

**Consumers Guide to**

**Alabama Insurance**

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# Introduction to Alabama Homeowners Insurance also known as Alabama Home Insurance

## ***Consumer's Guide to Alabama Homeowners Insurance***

Home insurance is an expensive purchase for many Americans. This guide provides information on how to make decisions that can lower the cost of your home insurance and increase the value you receive. Although home insurance is not required by law in most states, if your home is mortgaged, your lender may require the purchase of insurance on your home. To get the best value for your money, you must take responsibility for your home insurance purchase and make your own decisions. The coverages offered to homeowners are typically contained in a package of liability and property coverages. The Consumer Guide principally addresses the package of coverages found in a "homeowners" policy. It does not address the more limited offerings of fire and extended coverages. It does not address the state special programs established to meet special needs including availability. Contact your states insurance department for more detail about special conditions of programs in your state.

### **Why Buy Home Insurance?**

**Owners:** to protect both your house and personal property.

**Tenants:** to protect your furniture and other personal property.

**Everyone:** protection against liability for accidents that injure other people or damage their property.

## ***Commonly Asked Questions about Alabama Home owner insurance***

### **How Much Home Insurance Do I Need?**

- **Property Protection:** The better your coverage, the less you will have to pay out of your own pocket if disaster strikes.
- **Self Protection:** You need enough liability coverage to protect yourself from lawsuits resulting from your negligence.
- **Lender Requirements:** Your lender may require you to cover the house for at least the amount of the mortgage. This may be either too little or too much coverage for your individual circumstances. You are not required to purchase insurance from the insurer recommended by your lender.
- **Policy Requirements:** insurers may impose some coverage requirements for replacement cost protection

## What Affects Home Insurance Prices?

- **Type of Construction:** Frame houses usually cost more to insure than brick.
- **Age of House:** New homes may qualify for discounts in some states. Some insurance companies either may not insure very old homes or offer

and used only at your home. Your insurance producer or your insurance company can help you find appropriate coverage for your car, boat, snowmobile or other recreational equipment. Some forms of personal property, such as, silverware, computers, guns, money, expensive antiques and jewelry, have limited coverage under your homeowner's policy and may need additional insurance. This coverage can be added to your policy as an endorsement. You can choose to insure your home and belongings for either replacement cost or actual cash value. These terms are explained below.

### **Replacement Cost or Actual Cash Value?**

**Replacement cost** is the amount it would take to replace or rebuild your home or repair damages with materials of similar kind and quality, without deducting for depreciation. Depreciation is the decrease in home or property value since the time it was built or purchased because of age or wear and tear. Many insurers require homeowners to insure their homes for at least 80 percent of the replacement cost. If the homeowner fails to insure for at least 80 percent of the replacement cost, a penalty is applied to partial losses. For example, if it would cost \$50,000 to replace your home and it is insured for \$40,000 (80 % of its replacement value), and a fire causes \$25,000 worth of damage, then your insurance company will pay the full \$25,000. On the other hand, if your \$50,000 home is insured for \$30,000 (which is less than 80 % of its replacement value), and you suffer a \$25,000 loss, your company would pay for only part of the loss. You would have to pay the balance out of pocket. Your company would pay for damages based upon the following formula:

Amount of Insurance Carried \$30,000 = 3/4 or 75%

Amount of Insurance Necessary \$40,000

to cover assets (80% of \$50,000)

Using these figures, your company will only pay for 75 % of your \$25,000 loss. Hence,  $3/4 \times \$25,000$  loss = \$18,750 paid by the company. You would have to pay the balance: \$6,250. As you can see, insuring your home for at least 80 % of its replacement cost is very important. Check with your producer or insurance company to see what is required. You may wish to insure at 100 % of replacement cost so you will have sufficient coverage in the event of a total loss.

**Actual cash value** is the amount it would take to repair or replace damage to your home after depreciation. For example, if your roof has a 20-year warranty and is 17 years old, there would be a depreciation for the age and condition of the roof. Most standard home insurance policies cover the contents of your home (i.e., personal belongings) on an actual cash value basis. Many insurers offer an option for you to insure your belongings at replacement cost. The premium will be slightly higher for this coverage; however, you may want to consider the option. Whether your home is insured for replacement value or actual cash value, it is important to keep track of its value. For instance, the addition of a room, new insulation and yearly inflation all increase the replacement cost of your home, while the actual cash value of the home may decrease over time. Check with

your producer or insurance company at least once a year to make sure your policy provides adequate coverage.

