



The Road to Understanding Auto Insurance

Teacher's Guide

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This guide is designed to accompany the CD Power Point presentation developed by the Montana Department of Insurance for use in Montana's Driver Education classrooms.

The intent of this program is to give students a basic understanding of Automobile Insurance and what things they can do to influence costs and become an informed insurance consumer.

This guide will provide some additional general information that can be shared with your class as they follow along with the slides. It should promote discussion and hopefully provide some answers to those questions that we have found are frequently asked.

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1. **Auto Insurance - What is it?**

Compare auto insurance (contracts) policies to other types of contracts, such as purchasing a car, hiring a contractor to build your house etc. It is as simple and any other contract that offers services in exchange for payment. Like any other contract, each party has certain duties it is required to perform, these duties are specifically spelled out in the policy contract. The company will say, in writing, exactly what kinds of things are "covered" under the policy and what things are not. The policy will tell you what your duties are and what the Company expects you to do - like pay your premium, report an accident, tell the truth when filling out the application, things like that. The policy will also tell you all of the coverages that are available for you to choose from and what those coverages do - so that you can become an informed buyer and make the decisions regarding which coverages you need and which you do not.

2. **Montana Law.**

Montana Law does not specifically require that you buy auto insurance; instead it states that you must be "Financially Responsible" for any injuries or damage you might cause while operating a vehicle. Since most people do not have enough money just laying around to "self insure" or pay for any injury or damage you might cause, for most of us the answer is to purchase an insurance policy.

Also keep in mind that it takes very little damage to exceed the \$500 threshold for filing a police report - when there is any doubt - call the police and make a report.

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3. **Coverages.**

This slide describes the most commonly available coverage offered by most auto insurers in Montana. There are many other things that companies may also offer you.

Bodily Injury / Property Damage Liability coverage is the part that will satisfy the State's requirement for Financial Responsibility. All of the other coverages are optional and you can choose which of them you want to have based on your own personal situation.

4. **Liability.**

Liability covers damage and injury that you cause to someone else. It does not cover your injuries or damage to your vehicle.

In general; Liability = Negligence = the accident was your fault.

Bodily Injury and Property damage Liability coverage. This is the one that satisfies the State's Financial Responsibility Law. If you cause injury to anyone or damage to someone else's property, your insurance company will pay for that damage up to the "limit" you have chosen on your policy.

Since most of your students are probably looking at cars for sale, in the paper or actually out shopping for a car, this is a good time to discuss the inadequacy of the State's minimum liability requirements. They will immediately recognize that \$10,000 for property damage coverage just doesn't go very far when compared to the cost of today's vehicles. The same goes for the bodily injury coverages; the minimum requirement of \$25,000 for any one person's injuries or \$50,000 for multiple

injured persons just doesn't go very far. We all need to be aware, that if we choose these minimum limits, we may be held responsible for the full cost of the property damage and/or bodily injury that we cause. If you have insurance, but it's not enough to fully restore the injured person to the condition, both physically and financially that they were in prior to the accident, you could have to pay the difference between what their actual damage cost and the amount your insurance company paid out under your policy. It is important that we are able to assess the amount of coverage that we need.

Most of us should carry liability limits sufficient to protect our assets (home, retirement, savings etc.) in case we are at fault for a serious accident or get sued for damages we caused as a result of an accident.

Many insurance policies may also include coverage for the cost of your defense if you are sued as a result of a covered accident.

5. Collision.

Collision accidents are generally considered to be your fault; you collided with another car, a tree, a pedestrian or slid on the ice and collided with the ditch bank. For all of these things your insurance company can increase your premiums.

However; if you are hit by someone who is uninsured, and need to have repairs to your vehicle, these repairs would be paid under your policy's collision coverage and no increase in premium would be allowed.

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6. "Chargeable Losses"

Accidents and tickets stay on your driving record for 3 years. Insurance companies are allowed to increase your premiums due to accidents BUT they are specifically prohibited from charging you any additional premiums or "surcharges" because of a claim for an accident that is not your fault or because of an accident or citation that is more than 3 years old.

