

# Understanding vehicle insurance

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Am I over or underinsured?

How do you choose the correct cover and are all types of insurance cover equal? Can you under or over insure your car – and what will that mean for you?

Vehicle insurance can be seen as a grudge purchase, as some may believe that they're paying out money for a 'what if' scenario. However, if or when something does happen, and you need to call on that insurance cover, you will be incredibly grateful that you have it.



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## Vehicle insurance for a financed vehicle

Having insurance on a vehicle that is financed is a prerequisite and you will not be able to drive your car off the dealership floor until you have the insurance in place.

How do you choose the correct cover and are all types of insurance cover equal? Can you under or over insure your car – and what will that mean for you?

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## Know the value of your car

Many people take out car insurance without researching what the true value of their car is. The result of this could be that your car is either over or under insured.

### Understanding the difference between retail, trade and market value

**Retail value** is the price you would pay if you were to buy it from a car dealer. The amount you would need to pay to replace your car with a similar model.

**Trade value** (or book value refers to prices published in the Transunion Auto Dealers' Guide) is the average amount that a car dealer would pay you for your vehicle if you were to trade it in.

**Market value** is the average of retail and trade values – a variable value based on factors such as the age of your car, its mileage, its condition and its supply and demand in the marketplace.

## What does your insurance policy cover you for?

Car insurance providers will often default to the trade value in the dealer's handbook, and in the case of new cars, they will tend to insure at the recommended retail list price.

You can opt to be covered for market value, which would mean you will be paid out the average market value of the vehicle at the time of the claim. Your monthly premium will be lower – but so will your pay-out.



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Reuben van Niekerk, Motus 14 Jul 2021



## How do you establish if you are under or over insured?

It is important to determine what your goal in the event of your vehicle being written-off or stolen would be. Would you want to replace the vehicle with a brand-new car, or an equivalent used car?

### Over insured

A new car typically drops significantly in value the minute you drive it off the showroom floor and if insured for its full retail value it will be insured for a value higher than its equivalent used car market value.

As an example, if you buy a brand-new car for R400,000 and need to replace it eight months later with an equivalent second-hand model, the replacement might only cost around R350,000. In this case, the premiums you have been paying on that additional R50,000 have been unnecessary and you can say you were over insured. If, however, you would prefer to replace it with a brand-new car, you might not regret the additional premiums.

### Under insured

Other criteria that would influence the amount you insure your vehicle for, is the finance owing on the car. There is often a period of a few years when the insured value of your car is less than the outstanding amount of the loan. If your vehicle is stolen or written off, the insurer will pay out the insured value and you will be left with a shortfall required to be paid to the bank. In this case you would have been under insured.

It is important to determine if you want to be covered for full retail or trade value or if you are comfortable with market

value. Make sure you understand the differences between the options.

You can also then structure your policy by setting the excess amount (the amount you would need to pay in the event of a claim). By increasing your excess amount, you are able to lower your monthly premiums – remember though that you will need to be able to afford that lump sum amount at the time of your claim so rather opt for a lower excess. Other options like gap cover are also available to you. Do your research to ensure you find the best insurance for you.

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