

California
Department of
Insurance

What They Don't Teach You In High School

RICARDO LARA
INSURANCE COMMISSIONER

California Department of Insurance



1-800-927-4357

www.insurance.ca.gov



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INSURANCE COMMISSIONER

California Department of Insurance

Dear California Consumer:

The California Department of Insurance (CDI) is the nation's leading state consumer protection agency and your best resource for honest and impartial answers to insurance questions.

Knowledgeable insurance professionals are available through our consumer hotline. My staff will be able to help you get answers to all your insurance related questions, file a request for assistance or report suspected insurance fraud.

Call 1-800-927-HELP (4357) or visit www.insurance.ca.gov to view all of our consumer information guides and insurance resources. These tools are available to consumers free of charge.

Thank you for giving us the opportunity to serve you.

Sincerely,

A handwritten signature in black ink that reads "Ricardo Lara". The signature is fluid and cursive, with a large, stylized "R" at the beginning.

RICARDO LARA
Insurance Commissioner

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Auto Insurance:

What They Don't Teach You in High School

There are many classes you have to take to graduate from high school (whether you like it or not). Sometimes it is hard to understand how all this stuff applies in the real world. You just have to trust that you will someday make use of the information.

The last thing you want to think about is auto insurance. It's hard enough to deal with parents, school, and your social life, why bother learning about something that your mom or dad handles?

If you are lucky enough to have your own car or borrow a car from mom or dad, you remember what it was like before you had your license and always had to bum a ride. Your driver's license and access to a car has given you the kind of freedom that freshmen only dream about, but freedom doesn't come without responsibilities (ouch!). All that freedom can be taken away in an instant if you don't have car insurance.

Doing your homework on auto insurance will prepare you for the day when you are on your own... and the less surprises you have, the better.

Why Should You Care About Auto Insurance?

Insurance may not be at the top of your priority list right now, but soon it will be. If you have been lucky enough to be on your parents' automobile insurance policy, you may never have even considered what automobile insurance is all about. If you have a driver's license, in the near future, it is going to be up to you to get automobile insurance because you can't stay on your parents' policy forever.

So, why do you need auto insurance anyway? Well, the first answer is simple: it's the law. The Department of Motor Vehicles (DMV) requires that you take financial responsibility for owning and operating an automobile in California. Evidence of financial responsibility must be carried at all times in the vehicle. Most licensed drivers in California satisfy their financial responsibility through automobile insurance companies, who provide the policyholder with an identification card to be used as evidence of coverage. The card must state the insurance company's name and address, the period of coverage and the policy number. Your insurance company notifies the DMV when you buy auto insurance or if you stop paying your premium.

Minimum Liability Coverage

Liability insurance protects you when you cause property damage or bodily injury to someone else when driving your car.

Bodily injury liability limits must meet the minimum of \$15,000 for injury or death of 1 person per accident, \$30,000 for injury or death of 2 or more persons per accident and \$5,000 for any property damage per accident.

If you are caught driving without auto liability insurance in California you will be charged hefty penalties. Violators can face up to hundreds of dollars in fines for a first time offense. Also, if you are involved in an accident and do not have liability insurance, your license may be suspended whether or not you are at fault.

When parents or guardians sign for a minor to get a driver's license, they are stating that they will accept financial responsibility for that minor. Evidence of financial responsibility must be carried at all times in the vehicle.

Legal issues aside, insurance is a way to protect yourself in the case of an accident. Your coverage can't stop an accident from happening, but it can help to put you back in the place you were before an accident occurred. It can also protect you from financial hardship if you are at fault and hurt someone else or their property in an accident. There is no doubt that you need auto insurance. If you're not convinced yet, then read the following reasons to get insurance now, before it's too late:

- Do you have the money to pay for repairs if your car is damaged or vandalized? Physical damage coverage (comprehensive and collision) will pay for these types of repairs.
- Do you have the money to cover towing and car rental if you total your car? You can choose an automobile policy with special coverage options such as towing and rental car coverage. It's not too cool when you're forced to take the bus to the prom.
- What would you do if your car was stolen? Would you be able to buy another car if the police didn't recover your car? Would you be able to pay off your car loan? Comprehensive coverage will put you back in the driver's seat with a total loss settlement if your car is stolen.
- Do you have the financial certainty that you can pay for any accident that was your fault? When you have liability insurance, your insurance company takes care of it.
- Would you rather pay a small deductible or the entire amount of damage to your car? That's a no-brainer!
- How would you feel if your friends were injured in your car and could not afford medical treatment? Medical payments can provide an amount of coverage for initial medical treatment.
- Are you the type of person who complains about how others are so irresponsible? Take the real responsibility of driving and owning a car seriously and purchase auto insurance.

