

INSURANCE 101:

Auto Insurance Terms Explained

If you are like many consumers, your automobile insurance policy is full of terms and phrases that may be unfamiliar to you. Many people don't even read their policies because it can be such an overwhelming and time-consuming task.

While it's important to have a general understanding of your auto coverage, you don't need to be an expert on the subject. We have simplified some regularly used terms to help you better understand your auto insurance policy.

Actual Cash Value – the amount that your vehicle could be sold for. It is equal to the replacement cost minus the depreciation of the damaged or stolen automobile at the time of the loss.

Example: \$500 (cost of replacement parts)
- \$150 (depreciation due to age, wear and tear)

\$350 (actual cash value)

Appreciation – an increase in the value of the vehicle. While this is an uncommon occurrence, it's possible if a vehicle has special added features or has popularity among collectors.

At Fault Accident – an accident that you caused. The decision to assign fault is based upon the driver's conduct and if it's determined that negligence has occurred.

Binder – a temporary document that outlines the terms and conditions that will appear in the final insurance contract. You should keep this document handy as proof that you have obtained insurance on your car until your formal policy and insurance cards arrive.

Bodily Injury Liability Coverage – if you're found at fault in an accident that causes injuries to another person, this coverage will help pay their medical expenses and loss of income that occur as a result of that accident. It may also help cover any legal fees you might incur if you're taken to court.

Collision Coverage – helps protect your vehicle against the financial loss that occurs when your vehicle is damaged. It can help reimburse you for the damage caused in an accident or event for which you are at fault.

Comprehensive Coverage – this covers events out of your control, such as hitting a deer on the road, a fallen tree limb on your vehicle, vandalism, theft, and other environmental disasters. It also covers glass claims and windshield repairs. This may be an optional purchase, depending on the state you live in and insurance company.

Deductible – this is the amount you pay out of pocket before your insurance pays the remaining balance of the claim.

Depreciation – your vehicle naturally loses value over time, and different vehicles depreciate at different rates. Factors like age, make and model, mileage and condition can diminish a vehicle's value, resulting in depreciation.

Excluded Driver – you may reside with someone who hardly drives or has had many accidents. Because you live with them, you’re obligated to list them on your insurance, although you may not be allowing them to drive your car. You can opt to list such persons as an “Excluded Driver,” which may help you save money on your insurance.

Effective Date – the exact date that your auto insurance policy will become active.

Gap Coverage – optional coverage for newer cars that covers the difference between what your vehicle is currently worth and the amount you owe on it. If your car is totaled in an accident but you owe more on your loan than the car was worth, this kind of insurance would prove very beneficial for you.

Grace period – most auto insurance plans have a “grace period” for late payments. It is the window of time between your premium due date and the date in which you would lose your coverage.

Liability - the person at fault in an accident. Most states require Liability Coverage to help pay for the other person’s expenses.

Limit – the maximum amount of money your insurance company will pay on a claim.

No Fault – also referred to as Personal Injury Protection (PIP). If an accident is within the terms of your no-fault/PIP insurance, it may cover medical bills, income loss and other related expenses for you and/or your passengers.

Premium – the amount you pay an insurance company in exchange for coverage. You can often choose to pay your premium annually, every six months, or monthly.

Replacement Cost – an insurance option that allows for full compensation and zero risk in the event your vehicle is totaled or stolen.

Residual Value – the expected worth of a vehicle at the end of a lease. This helps determine your monthly payments and what the car would cost if you choose to buy at the end of your lease.

State Required Minimum – each state requires a certain level of automobile insurance, and the requirements can vary from state to state. You can learn about the requirements for New York state by visiting the Department of Financial Services website.

Subrogation – the process by which your insurance company would collect a debt from the “at-fault” party or their insurance company.

Underwriting – the process an insurance company takes to evaluate the risk assumed by insuring your vehicle.