

CONSUMER'S GUIDE TO AUTO INSURANCE

The Colorado Division of Insurance prepares this booklet to assist you in “shopping” for auto insurance and to help you understand your Personal Auto Policy.

When shopping for insurance, please remember there are factors to consider other than price, such as the level of service offered. Your premium will vary depending on the coverages you choose, your driving record, the type of vehicle you drive, your age, and other factors. A list of all companies offering personal automobile insurance in Colorado is available upon request by calling the Division of Insurance.

Shopping for insurance is not easy. It takes time and effort and can be confusing.

We hope this booklet meets your needs. If we can assist you in any way, please call one of our Consumer Analyst at:

Denver: (303) 894-7490

Toll Free in Colorado: 1 - 800 - 930-3745

BUYING AUTOMOBILE INSURANCE

When buying auto insurance, it is recommended that you seek advice from an insurance agent. This booklet is designed to be a tool to help you understand the process and value of insurance policies.

Bodily injury and property damage coverages (liability coverages) can be purchased as split limit coverage or as combined single limit coverage. The minimum limits of liability required by Colorado law are 25/50/15. If you choose to purchase the coverage as a combined single limit, the minimum allowable is \$65,000 under Colorado law.

Comprehensive and collision coverages are not required by Colorado. Colorado law requires collision coverage be offered by an insurance company. However, if you borrowed money to purchase your automobile, your lender may require you to carry this coverage until the loan is paid. You are not required to carry medical payments or uninsured/underinsured motorist coverage, but all insurance companies are required to offer uninsured/underinsured motorist coverage in an amount equal to your bodily injury coverage or one hundred thousand dollars per person and three hundred thousand dollars per accident, whichever is less.

If you plan to lease an automobile, you should check your lease agreement. Generally, these agreements require that you carry liability coverage in the amount of \$100,000 per person, \$300,000 per accident and may require you to carry property damage coverage in excess of the Colorado Insurance Law.

DEFINITIONS OF COVERAGES SOLD WITH PERSONAL AUTOMOBILE INSURANCE

Bodily Injury/Property Damage Liability - These coverages protect you if you injure someone else or damage someone else's property while operating your automobile. You must be legally liable for the injuries or damages to activate these coverages. Colorado law requires liability insurance.

Uninsured/Underinsured Motorist - This protects the named insured, the named insured's resident relatives and occupants in the insured vehicle, if they sustain bodily injury in an accident in which the owner or operator of another motor vehicle is legally liable and does not have insurance (uninsured) or does not have enough insurance (underinsured). This coverage must be offered under C.R.S., 10-4-609, but does not have to be accepted by the insured.

Medical Payments - This pays for reasonable and necessary medical expenses, without regard to legal liability, resulting from accidental bodily injury in a motor vehicle accident. This coverage is not required to be offered by the insurance company.

Collision - This protects against damage to your vehicle resulting from a collision with another vehicle or object regardless of whom is at fault. If the other driver is at fault, your insurance company may have a legal right to seek reimbursement from the other driver or the other driver's insurance company.

Comprehensive - This insures you against theft or other damage to your vehicle other than collision, such as wind damage, falling objects and vandalism.

Collision and comprehensive coverage are subject to a deductible selected by the insured. Other coverages that may be sold include towing and rental reimbursement.

UNDERWRITING AND RATING

Two factors, underwriting and rating, govern what you will pay for auto insurance. These factors analyze a consumer's characteristics and determine the risk that consumer presents.

Underwriting - Insurance companies underwrite in order to assess the risk associated with an applicant, group the applicant with other similar risks, and decide if the company will accept the application. The underwriting eligibility review period varies by company, but is typically between 3-5 years of prior history.

Rating - Rating is the determination of premium based on the driver and the automobile characteristics.

Insurers depend on information provided on your policy application. When you apply for insurance, you will be asked a series of questions, which assess the expected cost of insuring you.

