

What  
you  
need  
to  
know

Auto  
Insurance



MINNESOTA  
DEPARTMENT OF  
COMMERCE

*A consumer information publication*

The Minnesota Department of Commerce has prepared this guide to help you better understand auto insurance. It gives you information on shopping for insurance, the different types of coverage, and a basic understanding of “no fault” coverage.

The Minnesota Department of Commerce regulates insurance agents, agencies, adjusters, and companies operating in Minnesota. If they are licensed to do business in the State, they are responsible for adhering to the laws and rules that govern the industry. This guide does not list all of these regulations. If you have a question about your insurance, please contact the Department’s Consumer Response Team at 651-296-2488, or toll free 800-657-3602.

Duplication of this guide is encouraged. Please feel free to copy this information and share it with others.

Auto Insurance can protect you from the financial costs of an accident or injury, provided you have the proper coverage. Yet many people are unclear about what their insurance policy covers until it is too late. They may have difficulties settling a claim or face rate increases or termination of coverage.

## Auto Insurance Is...

**Protection.** Insurance is a way of transferring risk for a loss among a certain group of people. You, and others, pay premiums to an insurance company to be reimbursed if you have an accident. The amount you can collect and under what circumstances are outlined in your policy.

**Required.** Under most circumstances, a licensed vehicle in the state of Minnesota must have liability, personal injury protection, uninsured motorist, and underinsured motorist coverage. These types of coverage are described below.

**Varied.** The State of Minnesota has established minimum policy requirements. Many people, however, choose options that exceed these minimum requirements, thereby increasing the cost of the policy.

## Auto Insurance Is Not...

**A savings account.** The premium you pay is not deposited into an “account” for you to withdraw in the event of an accident. If it were, it would probably not be enough to cover the cost of a major claim.

**Complete.** Every policy has limitations on what it covers and to what extent. You may not be fully covered in every situation. Your policy will explain the limitations.

**Guaranteed.** An insurance company may elect to cancel your coverage or not to renew your policy, depending on your driving record or other factors. Minnesota law establishes the standards for these cases. See Cancellation and Nonrenewal of a Policy, page 12.

## Who Is Covered?

You are covered by the policy in your name. Any relative living in your home, who does not have a policy of his or her own, is covered by YOUR policy. This includes a spouse, children, or a minor in your custody or the custody of a relative. A driver using your car with your permission, who is not covered by another policy, will be covered by your policy.

## What Are the Types of Coverage?

**Personal Injury Protection (PIP)** provides basic economic loss benefits. If you are injured in an accident, this portion of your policy pays you and members of your household, within the stated limits, for medical expenses, lost wages, and replacement services. These costs are paid no matter who is at fault. This is what is known as “NO FAULT” coverage (see page 5).

**Liability** covers claims to your policy from another driver. It is also the portion of your policy that covers damages to another’s vehicle, within the stated limits, when an accident is your fault.

**Underinsured coverage** pays, within stated limits, only for medical claims of those covered by your policy. These benefits are in addition to your PIP benefits and are used when the other driver is held responsible for the accident and does not have enough liability coverage to cover your medical claims.

**Uninsured** pays for your medical expenses after you have exhausted your PIP benefits and when the other driver is held responsible for the accident but is not covered by insurance.

*The above types of coverage are required; the following are optional:*

**Collision** covers damage to your auto when you are involved in an accident with another vehicle or object.

**Comprehensive** covers a loss that is NOT the result of a collision. This usually includes fire, theft, falling objects, or an accident involving a deer.

## *To summarize the types of coverage*

*Required coverage applies when you and others covered by your policy are in an accident:*

You collect on your PIP benefits, regardless of whether you or the other driver is at fault. This is the no-fault portion of your policy; see page 5.

If the other driver is at fault, you make a claim against his or her LIABILITY when your PIP benefits run out. You also can make a claim for damage to your vehicle.

If the other driver's liability is insufficient, you collect on your UNDERINSURED benefits for PIP coverage.

If the other driver has no insurance, you collect on your UNINSURED benefits for PIP coverage.

*Optional coverage applies in cases of damage to your vehicle:*

As noted above, if the other driver is at fault you may make a claim against that driver's liability coverage. If you are at fault, damage to your vehicle as a result of an accident with another vehicle or object is covered under the COLLISION portion of your policy.

