Chapter 1 Auto - Overview

Auto insurance companies use various types of criteria when evaluating an auto insurance application. Each car insurance company has specific groups of drivers they will accept and those they may refuse or charge higher rates. It is all based on risk factors. Guidelines are different from company to company, meaning two companies comparing the same driver may arrive at different conclusions. Even so, most companies consider the same risk factors.

During the underwriting process, car insurance applications are placed in a group based on how much money and how many claims the insurance company believes it may have to pay. Software is used for much of the underwriting process. The facts have been entered into software programs relating to past claims service and analysis of existing risk. The insurance company looks at motor vehicle records to determine how many accidents or tickets a driver has received. Many companies also use an insurance history report to see if the driver has made any auto insurance claims and the amount of money that was paid as result of those claims. Although accidents and violations can only affect the rates received for a specified period of time, many companies look back five or more years when deciding whether to accept the risk and issue the policy. Additionally many auto insurance companies look at the individual's credit history if allowed by the state. Insurers use credit history to determine which group the applicant belongs in; they don't look at the actual credit report.

Insurance does not completely eliminate anyone's risk because achieving an infinite number of exposure units is not possible. There may always be some deviation of actual results from expected results. Statistics upon which the predictions are based can never be perfect. Even if the statistics used for predictions are absolutely accurate there is no reason to believe that tomorrow's losses will duplicate the losses of today. Even minute changes in existing conditions can alter the results. As a result there will always be uncertainties in predicting insurance losses.

Auto Insurance

Many states mandate drivers to carry minimum amounts of liability insurance in order to guarantee compensation if they are at fault for an accident. Despite this requirement, not all drivers comply. Therefore it is recommended that individuals carry uninsured motorist coverage. It is never wise to believe other drivers will be responsible enough to have purchased insurance.

An insurance policy is a contract between the insured and the insurance company. The insured pays a premium, which is the price or cost of the policy purchased. The insurance company agrees to pay for the insured's losses resulting from events covered by the policy. Only events covered by the policy will be reimbursed. Property and casualty policies cover such things as fire, burglary, car collisions, and any other item specifically stated in the policy. Policies typically have what is referred to as policy limits. This means there is a limit to the amount of money the insurance policy will pay on a loss, even if the loss exceeds the specified coverage. Obviously it is wise to buy policy limits that are adequate.

If a driver causes an accident or is shown to be at fault for an accident, it will not matter how large or small his or her policy is. Damages will be awarded according to many factors but not the amount of insurance purchased. If the driver receives a judgment for $100,000 for example, and his or her liability policy has a $25,000 limit, he or she will still be required to pay the full amount awarded. People have lost their homes, savings, and other assets due to under-insuring. A higher insurance policy limit not only assures compensation for those who are wronged; it also protects the insured driver from financial consequences.

Whether a policy is for property and casualty or life and health, insurance policies seldom, if ever, cover every possible kind of loss. If an insured is concerned about a specific cause of loss questions should be asked to be sure whether or not coverage exists. Wise agents always specifically tell their clients of any policy limitations.

Many insurance contracts or policies contain deductibles. A deductible is a specific amount of money that the insured must pay on a claim before the insurance company will begin to pay anything. The deductible is usually per claim or per accident so it may apply as often as a claim or accident occurs. Any losses lower than the deductible amount will be the responsibility of the policy owner. For example, a policy with a $1,000 policy deductible will not cover a loss of $750 because it has not met the deductible amount. The higher the deductible listed in the policy, the lower the premium cost will be. This makes sense because a higher deductible saves the insurance company money since they are not liable for claims under that amount.

It is human nature to want an insurance policy to return the amount of premiums paid, whether through claims that are paid or other types of returns. However insurance is never intended to enrich the policyholder; the intention is to cover risks that could result in losses.

Auto Insurance Basics

An auto insurance policy is a package of different coverages. Most states require drivers to purchase a minimum amount of certain types of coverage, though it makes sense to buy more than what's required. Here we'll present a brief overview of auto insurance. We'll get into the details later.

Liability Insurance

Liability coverage is the core of any auto insurance policy and is required in most states. If an individual is at fault in an accident, liability insurance will pay for the bodily injury and property damage expenses caused to others in the accident, including the legal bills.

Bodily injury coverage pays for medical bills and lost wages. Property damage coverage pays for the repair or replacement of things damaged other than the insured's own car. The other party may also decide to sue the insured to collect "pain and suffering" damages.

Limits for liability are usually presented as a series of three numbers. For example, your agent might say that your policy carries liability limits of 20/40/10. That stands for $20,000 in bodily injury coverage per person, $40,000 in bodily injury coverage per accident, and $10,000 in property damage coverage per accident.