Insurers want to know your past driving record and certain personal characteristics to group you with other similar drivers. Insurers review the claim history of your group to make projections about future claims.

Some of these characteristics are beyond your control, such as age and gender. Other characteristics can be controlled, but since they may relate directly to lifestyle or income, such as geographic location and use of the vehicle, may be difficult to control. A third group of characteristics is highly controllable, such as the make and model of the vehicle the consumer wishes to own and insure. A vehicle with few safety devices and a powerful engine carries a greater risk of high claims than a less sporty model. The consumer has a choice, or control, over the decision to own a high-risk vehicle.

Insurers also consider lifestyle characteristics in the underwriting process. These characteristics include marital status and employment history. From prior claims data, insurers know that married persons tend to have lower claim levels than unmarried persons. Other statistics show that persons who work in the same place for a long time tend to have lower claims. Also, underwriting criteria can include credit history.

A rate for each group is set based on the historical claims statistics paid by the insurer for the people in that group. The higher the losses from a group, the higher the rate for that group and, therefore, it is an advantage for you to be in a low-risk group.

QUESTIONS COMMONLY ASKED BY INSURERS FOR RATING PURPOSES

- 1) **Driving Record** - On the application, you will be asked about your previous driving record. Insurers will ask about accidents and traffic violations for any driver covered by the policy for the preceding 3-5 years. Drivers with previous violations or “at fault” accidents are considered to be a higher risk and are charged a higher rate.
- 2) **Territory** - The claims experience in your geographical area will also affect your rates. Applications include a question that asks for the address where the vehicle will be garaged. From this information, insurers assign you to a territory whose rate is based on historical experience for that territory. Generally, more claims are made from urban areas with tendencies of busy traffic, thefts, vandalism, etc., than from rural areas.
- 3) **Gender and Age** - Statistically, males have more accidents than females. For this reason, men may tend to pay more for insurance than women. A small number of states have prohibited insurers from using gender as a factor in underwriting; however, Colorado allows this type of rating. Insurers also have statistics that show a higher number of claims for some age groups than for others. For these reasons, young men tend to pay more for insurance than young women, and a person under 25 will pay more for insurance than a person of age 35.
- 4) **Marital Status** - Statistics show fewer auto insurance claims among married policyholders than unmarried policyholders.
- 5) **Prior Insurance Coverage** - Insurers may ask if you have previously had insurance coverage because they want to know if you have been canceled for non-payment of premiums or other reasons. If you have had insurance, your prior company can tell the new insurer about your claims history or the company may request a C.L.U.E. (comprehensive loss underwriting exchange) report, which will provide your claim and/or motor vehicle record history.
- 6) **Vehicle Use** - You may be asked on the application how often and how far you drive the vehicle that you want to insure. Greater use will generally result in higher premiums due to the increased exposure to risk.
- 7) **Make and Model of Vehicle** - The type of car you drive will directly affect the cost of comprehensive and collision coverage. A make or model of car that has a high number of claims or higher claims cost will be charged a higher premium.

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 affect. 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 a high-claims group will be charged more for insurance coverage. At the same time, persons who share characteristics with low claims classes will be charged lower rates. In addition, insurance companies offer discounts to individuals that exhibit certain characteristics. However, the greatest controllable factor is your driving record. A person with a clean driving record will pay less than other drivers.

