

Risk Management: Auto Insurance

Next to a home, an automobile is the most expensive piece of property that most people own. Therefore, it is important to protect against loss of an automobile from fire, theft, or collision. Even more important is protection against liabilities that can be created by owning and/or driving an automobile. The amount of liabilities that ownership and use of an automobile can cause an individual are unlimited. The total financial assets of most people are insufficient to meet the potential demands of liability actions arising from automobile use or ownership. All property owned, as well as expected future income, can be taken to satisfy liability claims.

Kinds of Coverage

Most automobile insurance policies or contracts follow a standard format. Policy comparisons are fairly easy because coverage usually is divided into identical parts listed in the same order. The types of coverage provided are liability, medical payments, uninsured motorist, personal injury protection (PIP), collision, and comprehensive. Each policy pays up to the limits stated in the contract.

Liability

Liability laws require that you, the insured, pay for injuries to other people or damage to their property caused by negligent operation of your car. When you are insured for liability, the insurance company will provide a lawyer to defend you if you are insured for such injuries or damage, and the company will pay the amount of a settlement or award up to the limit specified in your policy.

There are two ways insurance policies specify the maximum amount your company will pay per accident. Some policies have a split liability. For example, if a policy specifies a 100/300/50 limit, this means the company will pay up to \$100,000 per person for bodily injuries, up to \$300,000 in total for bodily injuries, and up to \$50,000 for property damage.

For example, suppose there are two riders in the other car. One sustains \$225,000 in bodily injury and the other \$75,000 in bodily injury. The insurer will reimburse the first rider for \$100,000 and the second rider for the full \$75,000 sought, since total payments are under the \$300,000 limit for a single accident. You are responsible for the excess liability of \$125,000 to the first rider.

Other policies have a single liability limit. The maximum will be stated as a single amount—\$300,000 for example. This means the company will pay a total of \$300,000 for all liability claims (both for injuries and property damages) incurred in an accident; the insured is responsible for excess liability. In the previous example, all \$300,000 would be paid.

You are covered as long as your car is driven by you, members of your family who live with you, or others who drive your car with permission. You and all members of your family who live with you are covered even while driving someone else's car if you have the owner's permission.

The Maryland financial responsibility law requires individuals to carry a minimum of 20/40/10 in liability insurance. This level is considered too low to serve as a standard for a car owner. Experts agree that middle income families should have at least 100/300/50 or preferably 250/500/25. A relatively small percentage increase in your annual premium can substantially increase the liability limits. Car owners in upper income brackets especially are vulnerable to lawsuits and should consider an umbrella policy raising liability protection on both the homeowners and auto policy to \$1 million or more. Court awards often are based on more than present assets and may include future earnings as well.

Medical Payments

This coverage provides for payment of medical and funeral expenses incurred by you, your family, and guests riding in your car. It also pays medical expenses if members of your family are struck by a car while walking or if they are injured in someone else's car. The maximum payment per person will be specified in your policy. Typical limits on payments are low because this coverage is not meant to replace a good health insurance plan.

Uninsured Motorist

About 10 percent of motorists are uninsured in the United States and a substantial number of Maryland motorists do not carry insurance even though it is required by law.

Uninsured motorist coverage applies mainly to bodily injuries, the expenses for which an uninsured motorist or hit-and-run driver is legally liable. It also applies to injuries caused by a motorist who has automobile insurance at the time of an accident but whose insurance company becomes insolvent. Uninsured motorist protection covers you and all members of your family who live with you whether riding in your car or someone else's or when struck by a car while walking. It also covers guests occupying your car. Your insurance company agrees to pay damages to injured persons up to the minimum limits prescribed by the financial responsibility laws in Maryland: 20/40/10. However, higher limits usually are available.

Underinsured motorist coverage operates in the same manner as uninsured motorist, except that when the other motorist is insured for less than the damages, your policy pays for the difference up to prescribed limits. Standard policies automatically include underinsured in the definition of uninsured on Maryland forms.

Personal Injury Protection

PIP pays for medical and funeral expenses and lost wages, and provides substitute service benefits. Wage loss coverage reimburses you for some or all of the income you lost because of an auto injury. Compensation is limited both in dollar amount and in length of time you are to receive payments.

Substitute service coverage pays for services you cannot perform while recuperating from an injury. For example, if you have to hire a caretaker for your child, or to mow the lawn, the insurance will cover the expense for a limited period.

Maryland no longer requires PIP coverage for the insured, listed drivers on the policy and family members 16 years or older. But this kind of insurance fills important gaps for car owners who have no disability insurance and some cost sharing requirements in their health insurance. It also may be the only protection for your passengers if they have no health or disability insurance.

Collision

Collision coverage pays for damage to your car in a collision, regardless of who is at fault. The coverage applies whether your car is damaged in a collision with a vehicle or other object or as a result of turning over. Collision insurance does not cover injuries to people or damages to the property of others.

Collision insurance will pay no more than retail value of your car immediately before the accident. Insurance companies use one of the special guides such as the National Association of Automobile Dealers Official Used Car Guide to determine the book value of your car. Should your car have a special paint job or unique feature, you need to arrange for special coverage and pay an extra premium.