### **Additional Living Expenses**

Most home insurance policies provide additional living expenses that will pay some expenses if your home is damaged by an insured event to the extent that you cannot live there while repairs are being made, or if you are denied access to your home by government order. These expenses could include limited motel, restaurant and warehouse storage.

### **Personal Liability**

This coverage protects you against a claim or lawsuit resulting from (non-auto and non-business) bodily injury or property damage to others caused by your negligence. This coverage applies to you and all family members who live with you. You should check with your producer or insurance company to determine if the amount of personal liability coverage is sufficient.

### **Medical Payments**

Regardless of who is at fault, this coverage pays medical expenses for persons accidentally injured on your property by a member of your family or by your pets. Medical payments do not apply to your injuries or those of family members living with you or to activities involving your at-home business. You should check with your producer or insurance company to determine if the amount of medical payments coverage is sufficient.

## ***Alabama Home Insurance Forms***

An insurance form is another name for an insurance policy, and it specifies what perils your home and belongings are insured against. The following are descriptions of the various insurance forms available for homeowners, renters and condominium owners. Not all insurers use these exact terms to describe their home insurance forms; however, the coverage provided will be similar.

### **Home Insurance**

The five homeowners package forms offered to owners of single family owner occupied homes are HO-1, HO-2, HO-3, HO-3 with HO-15 and HO-8. These policy forms insure your home and belongings against at least 11 named perils. The more perils your policy covers, the more you will pay for the policy.

- **Basic Form (HO-1)** insures your property against the first 11 basic perils shown in the chart.

- **Broad Form (HO-2)** covers the 18 perils listed in the chart.
- **Special Form (HO-3)**, the most popular of all homeowner's forms, offers a broad range of coverage. This form provides comprehensive coverage on your home and broad named peril coverage on your contents.
- **Comprehensive Form (HO-3 with HO-15)** covers your home and personal property for everything that is not specifically excluded. This policy generally provides the broadest coverage available, but is not offered by all companies. It usually costs more.
- **Modified Coverage Form (HO-8)** is designed to provide package coverage to the owner-occupants of homes that do not meet all the requirements applicable to other homeowners forms. The HO-8 provides building and personal property coverage slightly more restrictive than that of other homeowners forms for owner-occupants that include a replacement cost clause. The HO-8 is particularly well-suited for residences that have suffered extensive depreciation.

Your home may not qualify for one of the five homeowners package policies; therefore, a company may offer you limited coverage on your house. This coverage may be Fire and Extended Coverage. Your home and only your home would be covered for damage due to very specific perils or losses.

### **Renters' Insurance**

If you rent an apartment or a house, you are responsible for liability coverage and for insuring your personal possessions. Liability coverage protects renters the same as it would if you were a homeowner. The owner of the property is responsible for insuring the building and for obtaining his or her own liability coverage.

- **Tenants Form (HO-4)**, or a renter policy, insures your household contents and personal belongings against the perils included in the home insurance Broad Form (HO-2). (Please see chart.) Like home insurance, it provides coverage for additional living expenses and includes personal liability protection.

## Condominium Insurance

Your condominium association should purchase a policy that covers the building, including any common walls and grounds, including liability associated with common properties. You have a right to examine the association policy. To protect your contents and interior walls, you may purchase Unit-Owners Form (HO-6). An individual unit-owner policy is similar to home insurance and renters' insurance.

- **Condominium Unit-Owners Form (HO-6)** will cover a unit-owner who wishes to insure his or her property or to cover any items not insured by the association's policy. A unit-owner policy will also pay for property damage to personal belongings, wall, floor and ceiling coverings, and any accessories not originally installed in the unit. It also provides personal liability protection.