If your vehicle is stolen or damaged by vandalism, fire, or impact with a deer, you are covered under the COMPREHENSIVE portion of your policy.

### *What about coverage of rental cars?*

Minnesota law requires every automobile insurance policy, under the property damage liability portion, to provide a minimum of \$35,000 in coverage, without a deductible, for damage to, and loss of use of, a rental car (including pickup trucks and vans under 26,000 pounds). State law further specifies that when a driver rents a vehicle in Minnesota, a separate notice must be attached to the rental contract that informs the driver of this coverage. The notice must also state: “purchase of any collision damage waiver or similar insurance affected in this rental contract is not necessary if your policy was issued in Minnesota.” The same law requires that no collision damage waiver or other insurance affecting the rented vehicle can be sold unless the person renting the vehicle acknowledges in writing that the consumer protection notice has been read and understood.

### *What about coverage when you loan your car to a friend?*

What if you loan your car to a friend, and he or she has an accident? If any of your friends who are driving your automobile have an automobile insurance policy, their injuries will be covered under their own policy, not yours. If they are not covered under their own policy, and no one in their household is covered under a policy, the basic economic loss benefits will be paid from your policy.

Who pays for damage to the car, however, is not quite so simple. Your car will always be covered under your own policy as long as the policy carries comprehensive and collision coverage. Under certain circumstances, however, the policy covering the other vehicle may pay for damage to your car. Check your policy under the definition of “your covered auto.”



# What Is No-Fault Coverage?

No-Fault coverage is widely misunderstood. Many drivers believe that their insurance company will cover ALL losses in an accident, regardless of who is at fault. But “no-fault” coverage applies ONLY to expenses resulting from injuries sustained in an accident. Here are some other facts about no-fault:

No-fault is a Minnesota law. It was established to help ease the burden of courts and to ensure prompt treatment for accident victims.

No-fault IS the Personal Injury Protection (PIP) on your policy, sometimes referred to as Basic Economic Loss Benefits.

No-fault covers your medical costs, wage loss, replacement services such as housekeeping, and in the event of death, \$2,000 of funeral expenses.

No-fault claims are first made on your own PIP. If expenses then prove greater than the PIP limit on your policy, or you attain specified thresholds, you may make a claim against the other driver’s liability coverage if the other driver is found to be liable.

Minimum no-fault coverage is \$40,000. That amount is available to each person injured in an accident; \$20,000 is allowed for medical expenses and \$20,000 may be used for non-medical expenses. Coverage beyond these minimum amounts may be purchased.

No-fault usually does not apply to accidents when you are riding your motorcycle or snowmobile. You must purchase a separate insurance policy covering these vehicles, and the policies will not include personal injury protection. PIP coverage for snowmobiles or motorcycles can, however, be purchased separately.

No-fault claims must be made within six months of the accident. You must include proof of expenses, complete an application for benefits, and submit to a medical examination if requested. Bills should be submitted to the insurance company as they come in.

# Minimum Coverage Requirements

Minnesota requires all licensed vehicles to have PIP, Liability, Uninsured, and Underinsured coverage in the following amounts:

| Type of Coverage                 | Minimum Amount Required  |
|----------------------------------|--|
| Personal Injury Protection (PIP) | \$40,000 per person per accident<br>( <i>\$20,000 for hospital/medical expenses and \$20,000 for non-medical expenses such as lost wages, replacement services, etc.</i> ) |
| Liability                        | \$30,000 for injuries to one person<br>\$60,000 for injuries to two or more people<br>\$10,000 for physical damage to the other driver's vehicle or for damage to property |
| Uninsured                        | \$25,000 for injuries to one person<br>\$50,000 for injuries to two or more people   |
| Underinsured                     | \$25,000 for injuries to one person<br>\$50,000 for injuries to two or more people   |

If you have a loan on your vehicle, the lienholder, as the legal owner of the car, will require you to carry comprehensive and collision coverage. If you do not purchase this coverage, the lien holder may buy it and charge you for the premium. This is termed “forced insurance;” it is extremely expensive, it is legal, and it does not include the required coverages listed above.

