

In the driver's seat

Australian Securities & Investments Commission's
Car finance and car insurance tips

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Don't drive into debt

David was 18 when he bought his first car from a car yard. The car dealer arranged the finance for him. David decided not to bother with insurance because he wanted to save the money for a car stereo. A few months later, David smashed into the back of another car. David's car was completely written off and the other car needed \$1,000s in repairs.

Now David is heavily in debt and has no car. He still has to pay off his car loan and the other car owner for the repairs. David got an extra job to earn more money but it will be another two years at least before he can clear his debts and even think about getting another car.

Unfortunately David's situation is not uncommon. Find out how you can avoid driving into debt by reading the tips and advice in this booklet.

Looking for a loan?

If you don't have the cash upfront for a car you might decide to get a car loan. It is well worth taking the time to compare the terms of loans offered by different financial institutions to get the best deal.

If you buy a car from a car yard the car dealer might offer to arrange the finance for you. You don't have to get the loan through the car dealer and it's often cheaper to get a loan from your bank or credit union directly. Interest rates and related fees and charges for personal loans can vary a lot. Once again, take the time to make sure it is the best deal for you.

Choosing a policy

When you are choosing a car insurance policy it is important to understand the different types of policies available and know what sort of insurance cover you want. Always take the time to read the policy so you know what is and isn't covered.

What kind of cover do you want?

When you register your car you must pay for third party personal insurance which covers injuries to other people if the car is in an accident. This is sometimes called a "green slip". In addition to this there are three common types of optional car insurance policies:

- *Comprehensive insurance* — If the driver of your car is covered under the policy, this policy covers damage to your own car and damage to other people's property (usually their car) in an accident.

- *Third party fire and theft insurance* — This policy covers damage caused by your car to other people's property, and limited cover for loss or damage to your car caused by theft or fire only.
- *Third party property insurance* — This policy only covers damage caused by your car to other people's property. It does not cover the cost of repairs to your own car.

Keep an eye out for additional benefits such as third party policies that provide limited cover for damage to your car. This cover can be up to a limited amount eg \$3,000 or in particular circumstances eg it wasn't your fault and the other driver was uninsured. Some policies also cover towing costs and free car hire.

What won't the policy cover?

Most policies **do not** cover loss or damage resulting from:

- mechanical, structural or electrical failure
- depreciation, wear and tear, and rust
- lost wages or income because you cannot use your car
- unauthorised modifications to the car from the maker's specifications

and most policies will not cover loss or damage if you drove your car when it was in an unroadworthy or unsafe condition, and this contributed to the accident.

Also, your policy will not cover loss or damage if the person driving the car was:

- over the limit or under the influence of drugs
- unlicensed
- not authorised under the policy to drive the car.

Agreed value or market value?

Your car will either be insured for:

- an agreed value (with the specific amount stated in the policy); or
- the market value of that make and model of car, based on the condition of your particular car.

Get the best deal

Once you have decided on the type of cover you want, take the time to check out different prices. The Internet and telephone call centres make this easy. Remember to compare the cost of the premium and the amount of any excess. The excess is the amount you must pay when you make a claim on your insurance. Read more about the excess on p6.

What can affect the cost of your insurance?

In addition to the type of cover you choose, factors that can affect the cost of your insurance include your suburb, your car and your driving history.

Powerful cars and cars with modifications cost more to insure. So before buying a car like this decide whether it's worth the added ongoing expense. Remember, the more a car is worth, the more it will normally cost to insure.

The person who is driving the car can affect the cost of the insurance. If you have a good driving record (rating 1) your premium (ie the cost of insurance) will be lower and if you have a bad driving record (rating 6) your premium will be higher. However, if you are a male under 25 your premiums will be more expensive due to the greater number of accidents by this group generally. Make sure you keep your rating or get a better rating if you change your insurance.

Car dealers and insurance

Sometimes car dealers also offer to arrange your insurance for you. In this situation, you deal with the car dealer as an agent rather than the insurance company. In addition to comprehensive and third party insurance the car dealer might offer you a variety of other insurance products, for example consumer credit insurance to cover your loan repayments and mechanical breakdown insurance. Decide what sort of insurance you really need and take the time to make sure you are getting the best deal. Don't ever feel pressured into buying insurance.