Minimum insurance may not adequately cover an individual in a major accident. This is why it's a good idea to buy more than the state requires. If an individual owns a home or other assets, he/she should consider purchasing more liability insurance because, in most states, the injured person(s) are allowed to sue the other driver who is at fault in a car accident.

Collision Coverage

Collision coverage will pay to repair the insured's vehicle. The insured usually can't collect more than the actual cash value of the car, which is not the same as the car's replacement cost. Collision coverage is normally the most expensive component of auto insurance.

By choosing a higher deductible, say $500 or $1,000, the insured can keep the premium costs down. However, the insured must keep in mind that he/she will have to pay the deductible before the insurance company pays anything on a claim.

Replacement Cost vs. Actual Cash Value

We've described the difference between replacement cost and actual cash value already, but it's a key concept of property insurance. Replacement cost is the amount it would take to replace the vehicle or repair damages with materials of similar kind and quality, without deducting for depreciation. Depreciation is the decrease in vehicle value because of age or wear and tear.

Actual cash value (ACV) is the value of the property when it is damaged or destroyed.

Claims adjusters usually figure ACV by taking the replacement cost and subtracting depreciation.

Sometimes insurance companies will “total” the car if the repair costs exceed a certain percentage of the car’s worth. The critical damage point varies from company to company, from 55 percent to 90 percent.

Comprehensive Coverage
Comprehensive coverage will pay for damages to the insured’s car that weren’t caused by an auto accident, such as damages from theft, fire, vandalism, natural disasters, or hitting a deer. Comprehensive coverage also comes with a deductible, and the insurer will only pay as much as the car was worth when it was wrecked.

Because insurance companies normally will not pay more than the insured’s car’s Blue Book value, it’s helpful to have a rough idea of this amount. If the car is worth less than the cost for the coverage, a consumer is better off not having it at all. Comprehensive coverage is not required by law the way liability coverage often is.

Medical Payments
Pays doctor and hospital bills and if necessary, funeral expenses for the policy owner and members of his or her family living in the same household regardless of who caused the accident.

It is important to realize that liability insurance will not pay for injuries sustained by the policy owner and members of his or her family living in the same household. That is because liability coverage refers only to third-party claims. The policyholder and family members are first parties in the contract. The insurer is the second party to the contract. The third-party is the other driver.

Medical payments insurance covers any passengers riding in the car, including someone else's car being driven by the policy owner and covered family members as long as they had permission to drive the car. Medical payments insurance would also cover pedestrians that were injured.

PIP and No-Fault Coverage
Personal injury protection (PIP) and broader “no-fault” coverages are expanded forms of medical payment protection that may be required in some states. Some states have optional PIP or no-fault coverage. Expanded features include payments for lost wages and child care.

If an individual has a good health insurance plan, there might be little need to buy more than the minimum required PIP coverage.

Some states have “no-fault” laws, meaning the auto policy must pay medical bills for injuries suffered in an auto accident regardless of who caused the accident. The laws were enacted in an attempt to reduce auto-injury fraud and keep insurance cost down.

Uninsured/Underinsured Motorists Coverage
Uninsured motorists (UM) coverage pays for injuries if the insured is struck by a hit-and-run driver or injured by someone who doesn’t have auto insurance. It is required in many states.

Underinsured motorists (UIM) coverage will pay if the at-fault driver causes more damage than his or her liability coverage can cover. In some states, UM or UIM coverage will also pay for property damages.

An individual probably will want to have at least the minimal amount of UM/UIM because if the other driver can’t be found, the insured will at least have some coverage for pain-and-suffering damages. We’ll be discussing UM/UIM coverage in more depth later on.

Add-on Features
Several supplemental auto coverages are available, either as separate premium items or included in augmented policies.

Rental reimbursement is a common add-on that covers the cost of insuring vehicle rentals from damage or theft.

Coverage for **towing and labor** charges in case of a road breakdown is also common.

Gap coverage for a new car will pay the difference between the actual cash value received for the car and the amount left on the car loan if the new vehicle is totaled in an accident.

Minimum Coverage Requirements
All 50 states have different requirements when it comes to auto insurance. In some states, motorists can't register a car without showing proof that they have liability insurance, while other states use an "honor system" that doesn't ask for proof of insurance until drivers have accidents or tickets on their records.

Premium rates for automobile insurance are higher in cities and suburbs in most cases. That is because there are larger numbers of vehicles in cities and suburbs, which is then likely to also experience the highest number of claims. Rates are rising everywhere however, and ultimately are determined by the number of claims in that particular area.