DISCOUNTS

Discounts are awarded because the insurance company views you as a “better risk.” You should be aware of what discounts are offered by what companies before buying auto insurance. Here are some discounts you should look for:

- 1) **Multiple Vehicles** - Most insurance companies offer a discount to consumers that insure more than one car with their company. Companies offer these discounts not only because they want all of your business, but also because it is easier for them to underwrite individuals that they know, thus reducing their risk and saving them money. In addition, industry statistics show that individuals and families that insure more than one car have better than average claims experience. Through this discount, companies pass along some of their savings to you.
- 2) **Driver’s Education Courses** - Discounts for driver’s education courses are targeted primarily at younger and older drivers. In Colorado, all insurers must provide for a reduction in premium for a three-year period for people aged 55 and above if they successfully complete a driving course approved by the Department of Motor Vehicles and Public Safety. The insured must maintain a clean driving record in order to keep the discount. One of the driving courses offered is 55-Alive and is sponsored by the American Association of Retired Persons (AARP).
- 3) **Good Student** - Insurers have found that students who are responsible enough to earn a "B" average or better tend to be more responsible drivers. For that reason, many companies offer a good student discount.
- 4) **Safety Devices** - Automobile safety devices can lower insurers’ costs by preventing accidents or limiting their severity. These savings are passed along to the policyholder through discounts for safety equipment. This equipment includes air bags, automatic seat belts and anti-lock brakes.
- 5) **Anti-Theft Devices** - Devices or systems that deter theft or vandalism also lower claims costs. Many companies offer discounts for anti-theft devices.
- 6) **Low Mileage** - The fewer miles you drive, the less chance you have of getting into an accident. Insurers recognize this fact and generally offer discounts for low mileage drivers. Some companies also offer discounts for drivers that participate in car pools.
- 7) **Good Driver/Renewal** - Some insurers offer discounts to drivers who maintain a good driving record and renew their policy with them.
- 8) **Auto/Home Package** - Some insurers offer a discount on one or both policies if an individual buys a homeowner policy and an auto policy from the same insurer.
- 9) **Dividends** - Some insurers, particularly mutual insurers, offer dividends to policyholders if the sale of auto insurance has been profitable to them. Dividends are declared and paid after the policy expiration.

Discounts are not only ways for companies to attract customers, but also a means for companies to compete and retain business. So when you shop, do not just ask if a discount exists, but also ask how much you save. Savings can differ from company to company. In addition, consumers should make sure that they receive the discounts for which they qualify.

THE TORT SYSTEM

Insurance provides protection to consumers by assuming certain risks and promising to pay for financial loss. In Colorado, legal and financial responsibility is based upon the law of negligence. A negligent act which causes damage or injury is legally known as a tort. If an accident is your fault, that is, you are negligent, you are responsible for bodily injury and property damages suffered by the innocent party.

FINANCIAL RESPONSIBILITY

To assure that innocent parties are adequately compensated for their injuries, Colorado law requires that all registered owners of a motor vehicle have complying a liability insurance policy.

As required by Colorado law, the minimum insurance policy must provide coverage in the amount of \$25,000 per person in an accident, \$50,000 for bodily injury per accident, and \$15,000 for property damage to others. This coverage is generally described as 25/50/15. When you have liability coverage, your insurance company will pay for the victim's damages up to your policy limits. If you choose, you can increase your coverage for added protection.

Finally, once you have gone without insurance for any period of time you may find it difficult to find insurance you can afford. Many companies do not insure people who have not had insurance or have allowed their insurance to expire. Other companies will simply charge you more for insurance.

Going without insurance can cost you much more than carrying the liability coverage that is required by Colorado law.

LIABILITY INSURANCE

Most auto liability insurance policies contain three major parts: liability insurance for bodily injury, liability insurance for property damage, and uninsured/underinsured motorist coverage:

1) **Bodily injury liability insurance** does not protect you or your car directly. If you are the cause of an accident in which other people are injured, this insurance protects you against their claims for damages such as medical expenses, lost wages, and pain and suffering. This insurance coverage will also pay if a member of your family living with you caused the accident, or if it was caused by a person using your car with your consent.

Bodily injury liability insurance carries specific benefit limits. These limits address how much money your insurance company is committed to pay for any one victim injured in an accident

and limits the amount the company must pay for multiple victims.

