

Why Did My Car Insurance Rates Go Up?

Quote Wizard

It's that time of year again. Your car insurance policy is up for renewal and your fingers are crossed in hopes of a reduction. Even though you have been a safe driver, your insurance company raises your rates. "Why are my rates going up?" The short answer is that it's the cost of doing business. Insurance companies pay out billions of dollars in claims each year. Sometimes companies pay out more in claims than they generate in premiums. This leads insurance companies to raise their rates.

Even drivers who maintain a clean driving record can be subject to rate increases from their insurance companies. Most major car insurance companies have raised the rates of good drivers because it's a low risk way of compensating for lost profits. At first drivers are filled with promises of discounts for being a clean drivers. Then drivers find their rates typically increase the longer they remain a customer. If your insurance company has raised your auto rates, the best way to combat the increase is to shop around and compare rates from other companies with QuoteWizard.

Insurance companies use complex models to set car insurance rates. There are many factors that contribute to the premiums drivers pay. They first evaluate your risk to determine how likely you are to file a claim and estimate the likely costs. This is why drivers with tickets and accidents pay higher rates than those who are clean drivers. With a clean driving record there are still factors out of your control that can cause your rates to increase. Let's take a look at some of the factors that may be affecting your rates.

Cost of Claims

There are several factors that could be responsible for raising your car insurance rates.

Medical Costs

Every state has a minimum, required level of bodily injury liability coverage. The liability requirements can range from \$20,000 up to \$100,000. This coverage is the maximum amount your insurance company

will pay for medical costs in the event of a car accident. Increasing medical costs are putting a dent in the bottom line of car insurers. These costs are passed on to their customers in the form of increased car insurance rates.

Repair Cost

States also require drivers to carry minimum property damage liability coverage on their policies. That figure can range from \$5,000 to \$25,000 depending on the state you live in. This is the maximum amount your insurance company will pay out for damage to vehicles and other property as a result of an accident. The growing cost of labor is a major contributor to overall increases in repair costs. A study by CarMD.com claims the cost of vehicle repairs increased 10% in 2012 alone. The largest repair cost comes from replacing expensive technology in newer vehicles.

Uninsured Motorists

Uninsured motorist protection is not required by law in many states. It covers you in the event you're involved in an accident with an uninsured driver. Across the United States it's estimated that 12% of drivers are driving without car insurance. The Insurance Research Council estimates that \$2.6 billion in uninsured claims were paid out in 2012. The total amount of uninsured claims and the legal process it takes companies to secure settlements is huge. The IRC also estimates that uninsured claim payments are up 75% over the last 10 years and translated to a \$14 increase per insured individual!

Insurance Fraud

When people cheat the claims process, it costs insurance companies big money and contributes to rate increases. The Insurance Information Institute estimates that insurance fraud in America costs \$32 billion a year. A common form of insurance fraud is for someone to fake injuries caused by an accident. Insurance companies are paying out claims for injuries that never occurred, and people with bogus injuries are cashing in.

The most common type of insurance fraud is when policyholders lie about facts on their application in order to receive lower insurance rates. The Insurance Information Institute estimates that false information on applications costs insurers \$16 billion a year. High risk drivers using false information to receive the rates of a clean driver puts insurance carriers' pricing models at risk. It's the good drivers who take a hit on their rates when this happens.

All insurance companies are faced with these increasing risks. When it comes to their rates they are not

all equally impacted. Some companies cover loss better than others. Because of this car insurance rates are always changing. If you rates have changed it's a smart move to compare rates with other companies. Shopping around is the only way to be sure you are getting the lowest rates.

Unfair Rate Practices

Insurance companies use complex models that predict how much risk you represent. The companies say the majority of the factors in these models are directly related to insurance risk, such as your car, driving history, age, and rising claims costs. Insurance companies are up front about those primary factors and less transparent about other factors determining rates. These other factors can include personal data like credit history and other unfair practices in setting rates.

Credit History

Insurance companies aren't legally required to tell you they're using credit as a factor in your rates. This creates a huge transparency issue to customers. "An insurer tells you you're getting a multi-line or loyalty discount, but in fact that discount is being wiped out by an upcharge related to your credit score." Amy Bach, Executive Director of United Policyholders. According to a Consumer Reports special report, credit history has a larger impact on your rates than driving history.

The report show that one moving violation would increase premiums by \$122 per year. A driver with a clean record and a credit score that was considered 'good' would boost it by \$233. A poor credit score could add \$1,301 to premiums. Premiums that are weighted more for credit than driving history are unfair to the clean driver. Companies are creating false risk with little transparency into the credit modeling used to determine rates. The creation of false risk is used to justify higher rates to a larger population of drivers who maintain a clean record. This presents a huge problem of charging low-income drivers more to maintain legally required insurance.

"I believe that insurance rates should be set based on measurable data. A consumer's credit score tells me nothing about them as a driver." Mike Kreidler, Washington State Insurance Commissioner

Many states are protecting drivers from insurance companies using credit history as a factor in setting rates. California, Massachusetts and Hawaii have outlawed the practice. According to study by the Consumer Federation of America in 2013, California's pricing practices enacted in Proposition 103, have saved families an average of \$8,625 over the past 25 years. California, Massachusetts and Hawaii are the only states that have banned this practice. This has left drivers in other states to contend with insurance

companies using credit history as a factor in their car insurance premiums.

Price Optimization

Price optimization is similar to the way companies use credit history as a factor in car insurance rates. It is a practice that determines your sensitivity to a price increase. This practice looks at purchasing behaviors like your cable provider, cell phone provider, and other purchasing patterns to estimate how loyal a customer you are. The model predicts how much they can raise your rates without you choosing another company. Would you put up with an increase of \$100? What about \$200?

“I call it the loyalty penalty because it discriminates against people who don’t shop around for better insurance rates.” Says Kreidler. Several states have banned this practice. California along with Florida, Indiana, Maryland, Ohio, Vermont, and Washington have all outlawed it.

If your rates have gone up and you have a clean driving record, we suggest comparing quotes from other insurance companies. QuoteWizard can quickly and easily connect you with multiple agents and companies so you know you’re getting the lowest rates possible.

See also: <http://www.consumerreports.org/cro/car-insurance/auto-insurance-facts-myths/index.htm>