There are many reasons for rising automobile insurance rates. For example, the type of car driven affects insurance rates. The Highway Loss Data Institute compiles insurance accident statistics for various types of cars. Many insurance companies use such data when setting prices for their insurance. Cars that are expensive to repair will cost more to insure than those that are less expensive to fix. Vehicles more likely to be stolen will cost more to insure than vehicles rarely stolen. Since rates are based on more than just the car however, all factors combined will determine the auto insurance

Leased Cars
If an individual finances or leases a car, the lender may require that the insured select a low deductible. This is because the lender still has an investment in the car. The lender can also require an individual to carry collision insurance in addition to liability to make sure the car is repaired after an accident.

Finance companies and dealers don't want an individual to end up defaulting on his/her lease because they don't have enough insurance to cover repairs and have to pay out of pocket, and they don't want to get a damaged vehicle returned to them at the end of the lease.

Insuring a New Vehicle
Buying a new car can be exciting; insurance is often the last thing on the buyers mind as he or she test drives various vehicles. However, it may be wise to check with one's agent prior to making a decision since the type of car owned can and does affect insurance rates. Some vehicles are stolen more often than others; some vehicles are more costly to repair than others.

Although agents would always prefer their clients immediately notify them of a vehicle change, many insurance policies have grace periods during which a new vehicle is covered even if the agent or insurer has not been notified of the purchase (30 days for example). During the grace period the old policy will cover the new car. After the grace period has expired there may be no coverage at all, however, or limited coverage.

Generally the old car's coverage will transfer "as is" to the new vehicle. This means that if only the state’s required minimum liability was placed on the old car, this is the same coverage the new vehicle will have. Unless the buyer paid cash for their new car, lenders are likely to require full coverage; they want to know they will be reimbursed if the vehicle is totaled in an accident. In fact, lenders often refuse to release funds for the purchase until proof has been received of auto insurance. Often collision and comprehensive coverage is required.

Graduated Drivers Licensing Programs

The Insurance Institute for Highway Safety (IIHS) reports that vehicular crashes killed 5,648 teenage drivers in 2000.

Drivers between the ages of 16 and 19 have the highest crash rates relative to other age groups. The risk of a crash per mile driven among teens is four times higher than for older drivers says Pete Moraga, a spokesman for the Insurance Information Network of California.

States, seeking to curb the high death rate among teenage motorists, have adopted at least one of three components of a graduated drivers licensing (GDL) system. GDL programs allow teenagers to receive full driving privileges in stages. IIHS defines the graduated drivers licensing system as a program that phases “in young beginners to full driving privileges as they mature and develop driving skills.” Versions of GDL are found throughout the United States, as well as in Canada, Australia and New Zealand.

More than 40 states have implemented GDL programs since the mid-1990s. A three-pronged system is applied in 34 states, but program guidelines vary widely from one state to the next.

Sound GDL programs have three “distinct phases” to a full graduated system. Beginners must stay in each of the first two phases for a minimum amount of time, with the restrictions lasting until the driver turns 17.

The three steps are a “supervised learner’s period,” and an “intermediate license,” which allows the teen to drive unsupervised with certain limitations and “licensing with full privileges” after completion of the first two phases.

Florida, which in 1996 became the first state to adopt GDL, has experienced a 21 percent drop in teen driver fatalities since the program got started. In South Carolina, the percentage of teenagers involved in crashes declined to 13 percent in 1999 from 14.5 percent in 1998, the year that state’s GDL law took effect.

Underage drinking remains an element in teenage highway fatalities, although not as much as before GDL programs got under way. Among drivers 16 to 20 years of age, 22 percent who died in traffic accidents had a blood alcohol level at or above .10 percent. This is a sharp decrease from 49 percent in 1980. In some states, a blood alcohol level of .10 percent is the legal limit. In other states, .10 is well above the level where drivers are considered legally drunk.

Pay-As-You-Go Policies

Most Americans buy auto insurance that is continuous, but pay-as-you-go auto insurance offers an alternative to this tradition. It is based on the number of miles driven. Many people would be surprised to learn that pay-as-you-go driver’s insurance has been available since 1998, but it did not become widespread until ten years later. According to Ceres, an environmental advocacy group, more than two dozen companies offer this type of insurance as of 2009. It may be necessary for the state to approve this type of insurance, so therefore, not all states allow it. California, for example, just approved pay-as-you-go policies in 2011.

Although each company will develop their own way of offer pay-as-you-go coverage, the general idea is the same: the less the car is driven, the less the driver pays for auto insurance. For many drivers, pay-as-you-go equates into big savings on auto insurance rates. The Brookings Institution found that many drivers in the U.S. would save an average of $270 per car on their insurance premiums. Additionally, this type of coverage encourages drivers to be economical when it comes to the number of miles they drive. Obviously, fewer cars on the roads are also good for our health since it means less harmful emissions and pollutants are put into the air.

