Financial Rights
LEGAL CENTRE

FACT SHEET

CALL THE INSURANCE LAW SERVICE ON 1300 663 464

Financial Rights Legal Centre Inc.
ABN 40 506 635 273

Fact sheets are information only and should not be relied upon as legal advice. This information only applies to NSW.

BUYING CAR INSURANCE:
WHAT KIND OF CAR INSURANCE SHOULD I CONSIDER?

This fact sheet is for information only. It is recommended that you get legal advice about your situation.

CASE STUDY

Ted was desperate to buy a car. He went into a used car dealership and picked out a car. The dealer said he could arrange comprehensive insurance for Ted. Ted was happy with this because he knew it might be difficult to get insurance due to two recent car accidents. The dealer asked Ted about his insurance history and Ted answered to the best of his memory.

Ted has now had a car accident and his insurance claim has been refused because he did not disclose all of his car accidents in the last 3 years.

WHAT IS CAR INSURANCE?

You obtain car insurance to protect you from some of the risks of owning a car. You pay a premium to your insurance company, in exchange for your insurer protecting you against certain events. By doing so, you transfer some of your own risk to the insurer.

Insurance does not cover all risks. Insurance policies are a contract between you and the insurer, and there are some risks insurers will not cover (eg – if you are drink driving, or your car is not well maintained).

You should always read your policy wording carefully, as levels of coverage can be very different between policies and exclusions can apply. Your policy wording is in the "Product Disclosure Statement". You also need to check your "Certificate of Insurance" which you get sent at the start of your policy and at each yearly renewal. You need to look out for any changes your insurer is making to your policy coverage and wording.

TYPES OF INSURANCE

What level of insurance you should consider depends on what your individual risk is and what you want to protect. There are different types of car insurance covering different risks.

Compulsory Third party is the only insurance that is compulsory by law. It covers you if your car causes bodily injury to a person. It does <u>not</u> cover property damage (to cars, houses etc) You pay this as part of the registration requirements for your car.

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THERE ARE ALSO OTHER TYPES OF INSURANCE THAT YOU CAN CHOOSE TO TAKE OUT:

- Third Party Property - this provides cover if you need to pay for damage your car causes to someone else's property such as another vehicle or a fence, building or power pole. This type of insurance sometimes includes "Uninsured Motorist Extension", which covers damage to your own car up to usually about $3000 or $5000 if your car is hit by an uninsured driver who is at fault and you can meet some requirements including providing the name, contact details, and registration of the person at fault.

- Third party property Fire and theft - This provides the same cover as Third Party Property above, and also provides some cover for your car if your car is stolen or involved in a fire.

- Comprehensive - this provides the same cover as Third Party Property Fire and Theft, and also covers damage to your car. You can insure your car as an agreed sum or market value. When you buy a car on finance, it is often a requirement you take out comprehensive insurance as a term of your finance contract.

- Gap insurance –this is often sold to you at the point you buy your car on finance to cover you for the difference between the financed amount under your loan contract and the amount you receive from your comprehensive insurer if your car is written off. There are often a lot of exclusions and conditions for this coverage, so take extra care in reading the policy wording before taking the policy out.

- Tyre and Rim insurance –this is often sold to you as an extra in car dealerships to cover for damage caused by potholes, kerbs and blowouts. There are often a lot of exclusions and conditions for this coverage so take extra care in reading the policy wording before taking the policy out.

- Extended warranty insurance or Premium Warranties – is often sold to you as an extra in used car dealerships. You should carefully read the PDS or agreement before taking out this cover. You should consider whether any statutory guarantees apply, and whether the product is covering what you want. A car dealer or finance company cannot force you to take out an extended warranty. If they have – seek legal advice.

The last three types of insurance above can add a lot to the cost of buying a car without adding much value. If you are borrowing the money to pay these premiums it will also cost you a lot in additional interest.

ABOUT THIS FACT SHEET

This fact sheet only covers Comprehensive, Third Party Property and Third Party Fire and Theft coverage.

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WHAT LEVEL OF INSURANCE SHOULD I CONSIDER?

What risk do I face and what is important to me?

For example, if you have an at fault accident, do you want to be covered for:

- Only for damage to someone else's car or property – consider Third Party Property. You will need to take care of the damage done to your own car yourself
- Damage to my car and someone else's car or property – comprehensive

If you have an accident where the other driver is at fault, are you prepared to chase the other driver yourself? You may need to get legal advice and start court action yourself. If the other driver is poor or uninsured, they may not have the money to pay for your damages. If you would rather claim through your own insurance, you should consider comprehensive insurance. You can also consider Third party property with Uninsured Third Party Motorist extension but the amount covered is usually limited.