How Do You Shop for Auto Insurance?

Now that you have been convinced (maybe?) about the many reasons for purchasing automobile insurance, it's time to learn about insurance shopping. Just like any other consumer product, it's just plain smart to comparison shop and be informed about what you are purchasing. We've all met status conscious people that only buy brand name merchandise and pay the highest prices at trendy retail outlets. Most likely we also know those who insist on always buying the cheapest item regardless of quality. Neither buying strategy is particularly worthy. You have worked hard at that job after school, and you don't want to waste money needlessly on over-priced insurance, but you also don't want to buy something so cheap that you don't get the service you need when you need it. Here are a few things to remember when shopping for insurance, whether you're an insurance novice or not.



Get the Facts!

Insurance may seem pretty simple, but allow adequate time to do some real research on policies and available coverages. Doing your insurance homework will ensure that you get the policy that is right for you. Everyone is an individual, so what is good for your best friend may not necessarily be the best thing for you. However, that doesn't mean you can't talk to your friends and family if you need help purchasing insurance. Never be afraid to ask questions. Contact your local agent or insurance company. Also, don't overlook the research power of the internet. The internet provides a lot of insurance information. Make sure to access both consumer-oriented websites, company websites and the California Department of Insurance CDI website to get a complete picture of what is available to you.

CYA = Cover Your Automobile!

Now is the time to learn about the different types of coverage available like liability, comprehensive, collision, medical payments, and uninsured motorists. It's too late to discover you didn't have the right coverage or you didn't understand the coverage you had when seeing your smashed up car in the tow yard. Buying auto insurance is a lot like going to a cafeteria, in that you pick and choose what coverage you want cafeteria-style. Since there is no such thing as "full coverage," it is important to gain a working knowledge of all the coverage options. Each element of your policy will protect you in a different way. Whether you are at fault for an accident, have property damage to your car, or sustain bodily injury, the coverages you choose protect you differently depending on the circumstance. California requires that you carry minimum liability limits, while other coverages are optional. Loan companies usually mandate that you carry comprehensive and collision coverage as a condition of your car loan. Know the insurance requirements of your loan before you shop for insurance.

Shop 'Til You Drop!

Be careful not to sacrifice the insurance coverage you need to save a few bucks. Sticking to a budget is one thing, but scrimping on auto insurance is a bad place to cut corners. When it comes to your safety and financial future, you have to play it smart. It's not easy to get a good job, get your own apartment, and still be responsible for other obligations such as auto insurance. This is the main reason why you should shop around. There are a lot of great insurance companies that offer excellent coverage at competitive prices. It is a good idea to compare 4 to 5 companies when shopping for insurance. Have the agents or companies quote similar coverage, limits, and deductibles as much as possible, so you can compare apples to apples. Make sure to visit the California Department of Insurance (CDI) website at www.insurance.ca.gov and compare the complaint information of the companies you contact for quotes. With complaint and premium information, you will be able to make the best decision possible.

Coverages

Liability Coverage *(Minimum required)*

Bodily Injury & Property Damage Liability Coverage - Better known as BI & PD. Liability insurance that helps pay for the injuries and damage to others from accidents that are your fault.

Additional Coverage

There maybe other coverages you may need to discuss with your agent or company, such as:

Medical Payment Expenses - Covers limited medical costs for you or others in your car when you are in an accident.

Uninsured/Under Insured Motorist Coverage (UMC) - Provides coverage for a policyholder involved in a collision with a driver who does not have liability insurance or whose liability limits are too low to pay for all the damage.

Comprehensive and Collision - Are not state mandated coverages, but if there is a loan on the vehicle you drive you may be required by the loan or leasing company to provide evidence of these coverages.

Comprehensive Coverage - Pays for damage to your car caused by something other than a collision (Such as damage by a natural disaster, vandalism, theft, fire, or falling objects).

Collision Coverage - Pays for damage to your car caused by physical contact with another vehicle or an object (such as a tree, rock, guardrail, building or person).

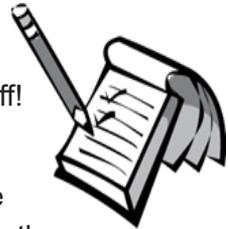
Gap Coverage - This pays the difference between the fair market value of your car and the balance you owe on your loan or lease.

Special Equipment Coverage - Most companies charge extra for any special equipment such as customized parts, special wheels you add to your vehicle for it to be covered. Ask you agent or company to explain.