Safe Drivers Pay Less for Insurance

Aggressive or reckless driving, speeding tickets, and driving while impaired will be reflected in the rates paid for auto insurance. By now, everyone should know this. Even so, we continue to see too many people who disregard safety in favor of speed, road rage, and stupidity.

The National Highway Traffic Safety Administration (NHTSA) defines aggressive driving as "the operation of a motor vehicle in a manner that endangers or is likely to endanger persons or property." Aggressive driving includes a wide range of offenses, such as reckless driving. Even when there is no intent to harm others, actions that do so anyway will be considered reckless. Aggressive driving accounts for more than 6,800,000 wrecks each year. Aggressive driving is a major reason for the insurance rates we pay today.

Aggressive driving includes passing on the right shoulder, tailgating, weaving in and out of traffic, making obscene gestures or shouting obscenities to other drivers, flashing lights, or horn honking in non-emergency situations. Drivers who engage in such behaviors are high risk as far as any underwriter is concerned. Such individuals seem unable or perhaps unwilling to consider the risk they pose to other people on the road, and certainly they don't consider what it does to the premium rates of all drivers who bear the consequences of accidents and even fatalities.

Speeding is perhaps the most common moving violation; unfortunately it is also one of the most deadly. The Insurance Information Institute says that the faster a driver goes, the more deadly an accident will be. According to the National Highway Traffic Safety Administration (NHTS) speeding accounts for one-third of all traffic fatalities. Those who speed endanger everyone around them, not just themselves. The biggest financial hit from speeding violations will not come from the judge in court, but rather from the insurance company issuing the auto insurance policy. Insurers may increase premium rates by as much as 50 percent for just one speeding ticket in a three-year period. Although not all insurers do so for a single speeding ticket, many do. Changing companies may not be possible since once a speeding ticket is issued, all insurers will consider the driver a higher risk.

Insurers take an even dimmer view of driving while impaired, whether from drugs or alcohol. Recently even sleepy drivers are being penalized by their insurer if an accident is the result of the sleepiness. Impaired drivers (from alcohol, drugs or lack of sleep) are considered the most likely to experience an accident.

The economy is forcing many to make tough decisions about their household expenses, including automobile insurance. Many drivers are cutting out some aspects of their auto and homeowner coverage in order to reduce monthly expenditures. According to the National Association of Insurance Commissioner's (NAIC) survey, more than half of United States drivers have changed their insurance coverage or driving habits in order to reduce their auto insurance payments.

Some drivers are staying home more and driving less since the miles driven can affect the rates of premium paid. Nearly 40 percent of those surveyed said they drove less, instead joining car pools, walking to work, using public transportation, or biking when possible. This reduces fuel consumption and costs and, where rates are determined partially by mileage, their insurance costs. When rates are based on Pay-as-you-go insurance, mileage is especially important.

Many of those surveyed said they have reduced the amount of auto insurance they carry. Roughly 20 percent said they had streamlined their coverage and some, unfortunately, canceled it entirely, even when there were state requirements regarding coverage. Liability insurance is mandated in most states.

Most of the people surveyed did not cancel their coverage entirely, but they did reduce the types of coverage, often carrying only what was state mandated. Extras like uninsured motorist coverage or comprehensive coverage, was dropped entirely even though they would have liked to continue carrying it.

About 20 percent responding to the NAIC survey said they got rid of a vehicle in order to reduce costs. In some cases, two vehicles were traded in for one with better mileage records. Getting a car that goes further on less gasoline seemed practical to many people, even if it meant two workers in the household sharing one vehicle.

These changes were made to deliberately cut automobile costs, for both insurance and fuel.

Some people have attempted to cut automobile costs by registering their vehicles not in the state where they live, but in a neighboring state if auto rates are less there. It means registering with a false address, such as a friends or family members, in order to get the insurer to issue the policy. Obviously, the insurer would not issue the policy unless they believed the applicant lived in the state where issued. It must be emphasized that falsifying an address is insurance fraud.

Those who have been caught using a false address in order to achieve lower automobile insurance rates say they did so because insurers seemed indifferent to the misrepresentation. In fact, we are told that several websites actually walk people through the process of committing this type of fraud. Whether or not that is true, it is still insurance fraud and therefore illegal. Any agent found to be helping their clients do this would likely lose their insurance license or at least be sanctioned by the state.

Auto insurance companies lost $15.9 billion due to premium rating errors for private-passenger premiums in 2009 according to Quality Planning Corporation. Insurance rate evasion, which is what using a false address is called, contributed to these losses. What these drivers may not realize is that it also contributes to the higher rates of other drivers. Part of the problem is the difficulty in detecting this type of fraud. It can be very difficult to prove dishonesty since drivers move often. Thousands of Americans move each day and more than 25,000 vehicles are registered every hour nationwide. So it is not really true that insurers are indifferent to this type of fraud; rather it is just another problem among the many insurers already have regarding fraud.