When you buy collision coverage, you select a deductible, which is a specific amount you agree to pay before the insurance company pays. The higher the deductible the lower the premium. The virtue of a higher deductible is more obvious considering that you may not want to file claims with your insurance company unless damages exceed \$200 or \$500. Filing small claims might lead a company to increase your premium or not renew your policy.

As a car ages and the cash value diminishes, the cost of collision insurance decreases, but only significantly in the first few years of a car's life. You may pay the same collision premium for a 10 year-old car as a 5 year-old car even though the 5 year-old car is worth substantially more. Therefore, you should consider dropping this coverage as your car ages.

Comprehensive

Comprehensive coverage is an option that pays for damage to your car from almost all causes but collision. This includes losses caused by fire, theft, vandalism, earthquakes, explosions, falling objects, floods, hail, windstorms, and collision with animals or birds. Theft of an item such as a CB radio usually is excluded from this coverage.

The cost of comprehensive insurance varies widely and depends on your location, type of car, and deductibles. You may want to consider dropping this coverage as your car ages for the same reason you would drop collision insurance.

Exclusions

Beware of what your policy does not cover. Most policies exclude non-installed sound and CB equipment from theft coverage. You might consider covering these with a floater on your homeowners policy.

A few other common exceptions are important to your personal liability coverage. You are not covered:

- if the accident was intentional;
- when you are driving someone else's car without permission;
- when driving a car you own, if it is not listed on your policy (an exception is made when you have traded cars at which time you have a 30 day grace period);
- when carrying passengers or property for a fee (exception is made for carpools);
- under your family auto policy when driving a motorcycle;
- if driving a car that is not owned by you but is made available on a "furnished and available" basis;
- when driving a noninsured car of a live-in relative; and
- by your family auto policy when driving a rental car unless you are a "name insured" or resident spouse.

If you think you might be subject to any of the above exclusions, discuss the situation with your insurance agent. It is important to carefully read your policy and become familiar with the exclusions pertaining to each kind of coverage.

You also should be aware of the insurance company's right to cancel your policy. The cancellation clause gives the insurance company the right to cancel a policy for any reason during the first 60 days of the policy term. After 60 days a policy can be canceled only with 30 days notice for a specific reason. Reasons may include that the insured had his or her driver's license suspended, has become subject to heart attacks or epilepsy, has a number of traffic violations, or has been convicted of a felony, criminal negligence with regard to operating a motor vehicle, or drunk driving.

Insurance companies vary in the way they use the cancellation clause. Some companies insure only preferred risks and therefore strictly enforce the cancellation clause. Other companies raise their rates. The risk of cancellation by these companies is low.

Rating Factors

Automobile insurance rates are based primarily on the dollar amount of claims paid out by insurance companies. The more insured accidents you and others have, the more claims insurance companies must pay. The more dollars paid in claims, the higher the cost of your automobile insurance. Although companies have different methods for determining insurance rates, they generally consider the following factors.

Territory

If you live in a densely populated area where accidents are frequent and there is a high risk of theft and vandalism, your rates likely will be high.

Year, Make and Model of Car

Generally, the more expensive the car, the more you will pay for collision and comprehensive insurance. Insurers find sports and high performance cars to be driven in a more hazardous fashion so the rates are higher. Conversely, older, low performance cars, which cost little to replace, draw lower rates.

Age

As a group, drivers under the age of 30 are accident prone. Therefore, young drivers as well as families with young drivers in the household usually are charged higher rates.

Sex

Males, as a group, are involved in twice as many accidents as females. This does not necessarily mean females are more skillful drivers. Statistics indicate that males may have more accidents because they drive more miles and under more adverse conditions than female drivers.

Driving Pattern

Your rates will depend on the way you use your car. Higher rates will be charged to those who commute to work rather than strictly use their car for pleasure driving.

Driving Record

Most companies apply a surcharge to drivers who recently have been involved in accidents or who have been convicted of serious traffic violations. Many companies only will insure persons with clean driving records.

The more claims you have the higher your premium will be. The insurance company may even drop you at renewal time. If you are dropped from your company or have a poor driving record, you may be classified as an "assigned risk."

Assigned Risks

Although many reckless drivers are classified as assigned risks, the majority of assigned risks have clean driving records. They are forced into the assigned risk plans because they come from a statistically risky group (like young drivers), or live in a area that has a high number of insurance claims.

If you are threatened with assigned risk coverage, you can do something about it. First, contact the state insurance department and ask it to intercede with the insurance company. Second, try other insurance companies to see if they will insure you. Do not assume that because you have been turned down by one insurance company that a high risk company is the only alternative. Companies' standards for accepting new policyholders vary widely and change daily as their rates and volume of business change. If other insurance companies will not insure you, try companies that specialize in high-risk drivers. If all else fails, you can be insured by the Maryland Automobile Insurance Fund.