## What Affects Policy Cost

A number of factors affect the insurance premiums you pay. Different insurance companies may determine rates in different ways, but here are some of the items that affect the cost of the policy.

**Added coverage.** In addition to required coverage and optional collision and comprehensive coverage, you may choose additional coverage that will increase the cost of the policy. Full glass replacement, towing, and providing for rental car use when your car is unavailable are examples of optional coverage.

**Age and gender.** Insurance industry statistics show that certain groups of people have different accident rates, based on their age and gender. For example, teenagers and seniors have more accidents. Because they are viewed as an increased risk for the insurance company, they pay more for coverage.

**Type of vehicle.** Certain vehicles cost more to repair or replace. An insurance company charges more for physical damage coverage on one of these vehicles.

**Mileage.** The more you drive, the more opportunity for an accident—and the more you pay for coverage.

**Driving record.** You will be rated according to traffic accidents and tickets you have over a period of years. The more incidents, the greater the premium. You may also be turned down for coverage if you have too many.

**Where you live.** If you live in an area with more traffic (a city versus a rural area), industry statistics show that you have a greater chance for an accident and therefore will pay more for coverage.

**Deductibles.** Some coverages in your policy have a deductible, which is the amount you pay first, before your insurance company pays, on a covered loss. The higher the deductible, the lower your premium. Insurance companies offer varying deductible amounts.

**Discounts.** Your premium may be reduced by various discounts offered by some companies in some instances. For example, some companies may offer a discount if you have your homeowner's insurance with them or if you are a non-smoker. Other discounts are required by law: policyholders age 55 and over who have successfully completed a defensive driving course receive a 10 percent discount; a vehicle equipped with an authorized anti-theft protection device receives a 5 percent deduction on comprehensive coverage.

**Surcharges.** If you have one or more traffic violations or accidents, your insurance company may attach an additional charge to your policy. What triggers the surcharge and how much it will be vary from company to company. The Surcharge Disclosure Sheet, which by law must be given to you at the time you apply for your policy, will have the details.

### *Ways to reduce auto insurance costs*

- Comparison shop.
- Talk to more than one agent and insurance company.
- Increase deductibles: the higher the deductible the lower the premium.
- Ask about discounts. Find out if you are eligible for any of the discount programs offered by the company.

# How to Shop for Insurance

## *Decide on the coverage you need and want before you shop*

Although you must insure your vehicle to the minimum standards previously described, you do have some options. Before you begin shopping, decide on the policy limits you need for each kind of coverage and the deductibles you can afford. For example, if your deductible is \$500 for collision coverage and you have an accident, you must pay the first \$500 before your insurance company will pay for the remainder of the loss.

You may wish to purchase additional coverage rather than the minimum prescribed. Deciding on the type and amount of additional coverage you want before you talk to an agent or company will allow you to compare “apples to apples.” Discounts can differ from company to company in type and amount. Make your comparison on how these discounts affect the final cost. Using the cost comparison sheet (page 17) will help you comparison shop.

## *Call several agents*

There are two types of agents: those that represent a single company (captive agents) and those that represent a number of companies (independent agents). Each will be able to provide you with a quote for insurance coverage. Make sure you know which company the agent is obtaining the quote from. If you have questions about a company or agent, please call the Department of Commerce Consumer Response Team (CRT) at 651-296-2488 or 800-657-3602.

## *Ask about surcharges*

As noted above, an insurance company may affix a surcharge to your policy if you make a claim or receive a ticket for a traffic violation. Ask about the company’s surcharge policy, under what conditions it is applied, and how the amount is determined.

When comparing rates of insurance companies, the seemingly lowest rates may not be, once the surcharge is factored in. Some insurers don’t have surcharge plans; some forgive first accidents, tickets, and similar violations; and most companies will vary in the amount of their surcharge.

Every company is required to provide the policyholder with a surcharge disclosure statement, prior to accepting the initial premium payment. Once a policy is in effect, an insurance company cannot change a surcharge plan without first mailing or delivering a copy of the new Surcharge Disclosure Sheet to the insured.