In order to make a smart consumer purchase, you must understand these limits for bodily injury liability insurance. In Colorado, you are required to carry the following limits: \$25,000 for bodily injury per person in an accident and \$50,000 for bodily injury accident.

You may decide to purchase additional coverage. This decision may be based on your desire to protect your assets from additional claims above the minimum amounts. The extra cost of higher coverage tends to be relatively low.

2) **Property damage liability insurance** pays for any damage you cause to the property of others, such as a crushed fender, broken glass, or a damaged wall or fence. Your insurance will pay for this damage whether you are driving your automobile or whether it is being driven by another person with your consent. Colorado law requires you to carry \$15,000 for damage to the property of others. Once again, you may decide to purchase higher limits.

3) **Uninsured/underinsured motorist coverage** protects you directly. This coverage pays if you are injured by a hit-and-run driver or a driver who does not have auto insurance (uninsured), or whose policy limits are not high enough to cover your injuries (underinsured). This coverage takes the place of the insurance the other driver should have purchased, or whose policy limits were not enough to cover your injuries. This coverage does not protect the other driver, and it does not cover damage to your vehicle.

Colorado law requires your insurance company to offer you uninsured motorist coverage in an amount not less than your liability insurance limits for bodily injury described above. You do not have to accept this offer. Colorado law does not require that you carry uninsured motorist coverage.

The three coverages mentioned above are the basic coverages that are contained in liability policies sold in Colorado. However, when you purchase auto insurance you will have to decide what other insurance coverages you would like to purchase.

Another way to provide higher limits of liability inexpensively is through the purchase of a personal umbrella policy. An umbrella policy provides broad liability protection over and above your auto policy's liability limits. It will also cover some exposures to loss that are not covered by your auto or homeowner policies.

PROPERTY DAMAGE COVERAGE

The most commonly recognized coverages in addition to the basic liability package outlined above are collision and comprehensive coverages.

1) **Collision coverage** pays for physical damage to your car as the result of your auto colliding with an object, such as a tree or another car. This is relatively expensive coverage. Remember, this coverage is optional and not required by law. However, your lending institution or lessor may require collision insurance.

If you have an older vehicle worth less than \$2,000, there is little reason for you to purchase collision coverage, because you are likely to pay more money in premium than you would ever receive as a result of a claim. Auto insurance policies only require the company to cover your financial expenses, **not to replace your vehicle**. In the case of an accident involving an older car, the cost of repairing the car can quickly exceed the worth of the car. In that case, insurers will “total” the car and pay you what the car was worth rather than fixing the car.

2) **Comprehensive coverage** pays for damage to your auto from almost all other causes, which includes fire, severe weather, vandalism, floods and theft. Comprehensive coverage will also cover broken glass, such as windshield damage. Many consumers choose to carry it. However, remember it is your choice; you are not required by law to carry comprehensive coverage.

When considering collision and comprehensive coverage, you should consider your deductible. A deductible is the amount of money you agree to pay as your share of the cost of a claim before the insurer is committed to pay the rest of the claim. For example, if you carried collision coverage with a \$200 deductible and you had a \$500 loss, you would have to pay \$200 and the insurance company would have to pay the remaining \$300.

Basically, deductibles reduce your premiums because you agree to deduct an amount from the claim your insurer otherwise would have to pay. Insurance companies offer deductibles because they reduce the number of small claims that are costly for them to handle.

If you purchase a new car with a loan, the financial institution that lent you the money may require you to purchase collision coverage. This is because they see your car as collateral for the loan, and they want to make certain it is worth something if they need to repossess the vehicle.

In the event you have to buy, or decide to buy, collision or comprehensive coverages, you can save money by agreeing to the highest deductible you can afford to pay in the event of an accident.

OTHER OPTIONAL COVERAGES

Be cautious when purchasing optional coverages. They can duplicate coverage that you have through other insurance policies. For instance, medical payments coverage may duplicate health or disability benefits that you buy individually or receive as a benefit through your job. Before purchasing these coverages, review them and your other insurance policies carefully.