What Else Can You Do? Drive Safely!

Did you know drivers between the ages of 15-20 account for 14 percent of all fatal vehicle crashes? In fact, for the same age group, 30 percent of the drivers who were killed in auto crashes were under the influence of alcohol. Being a part of such a high-risk group can be scary, but driving safely is a goal that is attainable. Protecting yourself on the road is easier when you know the rules of safe driving and how to anticipate unexpected road hazards. Consider the following safe-driving guidelines to help protect you from being another fatality statistic:

- Drive at the speed limit and adjust your speed down for night driving and road conditions such as rain, snow, ice, or fog.
- Drive defensively. Look out for other drivers, pedestrians, cyclists, and animals.
- Keep a safe distance between you and the car in front of you. Back off! No one likes a tailgater.
- Always wear your seatbelt. It's the law and seat belts have saved countless lives.
- Know how to work the controls and quickly check the instrument panel of your car. Playing around with the radio, cruise control, cell phone, or any other instrument control is dangerous and decreases your concentration.
- Pay attention when you drive. The most important thing to do when driving is drive!



- Drive sober. Choose a designated driver.
- Ride only with sober drivers. Offer to drive if the driver has been drinking or spring for a taxi. Almost half of the people who die in car crashes are passengers.
- Allow plenty of time to get where you're going. The idea is getting there!
- Make sure your car is in good working order. Know how to fill the gas tank, check the oil, change a flat tire, gauge tire pressure, fill windshield wiper fluid, and check windshield wipers for wear.
- Keep your car free of trash and clean all windows and mirrors. It's not good when your diet soda can gets lodged under the brake pedal.



Driver Distractions

Did you know that traffic crashes are the leading cause of death for American teens? And when it comes to distracted driving, young people are among the most likely to text and talk behind the wheel. That is because distractions are everywhere. Whether you think so or not, driving is a skill that requires your full attention to control your car and respond to events happening on the roads around you.

According to a study released by the National Highway Traffic Safety Administration and the Virginia Tech Transportation Institute, 80% of crashes and 65% of near crashes involve some form of driver distraction.

Driving involves constant and complex coordination between your mind and body. Events or things that prevent you from operating your car safely are distractions. There are three main types of distractions:

- Taking your eyes off the road (visual)
- Taking your mind off the road or what you're doing (cognitive)
- Taking your hands off the steering wheel (manual)

Distracted driving is any non-driving activity a person engages in while operating a motor vehicle. Such activities have the potential to distract the person from the primary task of driving and increase the risk of crashing. Make sure to call out your friends and even your parents, if you see them using a cell phone behind the wheel.



Remind them all "One Text or Call Could Wreck It All". Besides using electronic gadgets, distractions also can include adjusting a radio, eating and drinking, reading, grooming, and interacting with passengers.

When you are driving the condition of the roadway and the behavior of other drivers can change abruptly, leaving you little or no time to react. When you are driving, follow these rules:

- Stay focused, pay attention, and expect the unexpected.

Questions and Answers

Anticipating every question that you might have regarding auto insurance is kind of like expecting your teachers to have the big exam graded the day after you take the test . However, since it's our job to know your mind, we put together the following list of questions and answers after speaking with your peers and fielding their questions (names have been changed to protect the innocent).

Question: How does an insurance company calculate automobile insurance premiums?

Answer: Auto premium is based on three primary factors: how long you've had your license, how many miles you drive in a year, and how many accidents or tickets you have. The insurance company can also use a variety of secondary factors to determine premium, but the most important secondary factor is the frequency and severity of claims the company has experienced in the area where you live. Since claim experience differs between companies, the premium charged by insurance companies can greatly vary. That's why you need to shop around.

Question: Why does my policy cost so much?

Answer: Auto insurance costs more for people who have little driving experience. Accident statistics show that newer drivers and drivers who are teenagers and young adults have an increased likelihood of accidents. As you get older and gain more driving experience, your premium will go down. However, you won't enjoy lower premium rates if you get too many tickets or have too many at-fault accidents along the way.

Question: Can an insurance company raise my premium because of tickets or accidents?

Answer: You bet they can! Your premium is partially based on your own driving experience. If you have tickets or at-fault accidents, you will be charged an additional surcharge based on the type of ticket or accident for which you have been cited. The more tickets and accidents you have, the higher your premium.

Question: What can I do to save some money on auto insurance?

