

Prepared by Jenny Lawton, Financial Counsellor

How not to **SMASH** your finances in a car accident

Even though you survive a car accident without so much as needing a Band-Aid, a prang can spell the beginning of a financial nightmare. If you cause damage to property while you're behind the wheel of a uninsured car or hurt someone while driving an unregistered car – you can be up for big bucks. This fact sheet looks at some of the steps you can take to ensure you aren't saddled with heavy debts as a result of a car accident.

Dog day afternoon

Although Tia was a careful driver, while rushing her sick Kelpie Bongo to the vet, she lost control of the car and took out a fire hydrant. While Tia and Bongo huddled under an umbrella to avoid the resulting fountain, the Water Board came to shut off the water and replace the hydrant, the police came to direct traffic and the Fire Brigade came along just for good measure. Although the car was a bit smashed up, Tia was able to drive it so Bongo got to the vet after all where he cost Tia a small fortune. However Tia's financial misery had just begun. Tia got bills for the emergency call out fees for the Fire Brigade and the Water Board, plus a bill for the cost of a new fire hydrant. All up, it was nearly \$8,000. Tia didn't have that kind of money and didn't have car insurance to cover property damage. In the end, Tia sold her car to pay out the debts.

Lamp posts don't come cheap

Rose assumed her car registration fees included insurance for property damage, but found out to her cost that only her medical expenses for a broken arm were covered and not the price of replacing the lamp post she'd wrapped her car around. Before Rose had even had the plaster off, the electricity company was demanding over \$20,000 for the damaged lamp post. With no assets – now that her car was written-off – and two more years of her low-paid apprenticeship ahead of her, Rose eventually filed for Bankruptcy to wipe out the debt.

Getting help

Don't just rely on the general information in this article. It is best to get advice specific to your situation

For referral to a community financial counsellor to deal with a car accident debt:

n Financial and Consumer Rights Council
(03) 9663 2000

n Credit Helpline (03) 9602 3800

For free advice and assistance about dealing with an insurance company:

n Insurance Enquiries and Complaints 1300 363 683

Staying in control

In the last year, an estimated 500 Victorians went bankrupt because of car accident debts. To avoid the risk of needing to hand over control of your affairs to a Bankruptcy Trustee for 3 years – only drive cars that are both registered and have at least Third Party Property insurance to cover you for damage to the property of others. **Registration does not cover property damage** but it will protect you against medical costs and loss of income expenses for you and anyone you injure.

Types of car insurance

Car registration fees paid annually to VicRoads include insurance provided by the Transport Accident Commission, but **this cover is limited to payment of treatment** and benefits for people injured in transport accidents. It does not cover damage to cars or property. Car registration is compulsory.

Third party property insurance covers accidental damage to other vehicles and property if the insured driver causes an accident, subject to the terms of the policy. This insurance costs around \$150 to \$200 per year.

Bonus Extension: Some third party property insurers will also cover your car up to a limited amount (usually around \$3,000) if it is damaged in a collision which is the fault of an uninsured driver of another vehicle and you are able to provide the name and address of that other driver.

Third party property plus fire and theft insurance covers the same as third party property insurance, but your car is also covered for fire and theft, subject to the terms of the policy. The bonus extension cover may also be available. This insurance costs around \$200 to \$300 per year.

Comprehensive insurance offers the greatest protection. Subject to the terms of the policy, it covers damage to your car as well as damage to other vehicles and property. This is the most expensive type of insurance.

Cars under finance are best covered by comprehensive insurance. This is because the lender would still demand that the loan be paid even if you wrote-off the car in an accident.

Tips for avoiding insurance problems

- Before deciding whether to go with an insurer – **read the policy carefully**. The policy is one of the documents that makes up the contract between you and the insurer. It will explain what you are and are not covered for and when you may and may not make claim.
- Understand **how much excess is payable** for certain claims. The excess is the amount you must pay when you make a claim. There are many different excesses depending on things such as the age of the driver, whether the driver is listed on the policy and how long the driver has been licensed.
- When you select an insurer – **take care to answer all the insurer's questions truthfully, fully and accurately**, whether or not the questions are verbal or in writing. Insurers decide who to cover and how much to charge based on all the information you provide. If it later turns out the insurer was given wrong or untrue information, any claim you make may be refused for what is known as non-disclosure.
- Keep the insurer informed of any changes to the information you originally gave them, otherwise the insurer may be able to **refuse a claim** for non-disclosure.
- **Modified cars** are trouble – most insurers won't cover them or will only do so for older and experienced drivers at a very high cost.

Shop around for insurance cover – but don't just consider the price. Compare the excesses as well as the cover that is offered. Watch out for so-called bargains – the cover may be so restricted that it is not worth it.

Before you drive anyone's car

- **Check the car is registered**. Registration includes insurance for most injuries caused by a car accident. A driver who has an accident in an unregistered car could be held responsible for the expenses of anyone who is injured and may not be able to claim for loss of earnings.
- Find out whether the car owner has **Third Party Property Insurance** and if it covers young drivers or only covers drivers that are named on the policy.
- Keep in mind that even if there is insurance – the insurer may be able to refuse a claim for an accident you cause because you **broke a policy condition**, such as being over the legal alcohol limit.

When saving up to buy a car – make sure you also can afford the cost of paying registration and at least the cost of insuring for damage to property owned by others.