



## **IS4U guide to car insurance**

### **So what is car insurance?**

With so many cars on the road at any given time, you can be sure that someone somewhere has just had a bump or an accident. This may involve one, or any number of other vehicles, people or buildings etc. Somewhere down the line, those involved are going to need either reimbursement for their costs to repairing the damage they received, or alternatively, they need to cover the costs of the damage they caused.

Car insurance is there to give you peace of mind and protection in the event of an unlikely or unpredictable loss.

Insurance companies calculate a premium based on a complete history and risk assessment of each customer. So your age, driving experience, vehicle, area you keep the vehicle, mileage etc, all play a part in how cheap or expensive your policy will be. Once a policy has been bought and a claim occurs, the insurance company pays out the amount of money they agreed to pay when they issued the insurance policy.

### **Why do I need insurance?**

The number one reason for every driver to have valid and current insurance on their policy is it's the law! You're legally obliged as a driver to be insured against the possibility that you might injure another person or cause damage to another person's property.

Most insurance companies offer additional cover or ancillaries, to add to the policy for a set fee. Extra cover may include legal cover, breakdown cover, payment protection etc. Insurance is a wise choice when there is a risk that you would be responsible for thousands of pounds worth of damage. For example, if a pedestrian is injured due to a driving accident which is your fault, they could be out of work for a quite some time and could have extensive medical costs that you would be liable for. Insurance offers you protection for these unexpected costs meaning it might be worth not buying the cheapest cover you can find.

### **How do insurers protect the victims of uninsured drivers?**

The Motor Insurers' Bureau was set up in 1946 to provide a way of compensating the victims of uninsured or untraced motorists. All motor insurers must be members of the Motor Insurers' Bureau and contribute to its funding.

Also, in 2001, the Motor Insurance Database was set up by the insurance industry to help identify uninsured drivers. The Motor Insurance Database is run by the Motor Insurers' Information Centre.

This database looks to hold details of all private and fleet motor insurance policyholders. This information is open to the police, enabling them to carry out on-the-spot checks on motorists to confirm they have current and valid insurance.

### **So what about uninsured drivers?**

What happens when an uninsured or untraced driver injures a third party or damages their property? The third party should receive compensation from the Motor Insurers' Bureau even if technically the policyholder breached the terms of the contract they hold with their insurance company. Also, an insurance company is required to carry the cost involving stolen vehicles should a car thief damage property or injure another person, (Allowing for the driver to be identified) the insurance company for the car will cover the compensation.

### **Documentation & paperwork**

As motor insurance is a legal requirement and given that whilst driving you can be stopped and asked to prove that you are driving with insurance, you naturally must have some form of proof or documentation that you have valid cover. This is supplied to you by your insurer once you have taken out a policy with them.

- A certificate of insurance.
- A schedule and/or policy document.
- A cover note.

A certificate of insurance is evidence of insurance as required by the Road Traffic Act. This is the document you will be asked for, should you be required to prove your current valid insurance. The schedule and/or policy document is different from the certificate in that it sets out the full the terms and conditions of your insurance policy. Finally, the cover note acts as a temporary certificate for the purposes of the Road Traffic Act. A cover note would usually be issued to allow either a broker or insurer time to complete their paperwork before they issue the full certificate, though this practice has, over time, become less and less frequent.

You should always read your policy to make sure that it gives you the level of cover you agreed with your broker or insurance company. If there is any part of the document you are unclear about or wish to clarify then contact your broker or insurer; they should be more than happy to explain any queries you have about the language or terms shown. Should you attempt to make a claim for something which is not shown or covered on the policy or is noted as an exclusion, the insurance company is well within their rights to refuse to pay your claim.

One thing to note about insurance contracts which is very important is that you are required to inform the broker or insurance company everything you believe to be relevant or important; about you, your driving history, claims or convictions etc. Literally everything that relates to you as a driver or road user, as any information that is not shared that later becomes apparent during a policy term could invalidate the cover that you have. Unlike many situations where a contract is agreed upon where you are required to only answer or inform based on the questions that you are asked, motor insurance falls under 'utmost good faith' requiring you to inform of any relevant information whether you are asked or not.



## **Policy exclusions**

Most policies will feature key exclusions. These will be outlined in your policy documents, and will highlight all of the areas that your policy will not cover, for example: driving other cars. Other exclusions could be protected no claims bonus, or windscreen cover. Please make sure you check all exclusions on your policy documents, so that you are aware of all limitations.

