

## Consumer Frequently Asked Auto Insurance Questions

### I've heard a lot about auto insurance in the news recently. What's going on?

Auto insurance companies now set their own rates. This means that if you request quotes for the same coverage from several different companies, you will receive different premium quotes from each of them. Even though companies will file their own rates, the Commissioner of Insurance still must approve those rates.

For the past 30 years, all rates for car insurance were set by the Commissioner of Insurance under what was known as the "fixed-and-established" system. Under this system, if you requested a premium quote for the same coverage from different companies, each of those companies would give you the same price for that coverage, unless you were eligible for a group discount.

### Will My Auto Insurance Coverages Change Under Competition?

The minimum coverages for a basic policy are still mandated by Massachusetts law and will not change. The types of coverage you are required to purchase by law are called compulsory insurance. The basic Massachusetts Auto Policy will remain exactly the same; however, many insurance companies will offer new and additional coverages, higher limits and lower or waived deductibles under certain circumstances.

A few of the new coverages companies will offer include:

- **Replacement Cost Coverage** – Some companies will pay the cost to replace your car if it is a new model under a certain number of miles. You may also be able to extend the replacement cost coverage for a longer period for an additional premium.
- **Loan/Lease Gap Coverage** – Often, consumers with auto loans and leases on new cars can suffer financially if a loss occurs early on in the loan or lease because they are "upside-down" in their loan or lease. Being "upside-down" means that, because of depreciation, you owe more in loan or lease payments than the car is worth. For a modest additional premium, the insurance company will pay the actual cash value of your vehicle plus the difference between the actual cash value and what you actually owe on the loan or lease.
- **Original Equipment Manufacturer (OEM) Parts** – Because of cost-containment measures, Massachusetts regulations require insurance companies to pay only for "after market" replacement parts in the event of an accident. For an additional premium, you can assure that your car will always be repaired with parts made by your car's manufacturer.
- **Replacement Cost and Loss of Use for Rental Cars** – You may also be able to purchase added coverage for when you rent a car. If you have collision and comprehensive coverage on your policy, those coverages will extend to other private passenger cars (including a rental car or van) used with the permission of the owner. Your current policy would pay a claim on a rental in exactly the same way it would pay a claim on your car. It would pay for the actual cash value of the vehicle, but that is often not enough to make the car rental firm happy. For those who rent cars for business or vacation use, some companies will offer a replacement cost option for rental cars and vans that will pay the cost to replace the rental vehicle if it is a total loss or the cost to repair it plus the loss of rental income while the vehicle is being repaired.

Some companies will also offer special packages for valued customers like enhanced towing options, coverage for accidental deployment of airbags, reimbursement for personal effects in the vehicle, extended rental, emergency road travel expenses, etc.

## **Will Competition Make My Rate Go Down?**

Competition is designed to encourage insurance companies to offer their lowest possible premium to each driver. Although the majority of Massachusetts policyholders will probably benefit from reduced rates under the new system, the amount that you pay will depend on your individual risk factors, such as your driving record, the territory in which you live, and other rating factors approved by the Commissioner. However, maintaining a clean driving record should decrease your rates.

## **What Should I Do If My Rate Goes Up?**

*First.* Make sure that your rate has really increased. Compare the types of coverages and coverage limits on your policy last year to the coverages and coverage limits you've received quotes for, and make sure they are the same. Also remember that any change to your policy will affect your premium. Changing your vehicle, adding or changing coverages, adding or changing drivers, or changing your car's garaging location may all increase your premium.

*Second.* Consider whether you are classified as a high-risk driver, such as one with multiple at-fault accidents and/or traffic violations, or one with less than six years experience. If you are, the increase in your premium may be the result of these factors.

*Third.* Contact your agent or your insurance company for an explanation of why your rates have increased.

*Fourth.* Once you have learned the reason for your rate increase, you may want to ask your agent to obtain rate quotes from other insurance companies until you are certain you have found the lowest premium for the coverage you want. Remember that if you have had a change in driving history, such as an at-fault accident or traffic violation, your premium is likely to go up in a competitive rating market in the same way as it would have increased under the fixed-and established system.

## **How Do Companies Determine My Rate?**

Insurance companies group you with other individuals who share your risk characteristics – such as the same number of years driving experience. Insurance companies then calculate your individual premium, using the base rate for your group, and then revise your premium to reflect your individual risk factors and appropriate discounts. In determining your actual premium, insurance companies consider your years of driving experience, the number and type of at-fault accidents, the number and type of traffic violations, the vehicle you drive and the principal place where you garage that vehicle. Insurance companies may also consider other risk factors if those factors are relevant to risk and approved by the Commissioner.

***Prohibited Underwriting and Rating Factors.*** Insurance companies are prohibited from using certain factors for either underwriting or rating under Massachusetts law. For underwriting, or the determination of whether the insurance company will voluntarily accept you as a risk, companies are prohibited from using sex, marital status, race, creed, national origin, religion, age, occupation, income, principal place of garaging, education and homeownership. For rating, or the determination of how much your actual premium will be, companies are prohibited from using sex, marital status, race, creed, national origin, religion, age (except for safe drivers who are 65 years or older), occupation, income, education and homeownership. Insurance companies are also prohibited from using credit information from consumer reporting agencies for either underwriting or rating. If an insurance company uses any of these prohibited factors in connection with either the underwriting or rating of your policy, you should file a consumer complaint with the Division of Insurance.

