

## Buying Car Insurance

This fact sheet is for information only. You should get legal advice about your personal situation.

### Main ideas

- Insurance transfers risk from you to the insurer.
- You can choose the type of insurance cover you want to manage your risk.
- Shop around – different insurers offer different cover at different prices.
- Always answer questions the insurer asks truthfully.
- If paying by the month, check each payment goes through to keep your policy valid.

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## Insurance transfers risk from you to the insurer

When you buy an insurance policy (by paying a premium), your insurance company will

protect you financially against certain events – events that you don't want to pay for if they happen. This transfers some of your risk to the insurer.

Insurance does not cover all risks. There are some risks insurers will not cover. For example, insurers will not cover car accidents caused because you were drink-driving, or normal wear and tear on your car.

## Different types of car insurance policies

Insurance policies vary between different companies. Always read the Product Disclosure Statement and your Certificate of Insurance to understand what is covered. [Read our fact sheet: Understanding your insurance policy.](#)

You can choose the type of policy you want depending on what risks you want to protect against.

### Compulsory Third Party (CTP) or Greenslips

You must have this insurance by law – you pay for this insurance when you register your vehicle.

This insurance only covers bodily damage to another person caused by your vehicle. It does not cover property damage.

### Third party property

This is the minimum level of cover you should have if you drive a car, even though it is not compulsory.

This insurance covers property damage caused by your vehicle, such as damage to another car, fences, buildings, and power poles. If you don't have at least this type of cover and you run into a Rolls Royce or other expensive car, you could end up with a debt that takes a long time to pay off.

Some insurers offer third party property insurance with an 'uninsured motorists extension'. This extension provides a small amount of cover (usually \$3,000 or \$5,000) to repair your car if you are hit by an uninsured driver – if you can provide information such as the driver's contact details and vehicle registration details. This can be tricky to claim on, as the other driver may not stop or give you the details you need. **Get legal advice if you have any issues.**

### Third party fire and theft

This provides the same cover as a third party property policy as well as covering your

vehicle if it is stolen or damaged by fire. The amount of cover is usually limited to the market value of your car or some other amount, say \$10,000.

## Comprehensive

A comprehensive policy provides the same cover as third party fire and theft, but also covers damage to your car. When you buy a car on finance, the lender will usually require you to have comprehensive insurance.

You can usually choose the amount of cover to be either:

- **Market value** – how much your car is worth at the time of the accident. Insurers will often use valuation websites like [Redbook](#) or [Glass's Guide](#).
- **Agreed value** – you and the insurer agree the value of your car when the policy starts. Each year when the policy is renewed the insurer will suggest a new agreed value (usually lower). If you don't agree with the new value, you can negotiate with them or move to a new insurer. If you choose a value that is too high, you may be paying too much in premiums. If you choose a value that is too low, you may be underinsured and not get enough to repair or replace your car.

If your vehicle is written-off, you will not get the full market or agreed value. The insurer will deduct the excess, any monthly premiums owing, the unexpired part of your CTP insurance and registration (but you can get a refund from your state authority), and the value of the wreck if you keep it. [Read our Written-off Vehicles fact sheet](#).

## Other policies – often sold by car dealers or car finance companies

**Gap insurance** – covers the difference between the amount you owe on your loan and the amount you get from your comprehensive insurance if your car is written-off. For example, you buy a \$20,000 car and one year later, the car is written-off and your comprehensive insurance pays out \$15,000 market value (after deductions). This leaves you \$5,000 out of pocket – gap insurance may cover that \$5,000 gap. Take care when considering a policy like this – there are often lots of exclusions and conditions.

**Tyre and rim insurance** – covers damage to wheels and tyres caused by potholes, kerbs and blowouts. Take care when considering a policy like this – there are often lots of exclusions and conditions.

**Extended warranty insurance** – covers mechanical breakdowns and the like that are no longer covered by the manufacturer's warranty. Take care when considering a policy like this – there are often lots of exclusions and conditions. You may not need a policy like this because you may already be covered by a statutory guarantee. A car dealer or finance company cannot force you to take warranty insurance. Get legal advice if they try to.