## How to File and Settle a Claim

### *If you are involved in an accident:*

- Write down the names of any other drivers involved, their insurance companies, policy numbers, and the license plate numbers.
- Write down the name, address, and phone number of any independent witness to the accident. This is very important.
- Call your agent or the claims processing number listed in your policy.
- Call the other driver's insurance agent or company if you want to file a claim against the other driver's policy.

### *Obtaining repair estimates*

Your insurance company cannot require you to have your vehicle repaired at a specific repair shop. You may choose your own repair shop; however, the insurance company may require you to have one or more estimates, and if your shop is not the low bidder, you may be responsible for paying the difference. If your insurance company requires more than two estimates, it must pay for the additional estimates.

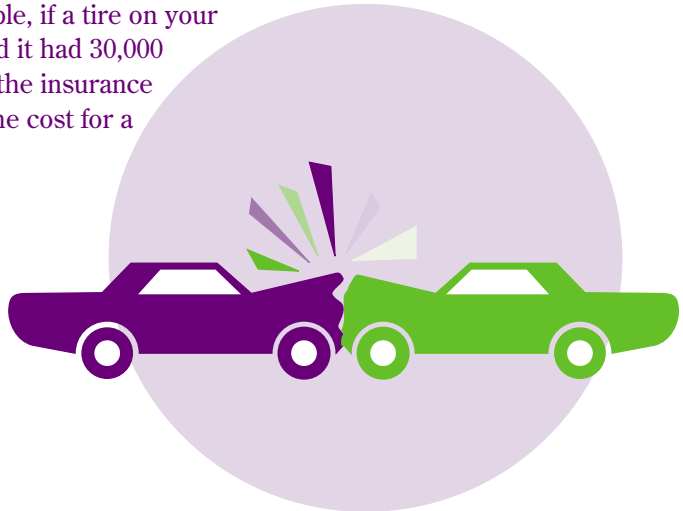
The insurance company has a right to inspect your vehicle, although it is not required to do so. The company cannot require an inspection at a claims center solely under its control, but it can require you to drive to one of the company's "preferred" repair shops so long as it is within a reasonable distance.

## *The quality of the repair*

Your company must restore your vehicle to the condition it was in before it was damaged. Any parts replaced on your damaged vehicle must be original equipment (OEM) parts, unless you agree to “after market parts” (those parts not made by your vehicle’s manufacturer). The OEM parts do not have to be new, however, if your vehicle was not new at the time it was damaged.

Two terms used in association with vehicle repair can affect the settlement of your claim: “betterment” and “depreciation.” Betterment means that your vehicle is better than it was before it was damaged; the insurance company can reduce your settlement only if your vehicle’s resale value has increased over what it was before the accident. Generally, the company will deduct the difference between the cost of a used part (appropriate for the age and condition of the vehicle) and the cost of the new part. Betterment is considered only for major parts such as transmissions, engine blocks, etc. Items such as fenders and tires do not generally increase the overall resale value enough to merit a betterment reduction.

Depreciation refers to a reduction in your settlement based on the age or use of a part being replaced. Certain parts on your vehicle have a “life expectancy” and an insurance company may take this into consideration. For example, if a tire on your car is expected to last 60,000 miles, and it had 30,000 miles on it at the time of the accident, the insurance company may pay only 50 percent of the cost for a new tire.



## Disagreements over claims

The insurance company has two options for meeting its requirement to return your vehicle to its pre-accident condition. The company may assume all costs to repair your vehicle satisfactorily, or it may offer a cash settlement to pay for satisfactory repair. In both cases, satisfactory repair includes repair of all obvious and hidden damage caused by the incident. If you disagree with the insurance company about whether it has met its requirements under the law, you should first speak with the adjuster assigned to your claim or his or her supervisor. If you are unable to resolve the issue, you may contact the Department of Commerce Consumer Response Team at 651-296-2488 or toll free 800-657-3602. The CRT will attempt to resolve the matter informally. If it cannot be resolved in this way, you may be asked to send a letter to the Department to begin a formal investigation, or the CRT may inform you of your right to pursue action in small claims court or arbitration as outlined in your policy.

## Cancellation & Nonrenewal of a Policy

**Within first 59 days.** Minnesota law prohibits any person being denied an insurance policy on the basis of employment status, status as a tenant, or for not previously having an auto insurance policy (unless the person was legally required to have one). Except for these reasons, an insurance company can cancel an insurance policy for any reason within 59 days of issuing it.