1) **Medical payments coverage** is an optional coverage. This coverage pays for the medical expenses for you or others injured in an accident while riding or driving in your auto. Claims against this coverage include all reasonable medical expenses. This coverage will also pay for your medical expenses even if you caused the accident. Usually, only expenses incurred within a specified period of time after the accident are covered.

2) **Rental reimbursement coverage** usually pays \$15 to \$20 a day to rent a car for a specific number of days while your vehicle is being repaired. The premium and coverage amount will vary from insurer to insurer. This is not a statutorily required coverage.

3) **Towing and labor coverage** pays the cost of towing your car to the repair shop subject to the limit of your policy. Premium for this coverage can run as low as \$5 to \$10 per year. However, if you are a member of an auto club, you probably already have this service and may not want to duplicate your coverage. This is not a statutorily required coverage.

OPERATOR'S POLICY

An operator's policy is different than standard liability insurance. This insurance coverage insures the owner, not the car. That is, the owner would be insured no matter what vehicle was driven. This insurance coverage would not cover another driver or person using your car with or without your consent. Insurer's are not statutorily required to offer this coverage.

SMART SHOPPING

The key to comparison shopping is to know what insurance coverages you need before you start, and then to find out how much those coverages will cost from a number of companies. Comparison shopping takes time but can save you money. You may find on the Division's website (www.dora.state.co.us/insurance) our cost comparison guide that may assist you in shopping for lower premiums.

No one wants to pay more for their auto insurance than absolutely necessary. The only way you can make certain you are not paying too much is to shop around and find out what different companies charge for identical products and services.

SEEK UNBIASED INFORMATION

Information is available to consumers from a number of unbiased sources. These sources include public libraries, the Colorado Division of Insurance, consumer groups and consumer publications.

Because the insurance industry, like many other industries, has developed many words not commonly used by the average person, consumers may need to find a good glossary or dictionary of insurance terms from the public library.

Consumers may also obtain a wide variety of information from the Colorado Division of Insurance. Look for us on the World Wide Web at <http://www.dora.state.co.us/insurance>. The Division of Insurance also has personnel available to answer questions regarding auto insurance coverage.

WHERE TO SHOP

When you begin to contact companies, there are a few things you should know about how insurance companies sell insurance.

Most insurance companies and many agents advertise. Check the newspaper and yellow pages of the telephone directory for companies and agents in your area. In addition, you may want to ask neighbors, relatives and friends for recommendations on insurance companies and agents. Ask them about their experience regarding price and service. In particular, ask them what kind of claim service they received from the companies they recommended.

Insurance agents are paid on a commission basis, which means the higher the premium, the more money they make. The commission system of agent compensation is a strong incentive for higher premiums. Certainly, competition between agents for business provides some incentive to push rates lower than other agents, but not necessarily to the lowest price possible.

You should understand that not all insurance companies use insurance agents to sell their product. Insurance companies generally use one of three methods to market their product: direct marketing, independent agents or exclusive agents. The type of marketing method may or may not be suitable for a particular individual, depending on the type of services offered. Therefore, consumers should be aware of each of the three methods and may want to consider them in their purchase decision.

Direct marketers sell insurance through the mail and by telephone. In some cases, consumers can save money with direct marketers because these companies do not pay insurance agents commissions to sell their policies. Companies may pass along these savings to the consumer. However, some consumers prefer to pay an additional premium for the opportunity to have a local agent available.

If you decide to call an agent for quotations, ask them how many companies they represent. **Independent agents** represent several companies, and therefore you can get quotes from more than one company from one agent. This is considered an advantage to many consumers. If you contact an independent agent, be aware that the companies the agent represents are in competition with one another for business. In an effort to encourage the agent to sell their product, companies may compete by offering higher commissions and incentives to the agent. Therefore, an insurance company that uses independent agents may have to charge extra in order to pay the agent higher commissions. However, this is not always the case.