Distracted Driving

We are seeing new factors affecting car insurance rates. A recent factor has to do with technology. Some groups, such as Focus Driven, compare texting while driving to reckless driving resulting from alcohol impairment. An advocacy group for victims of car crashes resulting from cell phone use has requested states to pull driver licenses of those receiving tickets while texting or using the telephone. It is likely that statistics will eventually be available regarding accidents resulting from texting and telephone use. When this information becomes available to insurers, those statistics will impact automobile insurance rates.

In 2010, according to the Governor's Highway Safety Association, at least 3,092 people were killed in distraction-related crashes across the United States. In June of 2011 the Transportation Secretary called distracted driving an epidemic and endorsed a national ban on using cell phones behind the wheel.

The Association has also broadened its stance regarding drugged driving. It supports what is called "zero tolerance" laws. Under such laws, a driver could be charged with impaired driving solely for having a drug in his or her system, regardless of the detected levels. The Governor's Highway Safety Association states that talking and texting on cell phones while driving are two of the most common behind-the-wheel distractions. In addition to the 3,092 people killed, an estimated 416,000 people were injured in distraction-related wrecks. As these factors become national statistics, those statistics will be factored into automobile insurance rates.

The driver’s cell phone is not necessarily the only driving distraction. Although many people automatically think of telephones as the major reason for recent distracted-driving legislation, there are other causes.

Pets have been found to be a driving distraction in many cases. While a dog may be a man's best friend, he does not belong on the driver's lap or even in the front seat. A 2010 AAA survey found that nearly 60 percent of drivers with pets are guilty of at least one distracting behavior while driving with their pet in the car. One-fifth of those surveyed admitted to allowing their pet to sit on their lap while driving. Some said they played with their pet while driving, or even poured water for their pet while driving.

An unrestrained pet in a vehicle is never wise. Besides the threat to those riding in the car, an unrestrained pet may sustain injuries from falls or by being thrown if the driver must suddenly break.

In June 1999 Stephen King was nearly killed by a distracted driver reaching into the back seat of his van to push his Rottweiler dog away from a cooler. Losing control of his van he struck the famous writer head on.

Four out of five drivers report taking their pets along for the ride according to survey results released in August 2010. Only 17% of these drivers used any form of pet safety restraint inside their vehicles. A single distracted-driving accident can cause an individual’s premiums to rise but few pet owners seem to be considering this.

When a pet is injured in an accident, the owner’s car insurance might not cover the veterinary bills. While some collision coverage will pay up to $1,000 for pet injuries most auto policies do not. Dogs also create dangerous distractions for other drivers, such as barking out the auto’s windows or making sudden movements.

We have to wonder what the attraction is to having a pet in the car. In the summer leaving a pet in a hot car can cause its death, which should certainly indicate dogs are better off at home. Younger dogs and puppies are prone to motion sickness and larger dogs can block the driver's view. Unrestrained pets, reported Paws, result in more than 30,000 auto accidents each year in the United States. This translates to a loose pet causing an accident every 18 minutes. A survey conducted by the AAA Foundation for Traffic Safety found that the chance of being in a car crash doubles after just two seconds of driver inattention. The impact of a collision can launch an unsecured dog like a projectile, resulting in severe injuries or death for both humans and the pet. Larger dogs, of course, are the most likely to cause injuries to human passengers when thrown during an accident. An unrestrained 10 pound dog in a crash at 50 miles per hour will exert approximately 500 pounds of pressure. An unrestrained 80 pound dog in a crash at only 30 miles per hour will exert 2,400 pounds of pressure. Children are especially vulnerable to injury from impact with a dog.

Following an automobile crash an unrestrained dog, out of fear or pain, might attack others or impede emergency medical personnel from reaching critically injured persons trapped inside the vehicle. In an attempt to protect injured owners, dogs have been known to become very aggressive towards emergency personnel or citizens simply wanting to help injured passengers. Dogs thrown out of vehicles after a collision may be in shock and disoriented, often leaving the scene and dying alone when they cannot be found. Some wounded or disoriented dogs have been known to attack passersby or wander into traffic causing other accidents.

Dogs and other animal passengers, if owners insist on bringing them, need to be in approved animal harnesses to protect both the animal and humans. Those who truly love their pets will either leave them at home or use appropriate vehicle restraints for the pet’s own protection and the protection of humans. By reducing pet distractions and using safety products to prevent accidents it is possible to prevent increased auto premiums as well since there will be fewer claims.