## **Driving other cars**

Driving other cars allows third party only cover on another vehicle; providing the car is currently insured by another party, and you have the owners' permission to drive. If your motor insurance permits driving other vehicles, it is only applicable to vehicles not belonging to the policyholder and not hired to him under a hire purchase agreement.

There are a number of insurers who have removed this feature due to the cover being misused. It appeared that some drivers were insuring small cars but using the 'driving other cars' facility to drive far more powerful vehicles. The whole idea of this cover being available was for emergency cover use only, as driving without any insurance cover is illegal.

## **Excess**

An excess is your contribution towards any claim.

Let's say you have a claim for accidental damage, and your accidental damage excess is £250. If the cost of the claim is £600 you will contribute the first £250 of the claim leaving your insurance company to pay the remaining £350 (£600 claim minus £250 (your excess) leaves £350 outstanding). It goes without saying that if you have a £250 excess and your claim is worth less than £250 then there is little point approaching your insurer as your costs would cover the total damage cost.

## **Voluntary excesses**

When you take out a policy with an insurance company you will have the opportunity to contribute towards any claim. While you may think this is identical to a compulsory excess, a voluntary excess is the amount you agree to contribute on top of your compulsory excess. Let's say you choose to have a £250 voluntary excess on your policy, the policy itself may already have a £200 compulsory excess so dependant on what type of claim you have, you may find your total excess payable is £450.

The benefit of a voluntary excess is that generally the more you agree to pay towards a potential claim the cheaper the premium will be.

## **Compulsory excess**

In addition to any voluntary excess you may have selected, you may be asked to pay a compulsory excess towards any claims on your policy, though there are some policies which may have nil compulsory excess. Compulsory excesses will more than likely be found on policies where there is a young driver or a high value vehicle.

Although you may see an excess as a downside, if you consider that by contributing towards a claim it allows the insurer to lower the costs of their premiums. By minimising the potential for lots of smaller claims, this reduces the workload of the insurer in both employee and administration, allowing the insurer to save money which helps keep premiums low.

## **Third party only (TPO)**

The very minimum cover required by law in the UK is third party only. Third Party Insurance will usually cover your liability for injury to others (including passengers), damage to property and liability whilst towing a caravan or trailer. Third party insurance will not cover you for accidental damage to your own vehicle. So unless you can afford to repair the damage yourself or even scrap the vehicle and purchase another, you may want to consider third party fire & theft or comprehensive cover.

## **Third party fire and theft (TPFT)**

Third party fire & theft offers all that third party only cover offers, with the extra benefit that should you suffer a loss through either fire or theft you will be entitled to make a claim (Given, that you had made every practical effort to avoid theft or fire damage).

As third party fire & theft offers less cover than comprehensive generally you will find it costs less; however, many insurers are trying to convince customers to buy comprehensive cover by making the difference in cost as minimal as they can, making the extra cover a better buy.

## **Comprehensive**

Fully Comprehensive Insurance covers you for everything third party fire and theft does, but in addition you will normally be covered for loss or damage to your vehicle, windscreen cover, personal effects, accidental damage and medical expenses too.

However, there is now a growing trend for insurance companies to offer comprehensive cover which has been stripped down, or hold reduced cover so please ensure to check all policy cover as you may find that windscreen cover has been removed or that your personal effects cover has been greatly reduced.



### **No claims bonus**

Did you know that you may not lose all your no claims bonus (NCB) if you come to claim. For non-protected bonus many people believe that by claiming they will lose their entire no claims bonus but generally this is not the case. The amount of no claims bonus lost for a fault claim on a non-protected policy is 2 years. So if you have 4 years no claims bonus then it would be reduced to 2 years. Another point to mention about no claims bonus is that there is a maximum level of discount you can receive, so it may be that a company offer maximum discount for 5 years no claims discount. So although you may have 9 years continuous claim free years, should you have a fault on a non-protected policy then you may well find your no claims bonus reduced to 3 years. The extra years are simply a record of your driving history and may well not offer any further discount. Different companies may well have different maximum no claims bonus levels so this could be 4 or perhaps 5 years.