**Cancellation or reduction of coverage** during the term of the policy. After the first 59 days, an insurance company cannot cancel a policy during the policy period except for the reasons summarized below; a complete itemization of causes for cancellation are contained in Minnesota Statutes Chapter 65B.15. Minnesota law also requires that the policyholder be notified of the cancellation and reasons for it.

- Nonpayment of premium.
- The policy was obtained through a misrepresentation.
- If the insured knowingly made a false or fraudulent claim and aided another in presenting a false claim.

- Failure by the insured to disclose any accidents or traffic violations within the preceding 36 months, or to disclose any requested information on the written application that would affect acceptance or the risk rating.
- Failure to disclose that the insured is the subject of a lawsuit or refused to cooperate in a claim investigation.
- Failure to identify another person in the household who would be insured under the same policy.
- Has health problems such as epilepsy or heart attacks and does not provide a physician's written statement that despite these problems the insured can safely operate an automobile.
- The insured automobile is so defective that its operation might endanger public safety or it is used for particular purposes that increase risk.

**Nonrenewal of a policy.** At the end of the policy period, the insurance company might choose not to renew the policy for any of the reasons listed above. In addition, there are other reasons a company may choose not to renew. These include failure of the insured to provide necessary underwriting information requested by the insurance company. The request must be in writing, be sent twice, and state why the information is needed; the second request must inform the policyholder that the policy will not be renewed unless the information is provided.

Another reason for nonrenewal is the termination of an insurance company's contract with an agent. The company can drop the policies carried by that agent, *except* in the case of drivers 65 or older. These drivers must be informed that they have the right to continue their policy.

The collection by the insured of a certain number of *points* is another reason for nonrenewal. Points are assigned based on auto violations or accidents, and a total of two points acquired by one insured on a single vehicle is sufficient to warrant nonrenewal. See Appendix I on page 14 for a complete description of the point system as prescribed by Minnesota Rules.

## *If You Lose Your Insurance . . .*

*Ask your agent about the Minnesota Automobile Insurance Plan coverage.*

*This Plan guarantees that coverage is available to any person who can't purchase coverage through ordinary channels. The Plan is a pool of all insurers licensed to sell automobile insurance in Minnesota.*

*Licensed auto insurance agents must offer coverage through the Plan for any qualified applicant who has been denied coverage by the company or companies with which the agent works.*

*An agent who sells for a high-risk insurer, however, might choose not to contact the Plan for coverage but instead may write the application with the high-risk insurer.*

# Appendix I: The Point System

## A reason for nonrenewal

Minnesota Rules, Chapter 2770, prescribe the following point system:

Four points are assigned for each of the following:

- Leaving the scene of an accident without stopping to report.
- A felony involving the use of a motor vehicle, including manslaughter, criminal negligence, or assault originating out of the use of a motor vehicle.
- Theft of a motor vehicle.
- Any violation that results in the suspension or revocation of a driver's license, such as Driving While Intoxicated, and unlawful driving after your license has been suspended or revoked.

Two and one-half points are assigned for:

- Reckless driving.

One and one-half points are assigned for:

- Careless driving.

One point is assigned for:

- A "chargeable" accident in which the insurer pays more than \$500, not including payment made under uninsured or underinsured coverage. A chargeable accident is defined as an accident in which the insurer makes payment under bodily injury, property damage, or collision coverage, but there are several exceptions. See Minnesota Rules 2770.7700 for a complete definition.
- An open bottle violation.

Three-fourths point is assigned for:

- The second and each subsequent speeding violation during the three years preceding the renewal date.

One-half point is assigned for:

- The first speeding violation during the three years preceding the renewal date.
- A chargeable accident in which total payment by insurer is \$500 or less.
- Allowing someone in your car to have an open bottle.
- All other violations.