## Optional Coverages You May Wish to Consider

- **Guaranteed Replacement Cost Coverage** - Guaranteed replacement cost coverage is the most complete coverage for your home. To obtain this type of coverage, you typically must meet specific underwriting rules and conditions of the company. This may include increasing the amount of your insurance on a monthly, quarterly or yearly basis to keep up with the inflation rate. Check with your insurance producer to determine if an additional premium is required and if there are exclusions or conditions that apply.
- **Inflation Guard Endorsement** - If the replacement cost of your home is increasing with inflation, your policy limits must be periodically increased to maintain your coverage at 80% or higher. Even though the amount of homeowners insurance you carry is at least 80% of your home replacement cost, this amount of coverage may not be enough in the future.

To aid you in keeping coverage at an adequate level, some companies offer an "Inflation Guard Endorsement." This endorsement will allow your insurance company to automatically change your policy limit during the policy period. Normally, the higher premium is not paid until the time of renewal.

Even if you have this endorsement on your policy, you should check your coverage limits periodically to make sure you are adequately, but not excessively, insured. Not all companies offer this endorsement, so check with your producer or company if you are interested in purchasing it.

- **Scheduled Personal Property Endorsement** - This endorsement is sometimes called a "personal article floater." A personal article floater

- covers possessions such as jewelry, furs, stamps, coins, guns, computers, antiques and other items that may exceed normal limits in your regular home insurance policy. A personal article floater itemizes each article, gives a description of the article insured and lists excluded perils. It often provides coverage that is broader than the coverage granted in the home insurance policy. There is typically no deductible applied to this coverage.
- **Increased Limits on Money and Securities** - This endorsement increases the coverage on money, bank notes, securities, deeds, etc.
  - **Secondary Residence Premises Endorsement** - Homeowners coverage under this endorsement applies to a secondary residence (example: summer home). Remember that these secondary residences are not automatically covered by the home insurance policy on your primary or principal residence.
  - **Watercraft Endorsement** - Applicable to small sailboats and outboard motor boats, this endorsement broadens personal liability and medical payments coverage on them.
  - **Theft Coverage Protection Endorsement** - As a result of this endorsement, your theft protection is broadened. The contents of your motor vehicle, trailer or watercraft are covered without proof of forcible entry. This endorsement applies only to forms HO-1, HO-2, HO-3 and HO-4.
  - **Credit Card Forgery and Depositors Forgery Coverage Endorsement** - Loss, theft or unauthorized use of credit cards (with certain exceptions) is covered by this endorsement. Also covered is the forgery of any check, draft, promissory note, etc., again with certain exceptions. No deductible applies to this endorsement.
  - **Flood Insurance** - Standard home insurance policies do not cover flood damage. Depending on where your home is located, you may qualify for flood insurance through the National Flood Insurance Program. Some insurance companies also offer flood insurance. Your producer or insurance company can assist you with application forms for flood coverage. If your home is located in a flood plain, your lender should require flood insurance. Just because your home is not in a designated flood plain don't assume you will never incur flood damage. For more information about federal flood insurance, contact the National Flood Insurance Program at 1-800-638-6620.
  - **Earthquake Insurance** - Earthquake insurance is available through most insurance companies at an additional cost. It is normally issued as an endorsement and attached to your home insurance policy.
  - **Windstorm Coverage** - Most home insurance policies cover damage caused by windstorm and hail. However, in some areas of certain states, mostly coastal, this coverage is excluded from the standard policy. For more information, ask your insurance producer or insurance company if this peril is covered by your policy.

## **Underwriting and Rating Alabama Auto Insurance**

Two factors determine what you pay for auto insurance. These factors analyze your characteristics and determine the risk that you present. The first factor is underwriting. Insurance companies underwrite 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 second factor is rating. Based on the results of the underwriting process, the rating assigns a price based on what the insurer believes it will cost to assume the financial responsibility for the applicant's potential claim. The purpose of underwriting is to sort applicants into groups of people that present similar risk and accept, deny or limit coverage for each group of applicants. What that means to you is that you will be grouped with other applicants and policyholders who have similar risk-related characteristics. Therefore, if you can lower your level of risk, you can be grouped with others with lower risk. A rate for each group will be set based on the claims paid by the insurer for the people in that group. The higher the average losses from a group, the higher the rates for that group. Therefore, it is an advantage for you to be in a low-risk group.