Once you have achieved the maximum level you should then be able to protect your no claims bonus. If you have 5 years protected no claims bonus and you have a fault claim, your bonus level won't be reduced. However, insurance companies don't just base their quotes or premiums on the amount of no claims bonus you have, they will still look at your claims history. So although the following year you will still receive the same maximum discount on your policy due to the protection, your quote or premium may well be higher due to the new claim added to your policy. Insurance companies see policies with claims as a greater potential risk than claims free insurance policies.

### **Legal assistance**

Legal assistance provides assistance to recover uninsured losses (such the as excess on your policy), medical losses or loss of earnings from a third party. If you are involved in a road traffic accident that was at least partly the fault of the third party, with legal assistance a third party will arrange for a solicitor to pursue a claim for compensation if you are injured (the third party being the providers of the legal assistance). Many drivers who are only insured for third party fire and theft do not bother with legal assistance. However, if someone else hits their car, their insurance company will not pay for the repairs – uninsured loss recovery insurance can therefore be particularly useful to them.

Also, following an accident the guilty party may not always acknowledge they are at fault. Negotiations to prove negligence can be complex, time consuming and potentially very costly. In this instance, legal assistance can be most useful.

There will be varying differences in the level of legal assistance each insurance company offers. It is therefore advisable to check the details so you are aware of exactly what cover is being offered.

### **Breakdown cover**

The one time you really need to get somewhere will be the one time your trusted car decides to stop, and not start again. Now, if you are mechanically minded you may be able to fix the problem. However, dependant on the problem, you may need assistance. That's where breakdown cover comes in.

Breakdown cover can offer help if you can't start your car at your home. Or if you breakdown and your vehicle cannot be fixed where it stopped and you need to continue your journey. Although some companies have different levels of cover for their motor breakdown cover, generally what you'll find in each section is...

- Recovery/Relay - If your vehicle can't be fixed locally, you'll get recovery for up to a set number of people to any mainland destination.
- Home Start - Breakdown assistance at your home and near to your home.
- Onward Travel - If you breakdown away from your home and a prompt repair is not possible, you will generally be provided with either a replacement hire car, or overnight accommodation, or reasonable onward travel expenses.
- European Cover - Protection when driving in Europe, generally covered for up to 31 days per trip and 90 days per year in total (Please check each companies terms for the European countries covered).

### **Protected no claims discount**

Most insurers offer the opportunity to pay a little more to protect your no claims bonus. This means that should you be deemed to be at fault for the claim, then the number of years NCB will remain the same. However, this may not prevent your premium from rising as most companies rate on claims history as a separate factor.

Be aware that some insurers won't guarantee an unlimited amount of fault claims but will still allow you to protect your no claims bonus during your time with them as a customer. Some for instance, will only allow 2 fault claims in a year long policy; others may allow 2 fault claims in three years before they remove the protection from your no claims bonus.

### **Green card**

A Green Card is documented proof that the minimum legal requirements for third party liability insurance in any country for which the Green Card is valid, are covered by the insured's own motor policy. A Green Card is currently recognised in more than 40 countries including all the countries of Europe with the current exception of Russia. Also Iraq isn't currently a member of the green card system.

While the vast majority of the time you'll use your green card crossing country borders, it is advisable that you carry it with you at all times in case you are involved in an accident. Thus avoiding any inconvenience whilst your UK insurance is translated.



## How insurance companies calculate the prices

In order for an insurance company to offer a premium for you they need to know about the risk they are taking on. Generally speaking the risk types that insurers use to calculate a premium are the same, but due to the competitive nature of insurance and that no two risks are identical, prices can vary from one company to another.

As previously mentioned, please remember motor insurance falls under 'utmost good faith' which means you are required to inform the insurer of any relevant information whether it was requested or not.

## Car insurance group

The Association of British Insurers (ABI) assigns group ratings to vehicles, with a large majority of the information being supplied to the ABI by Thatcham. The group ratings will range between 1 & 20 and are based upon the risk of the vehicle. So, a one litre Nissan Micra would be classified as a group 3 vehicle, whereas a Nissan 300 ZX with its 2960cc engine would more than likely be a group 18 vehicle.