## **What Types of Discounts Are Available?**

There are a variety of discounts insurance companies may offer. Some discounts are required by law, such as for passive restraint systems or other safety features, anti-theft devices, low annual mileage and, under certain circumstances, drivers who are 65 years or older. Other discounts are

optional, and may include driver-training, advanced driver training, multi-car, good student, student away at school, multi-policy or account, hybrid vehicle, customer loyalty or other Commissioner-approved factors that reduce either the risk or extent of injuries or damage. Some companies will also offer discounts to members of certain approved groups. Whether insurance companies are required to offer a particular discount by law or simply choose to offer it, the amount of those discounts may vary somewhat from company to company. When shopping for your new policy, ask your agent what types of discounts each company offers, and how much each of those discounts reduce your premium.

### **How Should I Shop For Auto Insurance?**

Shopping for insurance can be frustrating. The best advice is to start with your current agent. The changes in auto insurance are industry-wide changes, so your current agent will have coverage and pricing options for you which were not available previously.

If you do shop for quotes, all of the quotes you receive need to be for the same coverages and the same limits of liability. To be sure you are comparing apples to apples, insist that the quotes be based upon the exact criteria. Start with the coverages that are reflected on the Coverage Selections Page of your current policy. Keep in mind, that quotes you get from insurance companies online will be generic quotes and not necessarily what you need in terms of coverage and limits.

Since insurance is intended to protect your most valuable assets – your car, your home, and even your life – you should definitely talk to an insurance professional about the amounts and types of coverage you need.

Remember that while price is certainly an important factor in deciding which insurance company to pick, it is not the only factor. Price, discounts, customer service, claims handling, the location of an agent, or the financial health of the company are all legitimate factors you might consider in buying insurance. Ultimately, you must decide which features are most important to you.

### **Will I Still Get Surcharged for Accidents and Traffic Violations?**

Under the prior “fixed and established” system, Massachusetts law required that you be surcharged for certain accidents and traffic violations. It also set the amount of your surcharge. This system of surcharges was called the Safe Driver Insurance Plan (SDIP). Under the new system, insurance companies will be permitted to develop their own rules, known as a merit rating plans, to determine if and how they will impose surcharges on your premium for at-fault accidents and conviction of moving traffic violations.

A competitive automobile insurance system permits companies to develop their own merit rating plans. Some of the plans created by insurance companies provide for a shorter experience period or an accident “buy-back” or forgiveness features. These new merit rating plans are subject to approval by the Commissioner of Insurance.

Insurers will still be required to report all at-fault accidents and traffic violations to the Merit Rating Board (MRB), the state agency that maintains operator driving history records, and the MRB will continue to provide this driving history information to car insurers. Unlike in the past, individual insurance company merit rating plans may handle the information provided by the MRB differently. A company with an “accident forgiveness” option will not surcharge you for your first accident, and a company with a shorter experience period will drop the points for at-fault accidents and convictions of traffic violations earlier than others.

### **What Are The Different Ways Companies Sell Auto Insurance?**

Insurance companies generally sell insurance either through agents or direct marketing.

**Agents.** Most insurance companies currently in Massachusetts sell insurance through agents. You should be aware there are two kinds of agents:

- (1) the *captive agent* who represents only one insurance company (Liberty Mutual, Amica, State Farm, and the like); and
- (2) the *local independent agent*, who generally represents several insurance companies and does not have a vested interest in selling you a policy from one particular company.

Experts say that consumers who do business with independent agents generally have an advantage during the claims process. Since an independent agent is an independent business person, your agent can advocate for you when you have a claim.

Further, a local independent agent is usually familiar with your situation and can guide you toward a suitable policy. With an independent agent, *you can change your insurance company without changing your agent.*

**Direct Marketing.** Some insurance companies sell insurance through direct marketing, meaning that they sell insurance directly to consumers without the involvement of agents. One of the key differences between the two types of insurance agents is that ***independent agents*** provide service beyond the sale. Their idea of service is person to person. They help you design your insurance package and are there day in and day out to service your insurance needs. On the other hand, insurance company ***employee agents*** are paid to sell insurance policies. The servicing of your policy, including claims handling, is handed off to other company employees.

### **Why Is Auto Insurance So Expensive In Massachusetts?**

Massachusetts auto insurance costs are among the highest in the country, although rates have continued to decline over the past few years. Many factors contribute to the high cost of insurance here. Densely-populated areas with many cars see more accidents than rural areas. The higher cost of living in Massachusetts means higher costs for medical care, auto repairs and litigation.

The bottom line is that Massachusetts has more property damage and bodily injury claims per vehicle than most other states. As the number of claims increases, so too does the cost of insurance.