## How do Insurers Underwrite Alabama auto insurance?

Insurers depend on information on your policy application. When you apply for insurance, you will be asked a series of questions. The purpose of these questions is to assess the likelihood of your filing a claim. Insurers want to know your driving record. In addition, insurers want to know certain personal characteristics to group you with other drivers. Insurers review the claim history of your group to project future claims. Some of these characteristics are beyond your control, such as age and gender. Other characteristics can be controlled but, since they relate directly to lifestyle or income, are difficult to control. These characteristics include geographic location and usage of the vehicle. A third set of characteristics is highly controllable, such as the make and model of vehicle the consumer wishes to own and insure. A vehicle with few safety devices and a powerful engine carries greater risk of high claims than a less sporty model. The consumer has a great deal of choice, or control, over his or her 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. Other statistics show that persons who work in the same place for a long time tend to have lower claims.

## Rating Alabama auto insurance

The second factor that governs the cost of your Alabama auto insurance is rating. Like underwriting guidelines, each company adopts its own rating system, although there are general guidelines that all companies follow. Commonly asked questions related to loss history include:

- **Driving Record.** On the policy application you will be asked about your driving record. Insurers will ask about accidents and traffic violations for any driver covered by the policy for preceding 3-5 years. Drivers with previous violations or at fault accidents are considered to be a higher risk and may be charged a higher rate.
- **Territory.** The claims experience of people in your 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 can tell a great deal about your risk of financial loss. From your claims experience, insurers know that more claims are made from urban areas than rural areas (busy traffic, thefts, vandalism, etc.).
- **Gender and Age.** Statistically, males still have more accidents than females. For that reason, young men may tend to pay more for insurance

- than young women. (A small number of states have prohibited insurers from using gender as a factor in underwriting.) Insurers also have statistics that show a higher number of claims for some age groups than for others.
- **Marital Status.** Insurance company claims statistics show a lower rate of auto insurance claims among married policyholders.
  - **Prior Insurance Coverage.** In some states insurers may ask you if you had insurance coverage previously. If you have previously been cancelled for non-payment of premiums, insurers want to know. If you have had insurance, your new insurer may ask your prior company about your claims history. Different insurance companies specialize in particular classes of business. Large insurers may form subsidiaries for preferred (low risk), standard and non-standard (high risk) business.
  - **Vehicle Use.** You will be asked on the application about how often and how far you drive the vehicle you want to insure. Higher annual mileage will generally result in higher premiums because of the higher exposure to risk.
  - **Make and Model of Vehicle.** The type of car you drive will directly affect the cost of your automobile insurance. A make or model of car that has a high number of claims or higher claims cost will be charged a higher premium for comprehensive and collision coverage.

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 effect. 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 high-claims groups will be charged more for insurance coverage. At the same time persons who share characteristics with low claims groups will be charged lower rates. In addition, insurance companies offer discounts to individuals who exhibit certain characteristics.

### **Discounts on Alabama auto insurance**

Discounts are awarded because the insurance company sees you as a "better risk." You should be aware of what discounts are offered by what companies before buying auto insurance. **Not all states allow the same discounts to be used.** Here are some discounts you should look for:

- **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 under-write individuals that they know; thus, reducing their risk and saving the company money. In addition, industry statistics show that individuals and families that insure more than one car have a better than average claims experience. Through this discount companies pass along some of their savings to you.

- **Driver Education Courses.** Discounts for driver education courses are targeted primarily at younger and older drivers.
- **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."
- **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.
- **Anti-theft Devices.** Devices or systems that deter theft or vandalism also lower claims costs. Many companies offer discounts for anti-theft devices.
- **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.
- **Good Driver/Renewal.** Some insurers offer discounts to drivers who maintain a good driving record and renew their policy with the same insurer.
- **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.
- **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 period has expired.

Discounts are not only ways for companies to attract customers, they are also ways 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. When comparing the price of insurance between different companies, compare the total cost after any discounts.

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financial responsibility system used in your state, you will need to purchase either automobile liability insurance or no-fault insurance. Many states require that you purchase some kind of insurance coverage to drive legally in the state.