TIP! To get the best deal you might need to shop around and get your car, car loan and car insurance from 3 different places.

Things to know about car dealers who offer you insurance:

- They must be licensed to sell insurance policies [this is called an Australian financial services (AFS) licence].

- They must tell you how much commission they will receive from selling you the insurance. This is the amount the insurance company gives them for selling you the policy.
- They might act for one insurance company only, so they will not shop around for the best price for you.

Applying for a policy

How you applied for your policy and the information you give to the insurance company can make a big difference when you decide to make a claim.

The golden rule is to give the insurance company a complete and accurate picture of your situation. In other words...

Tell it like it is

You will have to answer a load of questions from the insurance company so they can accurately assess the risk of insuring you. They might ask you about:

- who will be driving the car regularly
- the driving record of the regular drivers eg driving offences
- previous car insurance claims
- any modifications to the car.

It's very important you answer these questions honestly — this is called your "duty of disclosure". Don't be tempted to hold information back to get a cheaper premium. Deliberately withholding relevant information is fraudulent.

Sometimes you may not be sure what to put down in the application form or you may not remember all the details. Take the time to check you've put down any relevant traffic offences or insurance claims.

If the insurance company discovers any of your answers were incorrect they may be able to reject any claims you make under the policy.

Keep in touch

Always tell the insurance company if your circumstances change eg you change address or make changes to your car. These changes can affect your premium. Avoid your policy lapsing by always paying your premium by the renewal date and telling the insurance company about any change of address.

Making a claim

If you are in an accident remember the following tips which will help if you make a claim:

- don't leave the scene of the accident before speaking to anyone else involved
- get the name, contact details and registration number of any other drivers or people involved
- if the police attend make a note of the police report number
- draw a sketch and make a note about the accident.

Before you make a claim

Check what the financial consequences will be if you claim on your policy. Do you know about the "excess" and any "no claim" bonus?

What is the excess?

The excess is an amount of money that you must contribute towards any expenses as a result of the loss or damage. Your insurance company usually requires you to pay the excess when you make a claim. If you cannot pay the excess as a lump sum, check to see if you can arrange to pay it by instalments.

TIP! If the amount of your claim is not much more than the excess, it might be worth considering not making a claim and bearing the cost yourself, if you can afford to do so.

What is your "no claim" bonus?

A "no claim" bonus is an annual reduction on your premium if you have not made any claims under your policy. If you make a claim, you may lose all or part of your "no claim" bonus and have to pay more for insurance next year. Check with your insurance company about the circumstances in which you will lose your "no claim" bonus.

When you make a claim

- Tell the insurance company about the accident as soon as possible. If this is by phone they will often ask you to complete a claim form afterwards. Include as many details of the accident as possible. Any notes you made will help at this point.

- Be completely open about the circumstances surrounding your claim, even if they are personally embarrassing. It is better to be honest than have to change your story later. This could result in an investigation and a delay in payment of your claim, or in it being refused.
- Produce all documents or records supporting your claim.
- Co-operate with the insurance company and the people they employ to help assess the claim, such as investigators or doctors.

After you have submitted a claim on your policy, your insurance company must:

- acknowledge receipt of your claim within 15 business days
- keep you informed of the progress of your claim
- advise you within a reasonable period whether or not your claim has been accepted or rejected.

Unhappy... want to complain?

If you are not happy with the way the claim has been handled or you and the insurance company cannot agree on the amount to be paid, make a formal complaint to your insurance company or the insurance agent.

If the problem is still not resolved to your satisfaction you can make a complaint to the:

Insurance Enquiries and Complaints (IEC)

An independent complaints scheme dealing with complaints about general insurance companies and their agents. The scheme is free to use and its decisions are binding upon the insurance company.

Phone: 1300 780 808 (local call rate)

Email: iec@iecltd.com.au

Website: www.iecltd.com.au

PO Box 561

Collins Street West

Melbourne VIC 8007

Fax: (03) 9621 2060

3/56 Pitt Street

Sydney NSW 2000

Fax: (02) 9251 4453



FIDO has lots of material and tips about organising your finances

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