Buying a New Car or Truck? Consider Auto Insurance Costs and Protect Your Loan When Trading Up

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New York Press Office: (212) 346-5500; media@iii.org
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NEW YORK, September 17, 2013 â€" Many drivers are looking at their old cars and trucks in the rearview mirror as they drive new vehicles off car dealership lots in record numbers. Last month U.S. auto makers recorded their best sales month in nearly five years, and automotive experts think the trend will continue.
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New cars donâ€™t leave the showroom unless the car dealer sees proof of insurance. If you have an existing auto insurance policy, it will provide temporary coverage; however, there is a time limit on this coverage and itâ€™s identical to whatever coverage was on the old car. This is the case, whether the old car is traded in or retained. To maintain proper coverage when you are trading up, the safest route is to update your auto insurance the day before you plan to take a new car home, according to the Insurance Information Institute (I.I.I.).
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While there is no requirement to tell your insurance company that you plan to buy a new car, there are four good reasons for doing so:

1. Your insurance representative can provide an estimate of how much auto insurance will cost on the new vehicle you are considering. This provides a valuable snapshot of the total cost of new car ownership.
2. Some auto insurers allow 30 days of automatic coverage to transfer from an old car to a new one; others offer less time. Donâ€™t take a chance on missing the timeframe and risk being without proper protection.
3. If you are trading in a clunker that had only bare-bones protection and plan to finance a new car, the bank wonâ€™t approve the loan until you add Comprehensive and Collision coverage to your policy. Collision covers damage that results from a car crash; Comprehensive covers nearly everything else, such as damage from fire, flooding, theft and falling objects.
4. Cars depreciate fastâ€"as in the moment they leave the dealership. Ask about gap insurance to cover your full loan amount because auto insurance is designed only to cover a carâ€™s current value.Â

Insurance companies all have different procedures for handling the replacement or addition of vehicles to an auto insurance policy, so the I.I.I. suggests you know the details in advance. â€œTalking with your insurance professional before your new car leaves the showroom simply means you can drive it as of Day One worry-free,â€• said Lynne McChristian, an I.I.I. spokesperson. â€œThe goal is to have customized coverage to match the new car you plan to drive. You also want to ask your insurer about gap insurance because auto insurance pays the current cash value of a car if it is totaled, not the loan balance.â€•

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Consider Gap Insurance, Especially If You Lease or Made a Modest Down Payment

Itâ€™s a reality of new car ownership that cars lose value the minute they leave the dealerâ€™s lot. One year after a new car purchase, a carâ€™s value can depreciate by almost 20 percent, according to Edmunds, a provider of auto data. Depreciation, in combination with making only a small down payment, means the owner of a new car has little equity in it and can end up â€œupside downâ€•â€”meaning with a loan amount higher than what the nearly new car is worth. The difference can be thousands of dollars. â€œWhile the car may still be new to you, it is a used car to everyone else,â€• said McChristian. â€œGap insurance fills the gap between what the car is worth and what you owe on it.â€•

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Much of the increase in new car sales is driven by those who are leasing high-end cars and trucks. If you lease, you may have even less equity in the vehicle, and gap insurance provides much-needed protection.

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Many auto dealerships sell gap insurance, but itâ€™s less costly to buy it directly from your own insurer, noted McChristian. â€œTypically, this additional protection costs about $20-$30 more a year, a small price to pay to keep more in your own pocket, if you have a new car totaled in a car crash,â€• she added.

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