Obviously children will be riding in cars. Most parents have found themselves turning towards the back seat to attend to children while driving. Parents may also have found themselves being hit by thrown toys, baby bottles, and other items. According to the AAA Foundation for Traffic Safety, children are one of the biggest driving distractions at any given time. Children are four times as likely as adult passengers to be the cause of a distraction resulting in an accident. While there may not be a good solution to this problem, it is important for adults to be aware of the disastrous effects a moment of distraction can have. It is better to pull to the side of the road to attend to a child's needs than to attempt doing it while driving. Most feel education is the best solution to the distractions caused by children while driving. When parents are aware of the dangers posed they can make decisions more effectively.

Many people eat and drink in their cars, although safety experts warn against the practice. This requires removing hands from the steering wheel momentarily to grab a coffee cup or French fry. Few people realize the distraction this poses. Spilling a hot beverage or dropping food in one's lap distracts the individual long enough to cause an accident. Pedestrians have been hit and killed while drivers attempted to retrieve a sandwich or hamburger they dropped.

Listening to the radio while driving is common but music and talk radio can also be a distraction. A dangerous distraction is taking one’s eyes off the road to change stations or adjust the radio. Any distraction can cause an accident so it is important to pay attention to the road at all times.

Distracted driving of all types can indirectly affect auto insurance premiums by raising the likelihood of accidents. Approximately 20 percent of accidents involving injuries were the result of distracted driving according to NHTSA. More accidents equate into more claims and more claims mean higher automobile insurance rates.

When a Car is Totaled

What happens when a traffic accident totally devastates an insured’s auto? It’s not a scenario most drivers want to think about.

When an automobile is substantially damaged, the insurance company has the right to decide that the car isn’t worth fixing. The decision to “total” is a function of the car’s worth. Minor damage to a 10-year-old Chevy might result in totaling the car, whereas major damage to a brand-new Mercedes might not. Auto insurance claims adjusters usually determine a car’s actual cash value by using their company’s proprietary database of prices.

Some companies total vehicles at 51 percent of its actual worth: some total at 80 percent. The insurance company will pay the car’s actual cash value, minus any deductible on the coverage.

Once a car is totaled, the car goes to a salvage yard where it’s auctioned off to the highest bidder and usually chopped up for parts. The insurance company keeps whatever money it got for the car in salvage.

What if an insured doesn’t agree with the insurance company’s assessment of the damages? What if the insured really loves his car and doesn’t want it taken away? Does he have any recourse?

When a person buys an auto policy, he signs a contract with his/her insurance company. He/she cannot force the insurer to pay out more than the car is worth. That is a part of the contract.

On the other hand, the insured was supposed to be "made whole" by the insurer, meaning he/she should be put back into relatively the same spot that he/she was before the accident.

If the car is a total loss but the insured wants to have it repaired anyway, he/she should be able to retain it. The insurer still has to pay the car's actual cash value, minus the deductible and minus what the company would have gotten for it at the salvage yard.

If it is the decision of the insured to keep the car, the claims adjuster should know up front that he/she wants to keep the car. The insured then will to have to pay for the repairs out of pocket.

If the car is a newer model and its parts would get a lot on the auction block, the insurance company may decide to send it to salvage despite the insured's protests.

In most states, the car is gone for good once it goes to auction. Regulations vary, but in many places, the insured won't even be able to attend the auction without a special license for auto salvagers or auto dealers.

Not Satisfied with the Buyout

People who complain about their total loss settlements generally don't want their old, crashed cars back. Instead, they complain that their insurer didn't give them enough money to buy a similar car.

However, the insurance company's estimate of what a comparable car will cost may differ from the realities of the marketplace. There are many variables that determine the value of the car, such as miles driven, pre-accident condition, special equipment installed, and local market conditions for the vehicle.

If an insured disagrees with the insurance company's assessment of the vehicle, he/she can hire an independent appraiser at the insured's own expense to perform an inspection of the vehicle.

If the insurance company refuses to give the insured more money, the insured has two options: arbitration and litigation.

Arbitration is a process in which they and the insurance company present the facts to a third-party arbitrator. Arbitration can be binding (which means the arbitrator decision is final) or non-binding (meaning the insured can still take the insurer to court if they are unsatisfied). Litigation, as you know, is a lawsuit.

Motor Vehicles and Child Safety

Motor vehicle crashes are a leading cause of injury and death for children in the United States. At particular risk are infants and other children who ride unrestrained or are too close to the instrument panel during a collision.

When used correctly, child restraints and safety belts, according to the American Medical Association, are 50 to 70 percent effective in preventing fatalities and reducing serious injuries. Unfortunately, despite the existence of laws in all 50 states requiring the use of child restraints, many young children still ride unrestrained in motor vehicles.

Tragic reports of children being seriously injured or killed by air bags have raised public awareness and concern about our ability to adequately protect children who ride in motor vehicles. Air bags can seriously injure or kill occupants, especially those who are not properly restrained in the front seat.