### **Alabama Auto Liability Insurance**

Most auto liability insurance policies contain three major parts: liability insurance for bodily injury; liability insurance for property damage; and uninsured/under-insured motorists 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 the accident was caused by a member of your family living with you or 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 they must pay for multiple victims. To make a smart consumer purchase, you must understand these limits for bodily injury liability insurance. In most states you will be required by law to purchase minimum amounts of bodily injury coverage. However, these minimum amounts are generally low and 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. If this is the case, keep in mind that as you raise your coverage, your premiums will increase. This is because you are asking the insurance company to assume responsibility for a higher claim. 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 was being driven by another person with your consent. Once again there will be maximum limits set by your policy on the claims your insurance company commits to pay as a result of property damage losses, as well as a minimum limit set by the state on how much coverage you must buy.

3.) **Uninsured motorists 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. This coverage in effect takes the place of the insurance that the other driver should have purchased but did not. Some policies also contain coverage for under-insured drivers. These are drivers who purchased insurance but not enough to cover your claim. Once again, uninsured motorists coverage will have policy limits. In addition, the state may require you to purchase specific minimum amounts of coverage. Uninsured motorists coverage does not protect the other driver and it may not cover damage to your vehicle. Your insurance company

may sue the other driver for any money the company pays to you because of the other driver's negligence. The three coverages mentioned above are the basic coverages contained in liability policies sold under the tort system. 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 by purchasing 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's policies.

### ***The No-Fault System***

If you live in a no-fault state, this section applies to you. Each state must implement either a tort system or a no-fault system. The system your state has implemented will determine what kind of insurance is available to you. There are many variations on the no-fault system that make it difficult to provide accurate information on a national basis. This booklet provides a basic overview of no-fault, but for specific questions about your state's no-fault law contact your state insurance department. In a no-fault state individuals need not go through the court system to have their financial loss paid if the loss results from an injury. Two individuals who have a traffic accident may file claims with their own insurance company. Each insurance company pays the claim for the personal injury to their policyholder regardless of fault. First of all, under a no-fault system your insurance company pays you directly for your losses as a result of injuries sustained in an accident, regardless of who is at fault. Similarly, the other driver collects losses for his or her injuries from his or her insurance company. Under a no-fault law there is no need to determine who is at fault to receive payment for injury claims. No-fault does not completely eliminate the risk of your being sued. However, no-fault laws do place restrictions on when a suit can be brought. This means that you can be sued but only under specific conditions. Since no-fault laws do not completely eliminate a person's right to sue, the possibility of your

being sued is very real, especially in the event that you are the driver at fault in an accident that causes serious injury to others.

### **Personal Injury Protection (also known as PIP)**

The most basic no-fault benefit is personal injury protection coverage (PIP). This coverage will pay you, your relative or any other person riding in your car a minimum benefit amount per person for injury regardless of fault. The level of benefits varies widely among states. The following are types of coverage's that may be extended to you under typical personal injury protection coverage:

- **Medical Expense Benefits.** This benefit includes all reasonable charges for medical, hospital, surgical, professional nursing, dental, optometric, ambulance, prosthetic services and X-rays.
- **Rehabilitation Expenses Benefit.** This benefit includes charges for psychiatric, physical and occupational therapy, and rehabilitation.
- **Work Loss Benefit.** This benefit includes coverage for loss of wages up to a specific limit for a specific time period following injury.
- **Funeral Expense Benefit.** This benefit covers all reasonable charges up to a specific amount for funeral services including burial and cremation expenses.
- **Survivors Loss Benefit.** This benefit provides a payment to your surviving spouse or dependents up to a specific amount for a specific time period.

### **Residual Bodily Injury Liability Coverage**

Under no-fault policies, most injury claims are covered under your PIP benefits. If there is a situation where those benefits are not enough and there is a possibility of your being sued, many states include residual bodily injury liability coverage. This coverage will protect your family and anyone else while in your car with your permission in the event you are sued because of injuries caused to others. What are the situations under which you can be sued? Again, no-fault laws will vary greatly from state to state, but each no-fault state has defined certain thresholds that if exceeded, open the possibility of a suit. These thresholds can be based on specific dollar amounts, clearly defined injuries and/or a death resulting from an accident.