Answer: Comparison shopping is the best way to save money on auto insurance. Savvy shoppers who keep a clean driving record will be able to find the best insurance deals with good companies. Another way to save money is by taking larger deductibles and lower limits; however, make sure that you are not putting your financial future in jeopardy by choosing low limits and high deductibles. Auto insurance needs to be a priority in your budget, not an afterthought.



Question: When I get my driver's license, will my parent's auto insurance cover me?

Answer: Generally speaking, if your parents have a standard auto insurance policy, it will cover any person in the household that drives on an occasional basis. However, when there is a minor or adult of legal driving age in the household, your parent's insurance company will require that person to be permanently added to the policy for a premium charge. The insurance company can also decide to exclude that person from your parent's policy if separate proof of insurance from a different insurance company is provided. An insurance company can start charging additional premium from the time that a driving permit is issued to a minor. It is up to the individual insurance company to determine when to start charging an additional premium. Some will wait until the driver's license is issued.

Question: How do you pay for auto insurance?

Answer: When an insurance company offers coverage, the full premium is due up-front. However, most insurance companies offer payment plans. These payment plans require a down payment and usually charge a small service fee for each installment.

Brokers and agents may also offer premium-financing options from premium financing companies. Read these contracts very carefully, as you may be responsible to pay the full premium amount to the premium financing company even if you cancel your auto policy in the middle of the term.

Question: What happens if I don't pay my premium?

Answer: The insurance company is only obligated to give you 10-day notice of cancellation due to non-payment of auto premium. What this means is if your premium is not in their office and applied to your account by 12:01 a.m. the day that it is due, the insurance company will send you a 10-day notice of cancellation. This gives you the chance to pay the insurance before your policy is cancelled. If the company doesn't have your money, you don't have the coverage, and they will not send out another notice telling you that you have been cancelled. You can see why it is very important to make sure your payment is made in plenty of time.



Question: I am going to college in another state, do I have to make changes to my policy?

Answer: You will have to give the insurance company your new mailing address and the principal address where your car will be garaged. If your insurance company does not operate in the state where you will be attending college, you will have to get new insurance in that state.

Question: Is it true if I'm a full time student with a B average that I won't pay as much for auto insurance?

Answer: Some insurance companies offer special "good student" discounts. The idea behind the discount is that students who are busy studying and getting good grades are less likely to have the time to drive around partying and getting into accidents. Not all insurance companies offer good student discounts. Contact your insurance company or company representative and ask.

Question: Is it okay to let a friend borrow my car? Will my car be covered if my friend is in an accident?

Answer: It's not a good idea to let your friends borrow your car. Most standard policies will cover a friend who has borrowed your car; however, if a friend borrows your car on a regular basis, the insurance company most likely will not pay for the loss. Also, some policies exclude coverage when someone other than you drives your car. It may not be fascinating reading like your psychology 101 text, but it pays to read and research your policy to see how your insurance company responds when an accident happens.

Question: What do I do if I am in an accident?

Answer: You need to exchange personal and insurance information with the person or person(s) involved in the accident. Write down names, phone numbers (work and home), license numbers, driver's license numbers, and insurance company names and policy numbers. Make sure you take down witness information as well. You may want to carry a cheap disposable camera in your glove compartment to take pictures of the accident scene and damage to the cars and other personal property. If there is bodily injury, call the police and ambulance if necessary. As soon as you can, call your insurance company and give them the details of the claim. You may want to see our brochure entitled, "So You've Had an Accident, What's Next?" for more helpful advice.

Where Can I Go for More Help on Auto Insurance?

If you need some help with questions on auto insurance or you are just looking for a place to start, contact the California Department of Insurance. Before you purchase insurance, you should check out the license status of all the parties involved. If you are going to an insurance agency or brokerage, you should make sure that it is licensed as well as the agent or broker you have contacted. The insurance company should also be licensed. We can provide that information to you online or at our Consumer Hotline number. Also, we have several auto-related brochures online that can give you tips on such topics as dealing with accidents or understanding basic auto insurance terms. They're not bestsellers, but they get the job done.

Please see the "Talk to Us" section of this brochure for the many ways you can contact us.



** The California Department of Insurance does not endorse or recommend any particular insurance company, driving school, or other organization.*

Common Terms

Actual Cash Value (ACV)—Unless otherwise defined in the policy, actual cash value in California means fair market value. The fair market value of an item is the dollar amount that a knowledgeable buyer (under no unusual pressure) is willing to pay, and a knowledgeable seller (under no pressure) is willing to accept.

Adjuster—The person from your insurance company who investigates and evaluates your damage and losses.

Agent—An individual or organization licensed to sell and service insurance policies for an insurance company.

