check with your agent to see if you qualify.

4. Tort System vs. No-Fault System

Each state must implement either a tort system or a no-fault system. The system your state has implemented will determine what kind of insurance is available to you. The three basic coverages sold under the tort system are bodily injury liability insurance, property damage liability insurance and uninsured motorists coverage. In a no-fault state, coverages will vary, but under a no-fault system your insurance company pays you directly for your losses as a result of injuries sustained in an accident, regardless of who is at fault. Check with your state insurance department for questions concerning tort or no-fault state systems.

5. Check Into Optional Coverage

The most commonly recognized coverages, in addition to the basic liability package, are collision and comprehensive coverages. Collision coverage pays for physical damage to your car as a result of your auto colliding with an object such as a tree or another car. This is relatively expensive coverage and is not required by law. Comprehensive coverage pays for damage to your auto from almost all other causes, including fire, severe weather, vandalism, floods and theft. This coverage will also cover broken glass and windshield damage. Comprehensive coverage is less expensive than collision, but is also optional. Other optional coverages include medical payments coverage, rental reimbursement coverage and towing and labor coverage.

6. Where to Go for More Information

Information is available to consumers from a number of unbiased sources. These sources include public libraries, state insurance departments, online resources, consumer groups and consumer publications. Every state insurance department has personnel available to answer questions regarding auto insurance coverage and many departments publish premium comparisons to make shopping around easier.

7. Shop Around Before You Buy

When shopping for auto insurance, premium quotations are a useful tool for comparison of different companies' products. When asking for price quotations, it is crucial that you provide the same information to each agent or company. The agent will usually request the following information: description of your vehicle, its use, your driver's license number, the number of drivers in your household, the coverages and limits you want.

8. Where to Shop

Check the newspaper and yellow pages of the telephone directory for companies and agents in your area. In addition, ask your neighbors, relatives and friends for recommendations on insurance companies and agents. In particular, ask

them what kind of claim service they have received from the companies they recommend. Remember to shop around to get the best price and service.

9. For Your Protection

Once you have selected the insurance coverages you need and an insurance agent or company, there are steps you can take to make certain you get your money's worth. Before signing an application for any insurance coverage, call you state insurance department and verify that the company and the agent are licensed to do business in your state. It is illegal for unlicensed insurers to sell insurance, and if you buy from an unlicensed insurer, you have no guarantee that the coverage you pay for will ever be honored.

10. Read Your Policy Carefully

You should be aware that an auto insurance policy is a legal contract. It is written so your rights and responsibilities, as well as those of the insurance company, are clearly stated. When you purchase auto insurance, you will receive a policy. You should read that policy and make certain you understand its contents. If you have questions about your insurance policy, contact your insurance agent for clarification. If you still have questions, turn to your state insurance department.

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