

May 2004

# “The Circle Of Safety”

## Consumer Awareness Advisor

News and Tips to Make Your Life Easier, Safer and Happier!

For Friends and Clients of PDCM Insurance

3927 University Waterloo, Iowa 50701

## Common Confusion About Auto Insurance Rates

**A**uto insurance can be confusing. If you've actually read your insurance policy (which everyone should do, but few actually do) you know what I'm talking about.

While your policy explains what the insurance company will – and, more importantly, will not – pay for, it does not explain how prices are determined. And we get lots of questions on this topic.

### Perceived Risk Determines Price

In practice, insurance rating is quite complex; handled by actuaries who compile and analyze mountains of data. But the foundation of this whole pricing process is really quite simple ...

Insurance companies are concerned about risk – the risk that an event they'll have to pay for is likely to occur. High risk equals high price. Low risk equals low price. Simple.

The question is, therefore, how do insurance companies determine the level of risk a driver and his/her vehicle represents? Because that's going to determine the price he or she pays.

Driver risk assessment involves many factors, which explains why insurance agents ask so many darn questions. And keep in mind it's all statistical because nobody can look at an individual and predict his or her future. But based on a number of statistically proven risk factors, insurance companies price their insurance accordingly.

Here are some of those risk factors that affect you and your auto insurance ...

**Previous Accidents and Claims** – Many people believe that drivers with no accidents “are due.” They've been lucky so far, but they're destined for an accident.

Statistically speaking that's incorrect. The statistical truth is drivers with previous accidents and claims are more likely to have additional accidents. The driver with no claims is likely to continue that way.

**Age** – When it comes to driving there are high risk and low risk age groups. For example, drivers age 16 to 24 are among the highest risk drivers on the road. It's statistically proven. That's why their rates are so much higher.

**Where You Live** – Insurance rating is all about statistics. In some places accident rates are much higher than in others. Accident severity also varies from location to location.

Population density, traffic congestion, speed limits, dangerous traffic patterns ... these and other factors affect the general safeness of a particular area. If you live in a statistically high accident area, your auto insurance rates will reflect that.

And as the population explodes in certain areas insurance rates won't be too far behind. It's inevitable that rising population density leads to increased car accidents and, therefore, higher insurance rates.

**Vehicle Usage** – How you use your car is a big factor, too. For example, the driver who commutes 1 mile to work is much less likely to be involved in accidents than the driver who commutes 30 miles. The risk they represent is different and so are their rates. Other such usage factors affect rates, too.

**Type Of Car** – Cars that are more expensive to fix or replace represent higher risk to the insurance company. So, the price for insurance is higher for those cars.

**Your Driving Record** – Drivers who drive unsafely represent greater risk of accidents. Speeding tickets and other violations tell the company a driver indulges in unsafe driving habits.

Taking these – and other factors – into consideration, an insurance company essentially categorizes drivers by risk level and charges them according to the level of risk they represent.

This is not done individually. Rather, the insurance company has filed its rates with the state Insurance

Department. Whichever filed rate level the individual falls into, those are the rates he or she gets.

Hopefully, that helps clear some of the confusion about why auto insurance rates vary so much from

person to person and from place to place. If you have any questions please give us a call at PDCM Insurance (319) 234-8888.