7. Comprehensive.

At this time you can give the class several different accident "scenarios" and ask them if they can tell you if those things would be covered under Collision or Comprehensive coverages. It is important that we understand the difference between these coverages and know if we even need them at all. Of course, we would all like for the insurance company to pay to fix our vehicles if it gets damages but sometimes, especially for these younger folks, it just is not cost effective to purchase these coverages. Your six month premium with Comprehensive and Collision coverages could easily exceed the value of your older used car.

8. Deductibles.

It is also important that we understand that most of the time, if we choose to have damage coverage on our vehicle i.e. Collision and / or Comprehensive coverages we will have to choose the appropriate deductible.

For example, a \$1000 collision deductible may make sense on a

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\$30,000 new vehicle if paying out \$1000 in the event of an accident would not pose too bad of a financial hardship on you. However the same \$1000 deductible would not make sense on a \$1500 older used vehicle because by the time you pay the monthly premium for the coverage and the deductible, the amount you have paid out probably already exceeds the value of the car - in other words, you could have saved the premium and the deductible and just bought a replacement car.

9. **Your vehicles value.**

I think it is especially important that we keep a realistic view of just what is the "actual cash value" of our car. We all like to add things and fix our vehicles up to be how we like them, adding paint, wheels, stereo equip. BUT we need to keep in mind that these things we add to our car may NOT actually add to its "actual cash value". For example, here in the slides, if you were to buy the Honda in the top picture it might cost you \$1500 or so, take that same car and put another \$10,000 worth of parts, extras, paint, wheels, stereo equipment in it and it's "actual cash value" is most likely a little more than the \$1500 you paid for the car but almost certainly NOT the \$11,500 you have actually put into the car. In some cases, "fixing" your car up may actually make it's market value lower as not everyone looking for a used Honda would be looking for one with a neon flamed paint job or some such thing.

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10. **Custom Equipment.**

Again with custom equipment we should be mindful of the car's value when installing this kind of stuff. A \$5000 stereo system does not increase your car's value by \$5000 - so keep that in mind as you are investing in these types of things. People work very hard for their money and it's a shame when you've gotten thousands of dollars invested in a car and if it's totaled in an accident the insurance company may determine it's "actual cash value" is significantly less.

Also we like to point out that Comprehensive coverage is the only thing that will cover your car or any part of your car, like your stereo, for theft. Even if you have comprehensive coverage, it will not cover any of your "personal" property like clothing, books, ski's, snowboards (even if they are locked in a ski rack that is permanently attached to the car). Now these things *may* be covered under your parents Homeowners policy but even then it would usually be subject to a \$500 or more deductible. These things are just NOT covered under any part of your auto insurance policy.

11. **Auto Medical Coverage.**

Most policies offer this coverage usually in smaller amounts like \$2000 or \$5000. Higher limits are usually available if you want them and the cost is relatively low. Your Auto Medical coverage may also cover you if you are a passenger in someone else's car, a pedestrian who is struck by a car or even on a bike if you are hit by a car. Most Auto Medical coverage will also pay benefits if you injure yourself while getting in or out of

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the car, slam your finger in the door, break your toe while changing a flat tire or any number of other scenarios that involve your car.

12. **Uninsured and Underinsured Motorist coverage**

This is perhaps the most misunderstood coverage out there. It does NOT pay for the person who doesn't have insurance; it simply pays for things like Medical bills, lost wages, pain and suffering if YOU or passengers in YOUR car are injured by someone who either has no insurance or someone who does not carry enough insurance to pay for your injuries.

Most companies in Montana right now do not offer any type of uninsured motorist "property damage" coverage. So, if your car is damaged by an uninsured motorist - the only way to have the repairs paid for by insurance is to turn in the claim under your own collision coverage, if you carry that coverage.

If you are in an accident and the person at fault in that accident has chosen only to carry the State Minimum Requirements of Liability insurance, and remember that is only \$25,000 for one person's injuries and \$50,000 for all injured people, and in that accident you suffer injuries and your medical bills are more than \$25,000 then your UNDERINSURED motorist coverage can pay the balance of your bills, plus things like lost wages if you were off work due to your injuries.

Since it would be virtually impossible to make sure that every car on the road is insured all the time in every case, remember

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YOU have the opportunity to purchase coverage that will protect you in case you are hit by an UNINSURED or an UNDERINSURED motorist.