These types of insurance can be poor value. If you ended up in one of these policies without

realising, or are having problems with a claim, get legal advice.

## Thinking through the cover you need

The type of insurance cover you need depends on the risks you want to cover, and the cost of covering those risks. You can get quotes from different insurers, often via the internet.

Each insurance policy is different. Be sure to read the Product Disclosure Statement so that you understand clearly what is covered and what is not covered by the policy. [Read our fact sheet: Understanding your insurance policy.](#)

### Choosing to have no insurance

It's very risky to have no insurance.

If you have no insurance and are at fault in an accident, the other driver or their insurer could sue you for the damage caused. To pay the debt, you may be forced to sell assets (like your home or anything else of value) or have amounts garnisheed (taken) from your wages or bank account for many years.

### Choosing third party property insurance

Third party property insurance is usually less expensive than comprehensive insurance because it does not cover as much.

If you are at fault in an accident, the other person's car is covered but your car is not. You will need to arrange repairs yourself.

If you are not at fault in an accident, you will have to chase the other driver for damage to your car. This can be difficult if the other driver does not agree they were at fault, or if they are not insured, or if they can't be identified (a hit and run). You may need to get legal advice and start court action.

### Choosing comprehensive insurance

Comprehensive insurance offers the highest level of cover for your vehicle and for property damage you cause to other people. It may also include a hire car while your car is being repaired up to a set limit (often 14 or 21 days).

When comparing comprehensive policies, consider:

- Can you choose your own repairer?
- Do they offer market or agreed value, and for what premium?
- Will the car be repaired with genuine parts?

- What is the excess, and does it depend on who is driving?
- Are there restrictions on who can drive the car?

## **Buying the insurance policy**

Ask different insurance companies for quotes for the type of insurance you want. Compare the Product Disclosure Statements as different insurers provide different things in their insurance policies. Insurance comparison websites can help.

Insurers do not have to sell insurance to everyone. Some companies may refuse to insure you if you have too many previous claims, have committed fraud or other dishonesty related offences, or if they think your risk is unacceptable.

Cheaper insurance policies may have less cover. Or the insurer may be a 'low risk' insurer, so may have a lower threshold before they decide you are too risky to insure. Many insurers will ask if another insurer has refused to insure you, or offer you renewal, so it can make it difficult to go to another insurer.

If getting a suitable policy is difficult, consider using an insurance broker. Check the broker is working in your interest only (not the insurer's) and ask about fees and commissions. Also check the policy documents when you get them to make sure all answers are correct.

[Read our fact sheet about High Insurance Premiums or Cover Refused.](#)

## **What you need to tell your insurer**

The insurer will ask you questions about your vehicle, your driving history, and other matters (different insurers ask different questions).

You must take reasonable care to avoid giving wrong information (making a misrepresentation) to your insurer. This applies when you take out a policy. Also when you renew your policy. Your insurer sends a new certificate asking you to check your previous answers and tell them if there are any updates.

If you are not sure about an answer, your safest option is to tell your insurer – to make sure your policy will cover you if you have a claim later on.

If you do not take reasonable care and make a misrepresentation, then the insurer may be able to change the terms of your policy. Or even refuse your claim and cancel your policy like it never existed. There is no point paying for insurance that doesn't exist, so make sure you answer the questions carefully.

The information you give may mean they decide not to insure you, or they may charge a higher premium. You may need to find a different insurer.

## Paying premiums

Most insurance policies are yearly, but many insurers will let you pay the yearly premium off monthly. This may cost you more.

If you choose to pay monthly by direct debit, make sure there is enough money in your account to pay when it is due. If the direct debit fails, your policy may be cancelled. Insurers will usually contact you before cancelling the policy, so be sure to check your letter box and email accounts (including the junk folder) for communication from the insurer. **Get legal advice if you think your policy has been cancelled unfairly.**

## Need more help?

[Visit our Useful Links page for a list of other resources.](#)

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