### **What No-Fault Doesn't Cover**

In most states, the no-fault law specifically excludes property damage liability for damage that you cause to the property of others. If you are at fault in such an accident, you will be held liable and can be sued for these losses. Only in a limited number of states does the no-fault law extend some coverage to damage you may cause another driver's automobile. Furthermore, even in these limited

cases, property damage liability coverage does not extend to your car. You must buy a separate collision coverage to take care of this risk. Once again, you should be aware that this booklet can only give you a general overview of no-fault laws governing insurance. For specific information about the no-fault law and insurance in your state, contact your state insurance department. Most state insurance departments have written consumer information that will outline the specific limits and responsibilities for auto insurance in their state.

## ***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, collision insurance may be required by your lending institution or lessor. 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 it. In severe cases, the worth of the car may not exceed the premiums paid for the coverage.

2.) **Comprehensive coverage** pays for damage to your auto from almost all other causes, including fire, severe weather, vandalism, floods and theft. Comprehensive coverage also will cover broken glass, such as windshield damage. Comprehensive coverage is less expensive than collision coverage and 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 an amount of money you agree to pay as part 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 a set amount from the claim your insurer otherwise would have to pay. Insurance companies offer deductibles because they reduce the number of small claims, which are costly for them to handle. If you purchase a new car with a loan, the financial institution that loaned you the money may require you to purchase comprehensive and collision coverages. 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 it. In the event you have to buy, or decide to buy, collision or comprehensive coverage, you can save money by agreeing to the highest deductible you can afford to pay in the event of an accident. However, since comprehensive coverage is usually cheaper than collision coverage, many people save money by dropping the collision coverage and keeping the comprehensive coverage to protect against natural perils, theft and glass breakage.

### **Other Optional Coverages**

Insurance that covers the medical bills of drivers and their passengers is not usually required in states without no-fault laws. However, you may decide to purchase this coverage. Be cautious when purchasing these coverage's. They can duplicate coverage that you may pay for 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 one such optional coverage. This coverage pays the medical and funeral expenses for you or others injured or killed in an accident while riding in or driving your auto. Claims against this coverage include all reasonable hospital, surgical, chiropractor, X-ray, dental, professional nursing, prosthetic and funeral expenses. It will also cover you or members of your family if you are struck by an auto while walking or while riding in another auto. This coverage will pay for your medical and funeral expenses even if you cause the accident. Usually, only expenses incurred within a specified period of time after the accident are included.

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 will vary from insurer to insurer.

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.

### ***Smart Shopping for Alabama auto insurance***

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 will save you money. Different companies charge different rates for the same coverage. In a 1989

Vermont Department of Banking, Insurance and Securities survey, premium rates varied as much as 72 percent for identical coverage offered by different companies. A 1991 Colorado Division of Insurance report shows a 200 percent difference in the premium rates charged for identical products. No one wants to pay more for their auto insurance than they absolutely have to. The only way you can make certain you are not paying too much is to shop around. 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, state insurance departments, 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 their state insurance department. Most insurance departments publish auto insurance guides that contain information specific to that particular jurisdiction. Every state insurance department has personnel available to answer questions regarding auto insurance coverage. Many state insurance departments help the citizens of their state to comparison shop by publishing premium comparisons. Premium comparisons survey the insurance companies with regard to their rates for a number of locations and typical drivers. The results of the survey are published for public use. If your insurance department publishes a premium comparison, it can only be used to give you a general idea of rates available in your state. For specific information, you must contact individual companies. However, premium comparisons may help you to narrow your choices of companies you want to call.

### **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 producers advertise. Check the newspaper and yellow pages of the telephone directory for companies and producers in your area. In addition, contact your neighbors, relatives and friends for recommendations on insurance companies and producers. Ask them about their experience regarding price and service. In particular ask them what kind of claim service they have received from the companies they recommend. Consumers often rely on their insurance producer or company to tell them what kind of coverage they need. Insurance producers are paid on a commission basis, which means that the higher the premium, the more money they make. The commission system of producer compensation is a strong incentive for higher premiums. Certainly, competition between producers for business provides some incentive to push down rates lower than other producers but not necessarily the lowest price possible. If consumers want the lowest price possible, they must take responsibility for

finding it themselves. **Remember, competition only works if the consumer shops for coverage.**

## Price Quotations

When shopping for auto insurance, premium quotations are a useful tool for comparison of different companies' products. When asking for price quotations, it is crucial that you provide the same information to each producer or company. To give you an accurate quote the producer or company will usually request the following information:

- description of your vehicle;
- its use;
- your driver's license number;
- the number of drivers in your household;
- the coverage's and
- limits you want.