Other factors used to calculate group ratings are:

- **Damage and Parts Costs** - The likely extent of damage to each car model and the cost of the parts involved in its repair. The lower these costs, the more likelihood there is of a lower group rating.
- **Repair Times** - Longer repair times mean higher costs and the greater likelihood of a higher group rating. Different paint finishes on modern cars are an important factor, so these too are taken into account.
- **New Car Values** - The prices of new cars are taken into account as they are often a good guide to the cost of replacement and repair.
- **Body Shells** - The availability of body shells (the basic frame of the car) is taken into account in group ratings because they are essential for certain accidental damage repairs.
- **Performance** - Acceleration and top speed are important factors.
- **Car Security** - Security features fitted as standard equipment by motor manufacturers can help to reduce insurance claims costs. Such features include high security door locks, alarm/immobilisation systems, glass etching, coded audio equipment, locking devices for alloy wheels and visible vehicle identification numbers.

Though the ABI may originally assign a group rating to a vehicle it is often the case that an insurer may reassign a vehicle to a different group. As an insurer can look over their customer history and specify by a vehicle type, they may see a trend of a high number of fault claims with a certain vehicle, which could lead them to reassign the vehicle to a higher grouping. This would subsequently create higher premiums on the vehicle to balance any potential trend of loss associated with that vehicle.

## Claim history

Insurance companies will always ask about your claims history within the last 3 years, some will want to account for the last 5 years. No matter how long a history they require, they will need to know about all claims in that time regardless of blame.

If you have had a number of fault claims then you'll probably find your premium becoming more expensive. It may seem harsh when this happens however an insurance company will no doubt take the stance that given the prior fault claims you are more likely to have other fault claims due to your driving style and so warrant a higher premium.

## Drivers

Just as you are rated on your driving history so will any drivers you wish to be added to your policy.

Adding a driver who can be defined as a safe risk (such as no claims or convictions, driving for over twenty years) may cost nothing more than an administration charge. However, many insurers charge for mid-term changes on your policy. If you add a driver who's under 25, has a claim or conviction, whilst you currently drive a group 15 vehicle, then you can expect an insurer to add a substantial amount to your policy given increased risk of an accident occurring.

## Driving convictions

Insurance companies will rate on driving convictions. Simply put, if you have a conviction (or convictions) on your licence then to an insurer you will appear to be a greater risk on the road than a driver with no convictions. An insurance company will probably ask for details of convictions in the last 3 to 5 years, mirroring the time span for claims.

Undoubtedly you will have noticed the dramatic increase in speeding cameras now spread across the U.K. This has meant that a greater number of people now have speeding convictions on their licence which has led to higher premiums. However, it is unclear at this time whether or not insurers' haven taken a view that they won't rate or load as much as they did prior to the incursion of speed cameras.

There are of course a whole variety of different conviction types such as driving without a licence, drink driving, reckless driving and so on. Understandably, the more serious in nature the conviction, the more the insurers will load the premium. There is also the added possibility that an insurer may add some terms to a policy or only offer lesser levels of cover for more serious convictions.



## **Medical conditions**

Anything and everything that may have an effect on your ability to drive will need to be notified to the Driver and Vehicle Licensing Agency (DVLA). The DVLA website holds a great deal of information about driving and medical conditions which should help clarify any questions you need answering.

## **Mileage**

The more time you spend on the road the more likely you are to have, or cause an incident. So, an insurance company will increase the cost of a premium the more mileage you cover. As with all the risk information you supply, it should be as accurate as possible. Admittedly though there are many people who say they cover the same mileage year after year, this may not remain true if you change jobs or move address.

## **Occupation**

Certain occupations will be classed as a higher risk perhaps not only due to high mileage but because of goods being carried within the vehicle. For example a builder may carry over a £1000 worth of equipment in their vehicle. An insurer may consider this a far greater risk of the vehicle being stolen and potentially damaged or not recovered. Other occupations which carry a higher risk with insurers are professional sportsmen and sportswomen, entertainers, chefs and those linked with licensed premises.

## **Security**

Car security is one of those things you simply should have. Being able to lock the car doors isn't enough to deter a car thief and insurance companies are well aware of this. Security devices can range from steering locks to alarms and /or immobilisers. It's a sad fact that car theft and break-ins are commonplace within most towns and cities.

During the early 1990s, the news was filled with stories of joy-riders stealing cars and the subsequent damage and suffering they were causing. In 1992, the British insurance industry tasked Thatcham with improving vehicle security.

Increasing the level of security fitted as standard to vehicles and improving the quality of installation of security systems has helped to minimise insurance premiums and reduce insurers' costs. The scheme was extended in 1996 to include light commercial vehicles, in 1997 to include heavy commercial vehicles and again in 1999 to motorcycles.