Studies show that when combined with safety belts, air bags are effective in reducing injury and preventing death in adults. But neither safety belts nor air bags are designed to protect infants and other young children, who need protection of appropriate restraints.

Drivers have a responsibility to ensure that all passengers, including infants and children, are properly restrained in the vehicle. All infants should be secured in a child restraint that is appropriate for their age and size.

The back seat is the safer place for all children to be secured. If a toddler or older child must ride in the front seat, the vehicle seat should be adjusted as far back as possible. During the trip, the child's restraint must be properly sitting up against the seat back and not leaning forward.

Safety Precautions
Parents should read and follow the vehicle owner's manual and the instructions provided with the child restraint system for proper usage. It is important that the restraint selected fits securely in the vehicle before the child is transported in it.

If it is necessary to use an infant car bed, parents must be sure it is secured properly with the infant's head resting toward the center of the vehicle.

A rear-facing infant restraint should never be placed in the front seat of a vehicle that has a passenger side air bag, unless the vehicle has an air bag cutoff switch and the air bag is turned off.

A booster seat should be used until the child outgrows it, at which time the child can use an adult safety belt. Shoulder belts should never be placed behind a child's back or under the arm.

Child Restraint Recommendations
The American Medical Association recommends that the proper restraint be used in accordance with the appropriate age and size of the child.

Premature and low birth weight infants: An infant car bed should be used.

Children of normal weight from birth to one year old who do not exceed 20 to 30 pounds (depending on the restraint used): A rear-facing infant restraint should be used.

Children one to four years old of 20 to 40 pounds and 26 to 40 inches tall: A forward-facing child restraint should be used.

Children four to eight years old and of 40 to 80 pounds: A booster seat should be used.

Summary of Child Safety
The following points should be remembered in summarizing child safety.

All infants and young children should be secured correctly in appropriate child restraints.

A rear seat is the safer place for all children to be secured. A rear facing infant restraint should never be placed in the front seat of a vehicle having a passenger side air bag unless the air bag is turned off. If a toddler or older child must ride in the front seat, it is important that the child is restrained properly and the vehicle seat is adjusted as far back as possible.

Air bags do not replace the need for all motor vehicle occupants to be properly restrained. Unrestrained occupants of any age are at increased risk of being injured or killed in a collision. Unrestrained occupants in the front seat are especially at risk of possible injury or death from an inflating air bag.

The use of child restraints and safety belts is a learned habit. Parents getting in the habit of using an appropriate restraint device the day their baby leaves the hospital and everyday thereafter that they transport their child in a motor vehicle, are establishing reflexive habits that will last for a lifetime.

Informing your clients and customers of these safety tips when not only help them but also the companies you represent. By preventive measures both the insurer and insured will benefit from reduced claims.

Saving on Auto Premiums

Insurance companies would rather not pay claims. Therefore, they offer incentives to insureds in an effort to lessen the chances of a loss. If insureds take steps to reduce their chance of loss, their premiums will go down. Understanding the discounts the insurer you represent offers is helpful in selling policies.

Higher deductible: A higher deductible mean lower premiums. For example, increasing the deductible from $200 to $500 on collision coverage could reduce your premium by as much as 30 percent — potentially saving the insured hundreds of dollars.

No collision and/or comprehensive coverages on older cars: If the insured owns a car that's worth less than $1,800, he/she would probably pay more for the coverage than would ever be collected on a claim.

Buy a "low-profile" car: Cars that are expensive to repair or that have a high theft rate generally have higher insurance costs.

Low-mileage discounts: Some insurance companies offer discounts to drivers who put less than a predetermined number of miles on their vehicles each year.

Discounts for safety features: Most policies give discounts for air bags.

Antilock brake discounts: Florida and New York require insurers to give discounts for cars equipped with antilock brakes. Some insurance companies give the discount no matter what state the insured lives in.

Other discounts: Some companies offer discounts for insuring more than one car, insuring a car and home with them (multi-line discount), having no accidents in three years, being a driver over age 50, taking driver training courses, and having antitheft devices. Plus, remember good-student discounts when you are insuring a family with a student who drives.

The Cost of Driving

Since the first horseless carriage rolled of the line, Americans have had a love affair with the automobile. Sometimes the price we pay for that affinity is high.

Believe it or not, between five and six million auto accidents occur every year in the United States. The majority of these accidents are property-damage only accidents – such as fender benders and rear-ending. Unfortunately, about 2.5 million people are injured each year in accidents and about 40,000 people are killed.

These may seem like high figures, but when you consider the fact that there are tens of millions of drivers on the road each day, accidents are bound to occur. The National Highway Traffic Safety Administration (NHTSA), which reports accident figures annually in its analysis of motor vehicle traffic crashers, keeps track of the number of accidents that occur so that it can recommend methods for improved highway safety. Its purpose is to help protect people on the roads. The auto insurance industry's purpose is to protect people financially when accidents occur.