Some insurance companies sell coverage through agents that only represent their company. These companies call their agents an **exclusive agency force**. Exclusive agents can only offer you coverage from the company they represent; therefore, you can only get a quote from one company for each exclusive agent you talk to.

Sometimes exclusive agents may work for a lower rate of commission than independent agents. This is because companies do not have to give the agent an incentive to write their product over another company's product. The lower commission structure, especially on commissions for

renewal business, can represent significant cost savings to the insurance company. Often, a portion of those savings is passed along to the consumer in the form of lower premiums.

When considering the purchase of an insurance product from an insurance agent, it is reasonable to ask what rate of commission the agent is being paid for the sale of the policy. This is not an unfair or personal question. After all, you are paying the commission with your premium dollars.

If consumers want the lowest price possible, they must take responsibility for finding it themselves. **Remember that competition only works if the consumer shops for coverage.**

PRICE QUOTATIONS

When shopping for auto insurance, premium quotations are a useful tool for the comparison of different companies' products. When asking for price quotations, it is crucial that you provide the same information to each agent or company.

To give you an accurate quote, the agent or company will usually request the following information:

- A description of your vehicle;
- Its use;
- Your driver's license number;
- The number and ages of drivers in your household;
- The coverages;
- The limits you want; and
- Accidents/tickets for last 3-5 years.

This information is necessary to the underwriting and rating process described earlier in this guide.

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 the Colorado Division of Insurance and verify that the company and the agent you are dealing with are licensed. It is illegal for unlicensed insurers to sell insurance. Business cards are not proof that an insurance agent or company is licensed in Colorado. If you do business with an unlicensed agent or company, you have no guarantee that the coverage you pay for will ever be honored. If you believe an unlicensed agent or company has contacted you, call the Colorado Division of Insurance immediately so that regulatory action can be taken. In doing so, you may protect someone less knowledgeable than yourself from being a victim.

You should be aware that an auto insurance policy is a legal contract. It is written so that 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 try to understand its contents. If you have questions about your insurance policy, contact your insurance agent for clarification. If you still have questions, call the Colorado Division of Insurance.

PAYMENT OF INSURANCE PREMIUMS

There is **no statutorily required grace period** on insurance premium payments. In other words, if an insurance premium payment is due on the 15th of the month, your payment needs to be received by the insurance company on or before that date. Higher premiums may be charged and the possible difficulty of obtaining insurance coverage with a lapse in coverage even if you have a clean driving record.

MID-TERM CANCELLATION OF YOUR POLICY

Colorado laws restrict the mid-term cancellation of your policy, except when 1) non-payment 2) licenses suspended or revoked, 3) an insured knowingly made a false statement on a claim and 4) insured knowingly made a false statement on the application. If the company cancels your policy, the premium will be prorated without any penalty to you, but the reason for cancellation must be in compliance with C.R.S., 10-4-602. However, if you cancel the policy, there is normally a “short rate” penalty that usually amounts to about 10% - 15% of the return premium. If the policy is canceled early in the term, the penalty is greater than if it is canceled late in the term.

YOUR COLORADO DIVISION OF INSURANCE

The Colorado Division of Insurance exists to serve you. We can be a source of unbiased information and assistance to you. Again, if you do not understand your insurance policy, you can call us with your questions.

If you have a complaint against an insurer, it is always best to contact your insurance company first and attempt to settle the matter. Most insurance companies have policyholder service offices set up to handle such questions. If you still are not satisfied, contact the Colorado Division of Insurance. We have Consumer Analysts who will help you with your problem. Although they cannot represent you legally against an insurance company or adjuster, they can make appropriate investigations into potential violations of insurance law or regulations based upon your complaint.

You can contact our Consumer Services Section as follows:

Denver: 303-894-7490

Toll Free in Colorado: 1-800-930-3745