If you have a car alarm and/or immobiliser fitted it is less likely that your car will be stolen - you can therefore expect to pay less for your motor insurance policy than someone who has no security device on their car.

## **Vehicle value**

Vehicle value will play a major factor in how cheap or expensive an insurance premium will be. If your car is worth £7,000 or £70,000 and is involved in a serious accident or is stolen then you would expect the Insurer to foot the bill up to the full vehicle value. So, your insurer would have lost money. It doesn't take a lot of working out to realise that an annual premium must make up for some of the potential loss. Of course not everybody is guaranteed to make a claim so the insurer can attempt to balance the costs of their premium in order to remain competitive. Also, some cars are less expensive to repair than others, perhaps due to availability of parts.

While an insurer is only ever going to pay you book price for your vehicle in the event of a claim, should you advise the insurance company of a lesser vehicle value when you take out the policy, there is a clear possibility your car insurer will not pay more than the figure advised, regardless of the book price.

## **Vehicle age**

Much the same as vehicle value, an older vehicle can often receive discounted rates as the vehicle value is lower. Of course, this is not always the case as some vehicles will be recognised as classic cars which could possibly increase an insurer's quote due to potential difficulty in obtaining parts.

## **Vehicle use**

Use of your vehicle will have a substantial effect on the premium. If you only use your vehicle for driving between family and friends or to go shopping, this would be the most minimum risk to an insurer. However, if you use your vehicle for both social and business use, you will face a higher rate from your insurer, as you are considered at greater risk of having an accident or claim due to the extra mileage or goods you may carry.

Your policy and certificate will confirm exactly what you are covered for.

- Social, domestic & pleasure - This allows cover for day to day driving, such as a visiting family, friends or going shopping.
- Commuting - This covers a driver to and from one fixed place of work. It also includes travelling & parking at a railway station.
- Business use - This allows use of your car in connection with your job, such as driving to more than one place of work.
- Commercial travelling - This covers the car to be used for such things as door to door sales.



### **Your address**

Your address is another important factor to an insurance company when it comes to assessing your premium. In an urban area you can expect increased levels of traffic as opposed to the countryside which could mean there is a greater chance that your car will be involved in an accident, become vandalised or even be stolen. Certain areas have a higher incidence of vehicle crime and vehicle insurance premiums tend to reflect that risk.

Also leaving your car out on the road overnight, rather than in a locked garage may result in higher premiums.

Most people will have their car registered and insured at one address but there are cases where this will be different. For example students may spend their time divided between home and their university or college. If they registered and insured the vehicle at their home address but an insurer becomes aware that the vehicle is kept the majority of the time at a different address, there may be a risk of a claim being declined due to non-disclosure of information.

### **Is the cheapest quote automatically the best?**

No! More recently insurance companies have been offering policies with less cover inclusive. Their reasoning is that there will always be some customers who simply wish to pay the minimal cost to be insured and legally entitled to drive on the road. It may well be that they don't drive that often and have a proven claim-free record which leads them to believe that they require nothing more than the most basic cover available. While this approach may seem to be a money saver at the time, the potential losses you could incur should there be a claim and/or personal injury involved, could far outweigh the savings made when the policy was taken out. The best way to go about buying an insurance policy is to have an idea of what cover you want included and find a company which informs you of the benefits of each policy they offer. At Gocompare.com we ask you what cover you want during the quote process and show you which policies have the cover you requested and naturally which of those is the cheapest quote, leaving you to decide the best option for your insurance needs.

### **Why has the price increased?**

If you've spent the last year claim free, keeping the same vehicle and not adding any drivers, not having moved address and managing not to add any convictions to your policy you may find yourself scratching your head in confusion as you find your insurance renewal is more expensive than the quote you took out last year. Surprisingly enough this happens all too often and leaves the customer bewildered. The reasons for this may be that the company has faced overall claim costs which has forced them to charge more in order to try to balance their books, it could be that you no longer qualify for the fantastic new business discount insurance companies are so fond of offering to capture more and more business, or it could potentially be that the insurance company is no longer looking to take on safer drivers as their main type of business risk but instead are attempting to capture the more 'risk heavy customers' who have claims and/or convictions or perhaps have a group 20 vehicle to insure. No matter what the reason is for increased or even matching prices, it is in your benefit to shop around in order to find the most competitive quote with the right cover for you.

### **The Team**

**Insurance Services 4U**

**The Insurance Specialist**