Binder—A short-term agreement that provides temporary auto coverage until your auto insurance policy starts.

Broker—An individual or organization that is licensed to sell and service insurance policies for you.

Broker Fee Agreement—The contract between you and your broker. It lists the fees for your broker's services.

Cancellation—When you or your insurance company ends your policy early. They might do this because you did not pay your premium. You might cancel your policy because you no longer own or drive a car.

Claim—Your request to an insurance company to cover an accident or other loss.

Commission—The fee that an insurance company pays an agent or broker when they sell a policy.

Comparative negligence—The percent of responsibility that each driver shares in an accident when both drivers are at fault.

Declarations page—Usually the first page of an insurance policy. It lists the full legal name of your insurance company, the amount and types of coverage, the deductibles, and the vehicle(s) insured.

Deductible—The amount of the loss that you must pay before your insurance company pays anything. Only comprehensive and collision coverage have deductibles.

Endorsement/rider—A written statement that changes the coverage or details of an insurance policy.

Exclusion—These are the specific things that your insurance policy does not cover or limits coverage for. For example,

your policy may not cover certain kinds of dangers, people, property, or locations.

Insured—The person who can receive covered benefits in case of an accident or loss. Also called the policyholder.

Insurer—The company that issues your insurance.

Liability coverage—Insurance that helps pay for the injuries and damage to others from accidents that are your fault.

Limit—The most money that your insurance company will pay for your loss.

Non-renewal—This is when you or your insurance company does not renew your policy at the end of its term.

Policy—This is your contract with the insurance company. It explains your coverage. It also states the rights and duties of both you and the insurance company.

Premium—The amount you pay to buy an insurance policy.

Private passenger automobile—Four-wheeled motor vehicles for use on public highways, like cars, station wagons, SUVs, and vans. They must be registered with the state.

Quotation (quote)—An estimate of your insurance premiums based on the information you give to the agent, broker, or insurance company.

Rescission—The cancellation of a policy back to its start date. If this happens, the insurance company does not pay for any of your losses, and your premiums are refunded. This can happen if you knowingly gave false information when you applied for the policy.

Subrogation—When one insurance company pays money on a claim, and then tries to get paid back or reimbursed by another insurance company.

Surcharge—An extra charge that is added to the premium by an insurance company. This usually happens because a covered driver has had an accident or moving violation that is their fault.

Disclaimer

1. This brochure is for informational purposes only.
2. The actual terms of an insurance policy and related law prevail over the information provided in this brochure.
3. In the case of a dispute, the insurance policy is controlling and a court of law will rely on the policy as it is written to resolve the dispute.
4. The policy is the only document that describes what the insurance company will pay.
5. The information contained in this brochure does not create rights or obligations on the part of the insured, the insurer, the agent, the broker, or the state.
6. This brochure is not intended to be a substitute for the actual insurance policy.

Resumen en Español

Seguro de automóvil: Lo que no te enseñan en la escuela secundaria

Esta página brinda un resumen de los temas tratados en este folleto:

- Seguro de auto: Lo que no te enseñan en la escuela secundaria
- ¿Por qué debería importarte el seguro de Auto?
- ¿Cómo comprar seguro de Auto?
- ¡Obtenga los hechos!
- Consiga cobertura para su automóvil!
- Comprar hasta el cansancio!
- Tipos de cobertura
- ¿Qué puede hacer más? ¡Conducir con seguridad!
- Distracciones del conductor
- Preguntas y respuestas
- ¿Dónde puedo ir para obtener ayuda sobre el seguro de Auto?
- Términos comunes
- Descargo de responsabilidad
- Más información

Este folleto está disponible en español en nuestro sitio web en **www.insurance.ca.gov**. Seleccione traducir en Español a la derecha de la pantalla. Seleccione la ficha los consumidores, elegir tipos de seguro, guías de información, a continuación, seleccione la serie automóvil.

Talk to Us

Do you have a question, comment or concern? There are several ways to talk to us:



- **Call** our Consumer Hotline at
1- (800) 927- 4357
Telecommunication Device for the Deaf
TTY dial 1-800- 482 - 4 833



- **Write** us at California Department of Insurance
300 South Spring St ., South Tower
Los Angeles, CA 90013



- **E-mail** us through our Website at:
www.insurance.ca.gov



- **Visit** us in person on the 9th Floor at
the address above. Office Hours:
Monday through Friday 8:00 AM to 5:00 PM
Pacific Time, excluding holidays

The California Department of Insurance

Consumer Education and Outreach Bureau

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1-800-482-4833 (TTY)

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