13. Optional policy coverages

14. Premiums.

15. Keeping your Premiums Low.

Always ask your company or agent if there is anything else you could do to lower your premiums. Many company's have discounts available for a variety of different things and you want to make certain you're getting all of the discounts that you may qualify for.

16. Citations.

Drivers who have citations for driving violations are more likely to have accidents. Drivers with one or more speeding tickets on their records are statistically 4 times more likely to be involved in an injury accident than drivers with 0 speeding tickets.

Again, insurance companies can use citations and/or accidents "against you" for a period of 3 years from the date of the citation or accident.

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17. Alcohol Related Citations.

We already discussed that insurance companies can only use tickets "against you" for 3 years from the date of the ticket. However; if that ticket results in a suspension of your drivers license then that 3 year "clock" doesn't start to tick until your full driving privileges are restored. Even if you get a provisional drivers license to go to work or something like that, that 3 years does not start to tick until you have your full driving privileges back. Also, having a suspended license is often grounds for immediate cancellation of your insurance since usually having a valid license is a "condition" of the policy.

18. Policy exclusions.

Your policy can also "exclude" certain drivers from coverage if the Company decides to do that. For example, you have insurance with your parents, and you have accumulated too many tickets or accident; your company may not want to cancel your entire family - so they might offer your parents a "driver exclusion" stating that your parents accept that the company will not cover any accidents that happen if you are the driver.

19. Vendor Single Interest coverage.

Scenario: You worked for 2 summers and have saved up \$5,000. You decide to buy a car that costs \$10,000, so you go to the bank and get a loan for the other \$5000. When you sign for the loan you also sign an agreement that you will provide insurance coverage including Collision and Comprehensive coverage for the car. Your bank requires this

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because they want to be certain that if you have an accident that you can afford to get the car repaired so if they ever have to repossess it - it will be in good condition. But you are lazy and never get around to going to your insurance agent for a policy. So the bank sends you a letter saying they have put insurance coverage on the car for you. Not only are you now paying a good deal more for this coverage that you could have gone out and bought yourself, the bank has just added the extra cost of insurance to your loan - so now you're paying interest on that money as well as the original amount you borrowed.

A few months later you have an accident, you run a stop sign and hit someone - and your car is totaled. Well now, your car is totaled, the insurance policy the bank purchased will pay off the amount you owed the bank BUT it won't pay the \$5000 you put down on the car; it won't pay for the damage you caused to the other persons car or the injuries they have because of the accident and you probably got a ticket for no insurance from the nice officer that responded to the scene because the insurance coverage the bank "gave" you doesn't meet the State's requirement for financial responsibility. So you could be out your car, and half your paychecks for the next however many years it takes you to pay for the other person's car you damaged and any injuries you caused and NOW when you go to get insurance you're going to pay a higher premium because you'd been driving without Liability insurance!

20. Report accidents to the police

21. **Permissive Operator.**

In Montana, the Law requires that the insurance policy in force for a vehicle is primary coverage. This usually means that the insurance on the car will always pay first. This also means that if you loan your car to someone else and they have an accident, your insurance policy will be the first to pay out for the accident; as a result, your insurance company can place a surcharge or increase the premium on YOUR policy - NOT the person who driving!

This also may be a good time to bring up alcohol related incidents. We get a lot of questions on this topic and usually at least one that asks, "what if you've been drinking at a party and have someone drive you home?" Well, quite simply, if you've been drinking, your judgment is impaired - good for you for realizing this and asking someone else to drive - BUT, in your impaired condition - how able are you to judge the other persons ability to drive?? Do you know for a fact that they have not been drinking? It's best to call someone you know has not been drinking (parents) and have them come and get you - just leave your car parked and ride with a known sober driver.

22. **Read it!**

This is perhaps the best advice we can give. Would you buy a car or even a pair of shoes without trying it first? So why would you buy an insurance policy without reading it and making sure you understand exactly what coverages you are buying?

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Understand what the insurance company is saying that it will do for you and understand what the insurance company expects you to do in return. I know it's not the most exciting reading in the world, but you will be so much better equipped to make an informed purchase if you have read the policy. As you read it, don't be afraid to ask questions - ask your Agent; he/she is there to help you. If you still have questions, you can always call the Montana Department of Insurance.

We hope this program has given you at least a basic understanding of Automobile Insurance, what it is, and why we need it and how you can make it work for you.