If you are in accident and you do not have insurance, you may be at risk of the other party suing you for their damage. If you have assets to lose, like a house or car, or a job where wages could be garnished, you are taking a bigger risk if you do not have insurance. If you are prepared to take that risk, or you have no assets and your income is limited to a government allowance long-term, you could consider not being insured.

If your car is really important to you, for example, without it you could not go to work or care for your family, consider whether there is a comprehensive insurance product suitable for you. Bear in mind the cost of the policy versus the value of your car. If your car is quite old, and not of a significant value, the cost of the insurance may outweigh the benefit received if you have a total loss claim (your car is written off).

There are some third party policies that contain added benefits, like towing or Uninsured Motorist Extension in certain circumstances. Consider having a read of some Third Party Property policies.

Once you have chosen what level of cover suits your needs, the next step is to shop around for the product that meets your budget and provides you the cover you want

HOT TIP! All insurance is not created equal!

Different policies are priced differently because they may have different levels of cover or service. Some insurance is marketed as being cheaper, because they have limitations in the services extended to you or the amount of cover.

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Check whether you are getting a good deal or just missing out on cover that is important to you.

For example:

a. hire car options (while your car is being repaired) – including length of hire car;

b. choosing your own repairer or whether you need to use the insurer's authorised repairer;

c. the guarantee as to genuine parts;

d. excess amount – some insurers will have different excesses depending on who was driving, age of the driver;

e. some insurers place driver restrictions, like age or nominated drivers. This means you won't be covered if you let someone else drive your car and they have an accident.

You can use the short form descriptions or a comparator website that compares products to work out which product suits you best, but you should always read the policy once you have narrowed down your choices.

It's a good idea to read your policy to make sure there are no unexpected surprises when you have a claim.

DUTY OF DISCLOSURE – YOUR CLAIMS AND DRIVING HISTORY

Once you have chosen an insurer, the next step is to contact the insurer. Insurers will ask you a series of questions to decide whether to offer you insurance and at what price. Different insurers ask different questions.

It is essential you answer these questions correctly.

If you do not, you could have your insurance cancelled and your claim refused if the insurer later finds out that an answer you gave was not correct and they would not have offered you insurance.

This duty of disclosure is **ONGOING** - every year you will receive a renewal notice and you must check to make sure your answers are still accurate. It is important that if you have a license suspension, accident, criminal conviction, declare yourself insolvent (through a Debt Agreement or Debtor's Petition), you should notify your insurer. Your insurer may then decide whether to offer you insurance, or only offer you insurance at a higher cost. This is a risk assessment that they make.

Hot tip! If you do not know an answer, never guess. Say you do not know and find out the information.

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You should always tell your insurer anything that could be relevant to whether they decide to give you insurance. There is no point paying premiums on a policy that will not cover you when a claim is made because the insurer would not have offered you insurance in the first place.

Once you have entered a policy, you will receive your certificate of insurance and policy booklet. You should check that all the information on the certificate is correct.

If you have a claim refused on the basis of non-dislosure, see our Factsheet: What can I do if my car insurance claim is refused?

COMPREHENSIVE INSURANCE:

SHOULD I CHOOSE MARKET VALUE OR AGREED VALUE?

If you are insuring your car comprehensively, you can often choose between agreed value or market value.

Agreed value - generally means that at the time of the claim the amount the insurer will pay will already be agreed between you

You should note:

a. Don't over-insure your car;

b. Sometimes the "agreed value" is set as the lower of the amount you choose and another value (such as the purchase price of the car). Make sure you read the policy definition.

If you think you were misled when you took out the policy, get legal advice.

Market value – generally what this means is that the insurer will determine what the market value of your car is at the time of the accident. Insurers will often use on line valuation websites like Redbook or Glass Guide. You should do your own research.

You should note you will not get the full market or agreed value - most policy wording will let the insurer make deductions including:

1. the excess;
2. if your pay your premiums by instalments - the rest of the year's premiums;
3. the unexpired registration and CTP insurance (your insurer will deduct it from your sum insured but you will be entitled to collect the pro rata refund from your state motor authority and CTP provider);
4. value of the wreck (if you want to keep the car and the policy allows it).

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RENEWAL – at renewal your insurer will usually reduce your sum insured automatically, or only offer you insurance for market value rather than agreed. It is important you read your renewal notice each year as this is when the insurer informs you of premium changes and policy changes. If you are not happy with what they are offering you - you can ring them or shop around.

PAYING YOUR PREMIUMS

Many insurers offer the option of paying premiums monthly, often by direct debit.

You need to make sure you check that your premiums are up to date, otherwise your cover may stop and your policy may be cancelled.

HOT TIP: Most insurers charge extra to pay your premiums monthly, but the amount extra varies considerably. Shop around.

NEED SOME MORE HELP?

See **Fact Sheet: Getting Help** for a list of additional resources.

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