

Understanding car insurance - are you over or underinsured?

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.



Source: [Fixabay](#)

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?

Know the value of your car

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

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.

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 is written-off or stolen would be. Would you want to replace the vehicle with a brand-new car, or an equivalent used car?

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 needed 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.

Another 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 underinsured.

Summing it up

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

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.