The 7 most terrifying car insurance words

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A car accident or major traffic violation can leave you rattled, but even scarier can be the effect on your car insurance rates . Here are seven words that are sure to send you screaming.

1. Surcharge

If you think the embarrassment of causing a traffic accident can ruin your day, just wait until you see what happens to your premiums.

An at-fault accident can lead to a surcharge, which is a premium increase tacked on to your policy for a specific period of time.

Ask to see company surcharge schedules or insurance point plans when you shop for insurance. Amy Bach, executive director of the United Policyholders consumer group, warns that the language of such documents can be confusing. When in doubt, be sure to ask questions.

If you get a traffic ticket, you may be able to avoid a surcharge by appealing it, says Nina E. Kallen, an attorney who handles insurance issues in Roslindale, Maine. And if that doesn't work, you might try begging for mercy.

"You can always try whining," advises Erwin Adler, a Los Angeles attorney who handles insurance cases. "If you are a longtime policyholder, the underwriting manager may step in and do something" just to keep your business.
Here are details on how much rates go up after an accident.

2. SR-22

If your state department of motor vehicles decides that you are a high-risk driver, you may be required to have an SR-22 form, also called a certificate of financial responsibility, if you want to keep driving. You may be required to file an SR-22 if you cause an accident while driving without insurance or are convicted of a traffic-related offense such as a DUI. The form proves that you have the minimum required liability insurance.

Car insurance companies generally file the document with the state for customers who are required to prove they have insurance. Having an SR-22 certificate is a little bit like wearing a scarlet letter, however. No one is eager to do business with you.

Insurers will charge more to customers who need SR-22 forms due to the increased risk of claims, says Jim Whittle, assistant general counsel and chief claims counsel of the American Insurance Association.

The time your SR-22 will remain in place varies among states, but it’s usually three to five years. The only path to lower car insurance premiums is “time and driving well,” says Peter Moraga, spokesperson for the Insurance Information Network of California.

3. Canceled

If your insurance policy is canceled, it’s like “a double-whammy” says Adler. Not only have you lost your policy, you will no doubt have to pay a higher rate in order to get another carrier to sell you a policy. Policy cancellations are red flags that signal high risk.

“If a person is canceled, they have to disclose it on the [policy] application,” Adler says. When the underwriter sees it, “They will assume you were canceled for a good reason.”

Reasons for cancellation include habitually failing to pay your premium on time, misrepresenting facts on your application, or having yourself or a member of your household lose driving privileges because of an expired, revoked or suspended license.

To avoid cancellation, ask if your insurer will maintain your coverage at a higher rate, Adler advises. That may seem unfair, but it’s better than having the policy canceled and trying to find a new insurer, he says.

Missing one payment won’t automatically result in cancellation, says Moraga. “Sometimes people will forget to pay the bill, get a notice and immediately be reinstated. And in most cases, you won’t pay more.”

Here are details on the difference between cancellation and nonrenewal of car insurance .

4. Nonstandard

If your driving record leaves a lot to be desired, you may be forced to purchase auto insurance from a “nonstandard” carrier.

“You can get insurance, but you are going to have to pay through the nose,” warns Kevin Foley, a New Jersey-based independent insurance agent.

Adler says the nonstandard auto insurance market is not a place that you want to be. “Most people are not going to have to go to the nonstandard market, but those who do are going to pay a high price. They are in a bad pool. This is not a good situation.”

Only time and consistent good driving can improve your status, but you should switch to a standard policy as soon as possible, says Bach. “You are going to have to be proactive and continue to shop around every time your policy comes up for renewal” until you find a better deal, she says.

Prepare to exercise patience. Even if you maintain a spotless record, you normally will be on the nonstandard market for three years, says Moraga. “There is no shortcut.”

5. Teen

“Teen” may be the scariest car insurance word of all. Your chip off the old block is going to put a big dent in your bank account as soon as he or she gets a driver’s license and goes on your auto policy.

Your child doesn’t have to be a bad driver to cost you big bucks. Teens in general are an enormous risk for insurers. They lack experience, drive too fast, and frequently exercise bad judgment. In 2010 the fatal crash rate for teen drivers in the U.S. was nearly three times higher than for drivers age 20 and older.

Bach says you can minimize your financial hit by asking your insurer about teen discounts, such as reduced rates for good students. Older cars usually are cheaper to insure than newer models, she adds. She advises you to get a policy that allows you to designate your teen as the driver of your least expensive car.

Moraga says the best thing your teen can do to save you money is maintain "a very clean driving record." Rates won't start to improve until they reach age 25.

"Parents who add teens to their policies will see a rise from 50 percent to 100 percent," says Moraga. "If a teen gets a ticket or gets into an accident, the cost impact will be higher than if somebody else [in the family] did it."
Check out these top reader questions about teen drivers.

6. Fee

If you get into a traffic accident that requires emergency response to come to the scene, you could get a bill for their services, even if the accident wasn't your fault. A rising number of municipalities around the country are charging emergency response fees. Adler says it's "going on all over."

Municipalities have been sold on this concept as a way to raise funds, says Moraga. "You could be driving through a community, get into an accident and then get a bill for $2,000."

There are no standard guidelines for emergency response fees, he adds. "Some [communities] will only charge outsiders — people who don't reside in the area. Others will charge everyone. Still others will charge you only if you are at fault."

If you receive an emergency response bill, submit it to your insurer, advises Foley. If the insurer says you're on the hook, ask to "see where in the policy it says, 'We don't pay for that,'" he recommends.

7. Step-down

Some states allow auto insurance companies to include "step-down" provisions that reduce your liability limits to state minimums if someone who's not listed on your policy crashes your car. State minimums often are less than adequate. It's one of the many ways you might have less car insurance than you think.

Bach says step-down provisions are a business decision made by some insurance companies, even though it makes their policies less appealing to consumers. They're looking to control their costs, she says, even if some buyers go elsewhere.

Many people are not aware of what they risk by allowing someone who is not on their policy to climb behind the wheel, says Moraga. The first time many people find out they have a step-down provision is after someone borrows their car and causes an accident, he adds. “They will get a rude awakening.”

Whittle says it’s up to consumers to be wise shoppers and understand what they are buying in an auto policy, so ask your agent if your policy includes a step-down provision.