Maryland Automobile Insurance Fund

The Maryland Automobile Insurance Fund (MAIF) is a public corporation, created to operate basically like any other insurance company. The eligibility requirements state that the applicant must:

- be a Maryland resident,
- have a currently valid Maryland driver's license or currently effective Maryland automobile registration, or both, and
- have had coverage canceled or not renewed by one private insurer or been turned down for insurance by two private insurers authorized to write such a policy in Maryland.

If you must join MAIF at a high price, try to get other coverage after 1 year.

Umbrella Liability Policies

Many people need to consider purchasing an umbrella liability policy that covers \$1 million or more in damages. These policies extend not only your liability coverages but also broaden the definition of liability exposure to include personal injury claims such as libel and slander.

To purchase an umbrella policy, you must maintain underlying liability limits on your auto insurance and comprehensive coverage on your homeowners policy. You can purchase from \$1 to \$5 million of umbrella liability insurance. The annual premium for \$1 million of coverage ranges from \$100 to \$150 or more depending on your circumstances. It generally is not much to pay in exchange for the potential coverage and service you might receive.

Handling an Accident

The odds are overwhelming that you will be involved in at least one auto accident. If you have an auto accident, you should:

- stop and turn off the ignition;
- get help for the injured;
- guard against further damage;
- notify the police;
- exchange essential information such as name, address, phone number, license number, vehicle registration information, and insurance company;
- write down names, addresses, and phone number of witnesses, police, and emergency personnel;
- take pictures, if you have a camera;
- make notes on details of accident such as time, place, weather, lighting, road conditions, and traffic signs or signals;
- ask police where you may obtain a copy of the accident report;
- report the accident to your insurance company as soon as possible—your insurance company will tell you what steps to take in filing a claim.

Claims Procedures

If your car is involved in an accident, if it is damaged by fire, flood, or vandalism, or if it is stolen, report the damages to your insurance agent or company as soon as possible. You will be told how to proceed and what forms or documents will be needed to support your claim.

Keep records of your accident-related expenses including medical payments, lost wages, and additional traveling costs. If these losses are sizable, you may want to seek the advice of an attorney.

Keep copies of all your paperwork. You may need to refer to it later. Cooperate with your insurance company as it investigates, settles or defends your claim. If you feel you are not being treated fairly, contact the Maryland Insurance Commissioner, located in Baltimore.

Ways to Cut Premium Dollars

Drive Safely

Nothing affects your car insurance rates more than your driving record. An at-fault accident or a serious driving violation will increase your premium dramatically.

Use Deductibles

Your auto insurance rates will decrease as you raise the deductible amounts on your policy.

Take Advantage of Discounts

Do not wait for your insurance agent to offer a discount. You must ask. Most auto insurers offer the following types of discounts:

- driver training;
- good student;
- student away at school;
- carpool;
- multicar;
- air bags;
- antitheft devices;
- female, age 30 to 64, sole driver in household;
- senior citizen; and
- nonsmoker.

Pay Premiums Annually

Finance charges add to the cost of insurance. Should you be unable to pay the premium annually, closely check the cost of any premium financing plan.

Consider Insurance Costs

When you buy a car, consider the insurance costs. Insurance costs go up if you buy a high-powered or more expensive automobile. Talk to agents about the cost of insuring before you buy.

Reduce or Eliminate Coverage

You can cut premium dollars by reducing or eliminating collision and/or comprehensive coverage on an old car. The amount you may pay in premiums may equal the cash value of your automobile. Insure all your cars under one policy.

Notify your insurance company if you (or household member):

- substantially cut down on your driving;
- move to a different neighborhood, city or state;
- buy or sell a car;
- marry; or
- turn 21, 25, or 29.

Do Not Duplicate Coverage

Compare your policies. Do not buy an automobile insurance policy and a health/accident policy that pay for the same things. Comparison shop. The cost of identical auto insurance coverage can vary as much or more than 100 percent in the same state. Get information about rates, coverage, and service from a number of companies or agents. A few phone calls may save you \$50 to \$100. Use the Auto Insurance Quotation Worksheet to compare rates between companies.

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Auto Insurance Quotation Worksheet

Rating information

Drivers	Age	Sex	Marital status	Percentage use of auto
Principal driver	_____	_____	_____	_____
Other driver	_____	_____	_____	_____
Other driver	_____	_____	_____	_____
Other driver	_____	_____	_____	_____

Number of accidents or moving violations in past 3 years _____.
 List on separate sheet. Use date of conviction for violation.

Autos to be insured

	Make	Model	Year	Annual mileage	Miles to and from work driven early
Auto 1	_____	_____	_____	_____	_____
Auto 2	_____	_____	_____	_____	_____
Auto 3	_____	_____	_____	_____	_____
Auto 4	_____	_____	_____	_____	_____

Insurance information

	Annual premiums			
Coverage	Amount or deductible	Company	Company	Company
Liability	_____	_____	_____	_____
Medical payments	_____	_____	_____	_____
Collision	_____	_____	_____	_____
Comprehensive	_____	_____	_____	_____
Uninsured motorist	_____	_____	_____	_____
Medical payments	_____	_____	_____	_____
PIP	_____	_____	_____	_____
Total annual premium	_____	_____	_____	_____

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