Personal Auto Policies

Personal auto policies, often called PAPs, include coverage for the insured auto owner as well as coverage for people injured and damage caused by the insured auto owner or his or her insured auto.

Auto insurance is considered the most important of coverage available through Property and Liability lines because it affects so many people. Virtually every individual and family are at risk for a loss related to an automobile. A minimum amount of auto insurance is required by law in every state of the union.

The Cost of Auto Insurance

Almost everyone is familiar with auto insurance. Commercials flood the television screens about every ten minutes advertising better rates or more comprehensive coverage. The cost of auto insurance is a significant factor to auto buyers, since most dealerships and banks require that a new leased or financed car be insured before it can roll of the lot.

Not all state auto insurance requirements are the same, though most require a minimum amount of liability coverage. Only two states do not require "liability" coverage: New Hampshire and Wisconsin. In place of liability coverage, auto owners in these states must accept financial responsibility for accidents they cause or are partially at fault for.

"Proof of insurance" laws vary by state as well. If you've ever had the misfortune of being pulled over by the police in most states, you've been asked to hand over your license, registration and proof of insurance. Those states require drivers to carry proof of insurance at all times. Some states only require drivers to provide proof of insurance at the scene of an accident, but, since it is pretty difficult to predict an accident, it's best to just keep it in your glove box, even if the state doesn't require it.

An automobile policy is really a combination of several different coverages combined into one package. Some coverage in this package protects you: some protects third parties, and some are even mandatory. Some can be optional. The coverages are priced separately and added together to come up with your total premium.

PAP Coverages – Liability

The most expensive and controversial of the automobile coverage is liability. Basically, liability insurance protects you against the cost of being sued should your negligence while driving cause injury to someone else. Negligence can be defined by stating that you were "driving outside the standard of care" required while you were operating your automobile.

In order for you to be liable, there must be actual harm, often referred to as "damages," which are a result of your bad driving. For example, you could improperly pass a car on a hill or curve without incident and you are not subject to liability from anyone.

Bodily Injury

Should your driving cause injury or death of another, you will be responsible for monetary damages as a result of this accident. This may include the following:

-Medical payments – Costs of the injured person's medical bills
-Lost wages – If the injured is not able to work, you may have to pay lost wages
-Pain and suffering – This is bit of a wild card and can amount to the largest payout on your end

Property Damage

This portion of an automobile policy pays for damages to someone else's property caused by negligent driving. In most cases the damage is to another vehicle, but it doesn't have to be a vehicle. You could hit a guardrail, someone's picket fence, or a utility company's telephone pole and you would be responsible for the cost of repairs to these items.

Of course, you would transfer this responsibility to your auto insurance company under the property damage portion of your policy. Property damage, like coverage for personal injury, does have a maximum benefit, say $50,000. Like personal injury, coverage for property damage is based on negligence. Since the extent of risk for property damage is less than personal injury, the cost is also less.

A recent survey noted that over 50% of all insurance payouts are made for property damage and not for personal injuries. If claims or lawsuits are brought against you, property damage liability insurance provides protection in the form of legal defense and payment for damages that you are legally liable for, up to the limits of the policy.

Liability Limits
When you buy liability insurance you choose the amount of protection that you wish to purchase. You may purchase insurance one of two ways: Single limit or Split limit.

A single limit means that one limit will apply to all claims for bodily injury and property damage arising from a single accident. Single limit liability is usually offered in the following amounts:

-$30,000
-$50,000
-$100,000
-$300,000
-$500,000

Split limit means that these three separate limits apply:

-One for each person injured
-One for the claims for all persons injured in one accident
-One for all property damage in one accident

The choices for split limit coverage are as follows:

-$10,000, $20,000 and $10,000, which is usually expressed as 10/20/10
-$15,000, $30,000 and $25,000
-$25,000, $50,000 and $100,000
-$50,000, $100,000 and $50,000
-$100,000, $300,000 and $100,000
-$250,000, $500,000 and $250,000
-$500,000, $1,000,000 and $500,000

The first two numbers are for bodily injury, with the first number representing per person and the second number per accident. The third number is for property damage.

For example, if your limits of liability were 100/300/50, this would mean that you are protected for $100,000 of personal injury per person, $300,000 of personal injury per accident and $50,000 total for property damage. In comparing the relative values of single and split limits, compare the following: $30,000 single limit vs. 10/20/10.

In this example, the yield would be the same for all injuries and damages in a single accident. If, however, the insured were liable only for one person's bodily injuries, the single limit form could pay $30,000, but the split limits could pay only $10,000.