10 things your auto insurer won't say

**There's a lot to consider when insuring a car -- rates, teen drivers, what happens if you have an accident. Is your insurer looking out for you?**

**1. "When I say this is a good policy, I mean it's good for me."**

Although agents can help you navigate auto policies, some may not have your best interests at heart. Often, large auto and home insurers use "contingent" commissions to compensate agents who sold their policies. These fees come in two types: "steering" commissions, for signing customers with a particular carrier, and profit-based commissions, when clients don't file a lot of costly claims. The concern with the former is that unscrupulous agents push certain policies to reap larger commissions; with the latter, they might delay or discourage claims.

How can you protect yourself? Ask about commissions, and have prospective agents explain their recommendations.

**2. "Young drivers can't catch a break."**

Statistics show that drivers under age 25, especially males, are in a high-risk group and have difficulty getting insured. But the specifics are startling: Drivers in New York under age 19 pay a median auto insurance rate that is more than 100% higher than drivers ages 60 to 74, according to a 2009 survey published on [**InsuranceRates.com**](http://www.insurancerates.com/).

It typically takes three years of driving experience to be quoted a lower rate, according to [**AllInsuranceInfo.org**](http://www.allinsuranceinfo.org/). But there are other ways to ensure a better rate in the short term. For example, avoid sports cars and opt for a car with a lower engine capacity.

Also, ask your insurer for ways to score a lower premium.

According to information posted on AllInsuranceInfo.org, some insurers will give a lower rate to young drivers who complete defensive-driving courses.

**3. "Spotty credit? That'll cost you."**

Since the 1990s, insurers have discovered a strong correlation between low credit scores and lots of claims. Today, more than 90% of insurers use credit histories in their underwriting, according to the Insurance Information Institute in New York. Although consumer advocates say that unfairly penalizes the poor, it can also bite the middle class, says Birny Birnbaum, the executive director at the Center for Economic Justice. After all, "87% of families in bankruptcy are there because of a job loss, medical catastrophe or divorce," he says.

Because many insurers do factor in credit histories, it's important to get a credit report from each of the three major bureaus -- [**TransUnion**](http://www.transunion.com/), [**Experian**](http://www.experian.com/) and [**Equifax**](http://www.equifax.com/home/en_us) -- and check them for errors before you shop for insurance. (Free reports are available once a year from [**AnnualCreditReport.com**](https://www.annualcreditreport.com/cra/index.jsp).)

**4. "How do we set premiums? That's for us to know and you to find out."**

As insurers continue to adopt complex pricing systems, not everyone is seeing savings. Why the disparity? For starters, premiums vary widely by state. According to a 2007 study from the National Association of Insurance Commissioners, the average yearlong policy in 2005 cost $949, ranging from a low of $664 in Iowa to a high of $1,343 in the District of Columbia.

What has muddied the waters even further are the formulas used to set premiums for individuals. Twenty years ago, most insurers sorted customers into four or five pricing tiers, based on where they lived, their ages and their driving records. Over the past decade, hundreds of variables have been added to the mix, including credit histories, homeownership and limits on past policies. Because each insurer interprets these variables differently, it's even tougher for consumers to get a handle on the system.

**5. "Your repaired car might look and run like new, but it's worth a lot less."**

As many policyholders know, when the other party's insurer is paying for repairs after an accident, you have the right to opt for original manufacturer parts instead of generic after-market ones. But even with the best parts and service in the world, a fully repaired vehicle will often be worth less as a used car or trade-in than an identical car without the accident history.

Luckily, it's not a total loss -- even if you can't collect diminished value, you can probably write it off on your tax return (consult your tax adviser). That's why it's a good idea to hire a post-repair inspector, both to ensure that the work was done properly and to assess diminished value.

**6. "Totaled your car? Good luck collecting its full value."**

Policyholders may be surprised that insurance companies don't typically get their valuations from such standard sources as [**Kelley Blue Book**](http://autos.msn.com/kbb/default.aspx) or [**Edmunds.com**](http://www.edmunds.com/). Instead, many use claims servicing companies, which consult proprietary databases to assess valuation. Some firms canvass dealerships in local markets to build a database of comps.

If your car is totaled, you needn't accept the insurer's first offer. Go to Edmunds.com or [**AutoTrader.com**](http://www.autotrader.com/) to find better comps, and call the sellers listed on the insurer's report to verify their prices. No dice? If it's a matter of $1,000 or more, hire your own appraiser and go through an appraisal-arbitration process.

**7. "And we're more likely than ever to declare your car totaled."**

Given the haircut you're likely to take when replacing your totaled car, many policyholders would prefer to have repairs covered in all but the most severe accidents. But that's becoming increasingly difficult.

What constitutes "totaled"? An insurer's rule of thumb is to deem a car totaled when repairs would exceed 70% of the vehicle's value. And if your car's frame is damaged, it can remain a safety hazard even when repaired. But if the damage is limited to a few minor, albeit expensive, components, you can appeal your insurer's decision to total it.

**8. "Your mechanic works for us."**

The auto insurance industry has long relied on direct-repair programs, which function like HMOs for ailing cars, with insurers maintaining lists of recommended repair facilities. In the past decade, some insurers have taken the relationship a step further; in 2001, Allstate announced it was buying a nationwide chain of repair shops.

Whether it's a network of preferred providers or outright ownership, such coziness between insurers and body shops makes consumer advocates wary. It lets the insurers take too much control over the repair process. And when you have pressure to keep costs low, you sometimes see shortcuts in repairs.

More often than not, you have a choice whether to use an insurer-recommended shop. So should you? It's convenient, and in some cases, policyholders who take their cars there can get their deductible reduced or waived. If you do take the "in network" route, hire a post-repair inspector to make sure repairs are done properly.

**9. "Brand loyalty is for suckers."**

As more insurers adopt elaborately tiered pricing strategies, rates may differ dramatically from company to company. You might be better off comparison-shopping once a year rather than automatically renewing your policy, especially if your own circumstances change. Start by getting online quotes from [**Geico**](http://www.geico.com/) and [**Progressive Direct**](http://www.progressive.com/insurance/search/quote-compare-save.aspx?code=9003500410). Also, ask an independent agent for quotes, as well as companies such as [**Allstate**](http://www.allstate.com/auto-insurance.aspx) and [**State Farm**](http://www.statefarm.com/insurance/auto_insurance/auto_insurance.asp).

**10. "But be careful switching carriers -- it could cost you."**

No doubt you've seen the warnings in your policy that not paying your premiums can cause your policy to be canceled. It might lead you to think that when you want to switch carriers, dropping the old insurer is as simple as stopping payment. Not so. If you don't pay a bill for the next term, chances are your carrier won't simply cancel the policy -- it may also report your nonpayment to the credit bureaus. (Most insurers are required to give you a certain number of days' notice before cancellation.) Also, your new carrier will see a cancellation in your history, which could mean you'll pay higher rates or be declined.

To avoid the issue, get the proper documentation. Ask your current carrier for a policy cancellation form, and make sure the timing is right -- that the ending date of your old policy coincides with the start date of your new one.

*This article was updated and adapted from the book "*[***1,001 Things They Won't Tell You: An Insider's Guide to Spending, Saving, and Living Wisely***](http://www.bing.com/search?q=1%2C001+things+they+won%27t+tell+you&form=msmony)*," by Jonathan Dahl and the editors of SmartMoney.*