This information is necessary to the rating process described earlier in this guide. You should understand that not all insurance companies use insurance producers to sell their product. Insurance companies generally use one of three methods to market their product: direct marketing, independent producers or exclusive producers. The type of marketing method may be good or bad for a consumer, 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 have to pay insurance producers commissions to sell their policies. Companies can pass along some of these savings to the consumer. However, some consumers prefer to pay an additional premium for the opportunity to have a local producer available to them. If you decide to call producers for quotations, ask them how many companies they represent. **Independent producers** represent several companies, therefore, you can get quotes for more than one company from one producer. This is considered an advantage to many consumers. If you contact an independent producer, be aware that the companies the producer represents are in competition with one another for business. In an effort to encourage the producer to sell their product, companies may compete by offering higher commissions and incentives to the producer. As a result, insurance companies that use independent producers may have to charge a little extra to pay the producer higher commissions. However, this is not always the case. Some insurance companies sell coverage through producers that only represent their company. These companies call their producers an **exclusive agency force**. Exclusive producers can only offer you coverage from the company they represent: therefore, you can only get a quote from one company for each exclusive producer that you talk to. Sometimes exclusive producers may work for a lower rate of commission than independent

producers. This is because companies do not have to give the producer 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 and often a portion of that savings is passed along to the consumer in lower premiums. When considering the purchase of an insurance product from an insurance producer, it is advisable to ask what rate of commission the producer 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.

### **For Your Protection**

Once you have selected the insurance coverage's you need and an insurance producer 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 your state insurance department and verify that the company and the producer you are dealing with are licensed in your state. It is illegal for unlicensed insurers to sell insurance. Business cards are not proof of a licensed insurance agent or company. If you do business with an unlicensed producer or company, you have no guarantee that the coverage you pay for will ever be honored. If you are contacted by an unlicensed producer or company, call your state insurance department immediately so that regulatory action can be taken. By doing so, you may protect someone less knowledgeable than you from being victimized. 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 make certain you understand its contents. If you have questions about your insurance policy, contact your insurance producer for clarification. If you still have questions, call your state insurance department.

### ***Your State Insurance Department***

Your state insurance department exists to serve you. State insurance departments can be a source of unbiased information and assistance to you. State insurance departments regularly publish written information valuable to the auto insurance consumer. They may have additional consumer guides that outline your specific rights and responsibilities under your state's insurance laws and regulations. They also may publish premium comparison reports for your use in shopping for insurance. If you do not understand your insurance policy, you can call your state insurance department and ask 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 precisely to handle such questions. If you still are not satisfied, contact your state insurance department. State insurance departments have complaint specialists to help you with your problem. Although they cannot represent you legally against an insurance company or adjustor, they

can make appropriate investigation into potential violations of insurance laws or regulations based upon your complaint.

### State Auto Insurance Laws

| Tort States |                  |                   |
|-------------|------------------|-------------------|
| Arizona     | Louisiana        | Montana           |
| Alabama     | Marshall Islands | Nevada            |
| Alaska      | Mississippi      | Nevada            |
| California  | Missouri         | Nevada, Idaho and |
| Colorado    | Montana          | Tennessee         |
| Florida     | Nebraska         | Virginia          |
| Georgia     | Nevada           | Washington        |
| Indiana     | New Hampshire    | West Virginia     |
| Iowa        | New Mexico       | Wyoming           |

| Tort States Where Personal Injury Protection is Available |                |               |
|---|----------------|---------------|
| Arkansas  | Virginia       | West Virginia |
| California  | South Carolina | Wisconsin     |
| Colorado  | South Dakota   |               |
| Florida   | Texas          |               |

| No-Fault States |               |                |
|-----------------|---------------|----------------|
| Colorado        | Connecticut   | Florida        |
| Delaware        | Massachusetts | Nevada         |
| Florida         | Michigan      | Pennsylvania   |
| Georgia         | Minnesota     | North Carolina |
| Illinois        | Mississippi   |                |