### *Points for nonrenewal*

Following is the schedule for the number of points that must be accumulated before a policy will not be renewed:

| <i>Number of household vehicles<br/>Insured by the same insurer</i> | <i>Number of points required<br/>to nonrenew</i> |
|---|--|
| 1   | 2  |
| 2   | 3  |
| 3   | 3-1/2  |
| 4 or more   | 4  |

## Appendix II: Did You Know?

- The car in the rear in an accident is not automatically at fault.
- Independent witnesses are the best resource to determine liability.
- If you need to rent a car following an accident that is not your fault, check with the liable driver's insurance to determine the amount of rental car coverage.
- Minnesota state law does not require comprehensive or collision coverage, but your lien holder will.
- If your vehicle is totaled, your policy will not cover the cost of renting a comparable vehicle unless you purchase a policy with that specific coverage.
- Your Minnesota policy provides coverage outside the state—anywhere in the United States, US possessions, or Canada—but not in Mexico. Some companies, however, sell endorsements to your policy to cover your car in Mexico.
- There is no “grace period” for continuing your policy beyond the premium due date.
- If you cannot mail your premium on time, personally hand deliver it to your agent’s office and get a receipt. The date your agent is paid is considered to be the date the insurer is paid.
- Your agent is not required to call you to remind you that your premium is due.
- An insurance company has 30 business days in which to accept, deny, or give a reason why it cannot accept a claim.
- With three exceptions, an insurance company can cancel your policy for any reason within the first 59 days. The exceptions are your employment status, status as a renter, and your not previously having had a policy (unless you were legally required to have one). A company must, however, always give you the reason it is canceling your policy.

# Auto Insurance Cost Comparison Worksheet

| <b>Personal Information</b> | Age | Sex | Marital Status | Annual Mileage | # of miles to work (one way) |
|-----------------------------|-----|-----|----------------|----------------|------------------------------|
| Principal Driver            |     |     |                |                |                              |
| Other Drivers               |     |     |                |                |                              |

Number of accidents in the last 3 years: \_\_\_\_\_

Number of moving violations in the last 3 years: \_\_\_\_\_

| <b>Your Vehicles</b> | Make | Model | Year |
|----------------------|------|-------|------|
| Auto 1               |      |       |      |
| Auto 2               |      |       |      |

| <b>Coverage Options</b> | PIP   | Liability | Uninsured | Under Insured | Collision             | Other Coverage        |
|-------------------------|-------|-----------|-----------|---------------|-----------------------|-----------------------|
| Minimum Coverage        | 20/20 | 30/60/10  | 25/50     | 25/50         | Not required by state | Not required by state |
| Your Coverage           |       |           |           |               |                       |                       |

| <b>Quotes</b>       | Company 1 | Company 2 | Company 3 |
|---------------------|-----------|-----------|-----------|
| 6 month premium     |           |           |           |
| Minus any discounts |           |           |           |
| <b>TOTAL</b>        |           |           |           |

# Department of Commerce

## Consumer Contacts

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### *Enforcement Division : 651-296-2488 (800-657-3602)*

Helps resolve conflicts between consumers and the following industries:

- Insurance
- Financial Services
- Securities
- Real Estate
- Notaries
- Residential Building Contractors
- Cosmetologists
- Appraisers
- Abstractors

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### *Licensing Division: 651-296-6319 (800-657-3978) or [licensing.commerce@state.mn.us](mailto:licensing.commerce@state.mn.us)*

Provides confirmation of license status for individuals in the industries we regulate.

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### *Unclaimed Property Division: 800-925-5668*

Call to find out if you are the rightful owner of any of Minnesota's unclaimed property.

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### *Energy Information Center: 651-296-5175 (800-657-3710)*

Energy experts answer questions and distribute information about:

- Home energy conservation practices
- Residential Building Energy Code requirements
- Minnesota's alternative energy sources

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### *Telecommunications Division: 651-296-1255*

Answers questions or complaints about:

- Minnesota's Telecommunications companies and services
- Minnesota's Telecommunications Regulatory Policy

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### *TAM (Telecommunications Access Minnesota)*

The following two programs administered by the DOC utilize "communication specialists" to transliterate telephone conversations between hearing or speech impaired individuals and other non-impaired individuals.

- Minnesota Relay Service (for hearing impaired): 800-627-3529
- Speech-to-Speech (for speech impaired): 877-627-3848

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### *Minnesota Department of Commerce*

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St Paul, MN 55101

651-296-4026

[www.commerce.state.mn.us](http://www.commerce.state.mn.us)