Understand Insurance

http://understandinsurance.com.au/add-on-insurance

Add-on insurance

What is add-on insurance?

Add-on insurance policies, such as Motor Equity (also known as GAP), Tyre & Rim, Consumer Credit Insurance and Warranty, can be offered to consumers when purchasing a new or used car from a dealership.

Add-on insurance policies typically provide cover for risks relating to the car itself or for risks relating to the loan you may have taken out to buy the car. For example, Consumer Credit Insurance is designed to assist you to make your loan repayments if, for instance, you've become sick and can no longer work.

Common types of add-on insurance policies

There are five main types of add-on insurance policies:

- **Consumer Credit Insurance (CCI)** - also known as loan protection or repayment cover
- **General Asset Protection Insurance (GAP)** - also called motor equity insurance or shortfall insurance
- **Loan Termination Insurance**
- **Mechanical Breakdown Insurance** - also called exended warranties
- **Tyre and Rim Insurance**

Consumer Credit Insurance (CCI)

Consumer credit insurance (CCI), also known as loan protection or repayment cover, provides cover if you can't meet the repayments on your car if you lose your job, are sick, injured or die.

CCI can include some or all of these benefits that you may select to meet your needs:

- **Life benefit** – If you die, this policy will provide cover, up to policy limits, for the remaining amount owing on your car loan
- **Illness and injury benefit** – If you suffer from injuries preventing you from working or become disabled or ill, this policy will provide cover, up to policy limits for a specified period, for a portion of or all of your car loan
- **Involuntary unemployment benefit** – If you become involuntarily unemployed, this policy will cover your car loan repayments, up to policy limits for a specified period

Before taking out a CCI policy, you should consider whether you are already covered for life, illness, injury or involuntary unemployment under any insurances you currently have. Some employers offer these types of cover to their employees. Your superannuation fund may also include life insurance cover.

If you pay out your loan before the end date of your CCI policy, your financier will deduct the unused portion of your premium from your final payout figure.

For general CCI information visit, click here [http://understandinsurance.com.au/types-of-insurance/consumer-credit-insurance] .

General Asset Protection (GAP)

If your car is damaged beyond repair or is stolen and not recovered, and is declared a Total Loss, the amount paid by an insurer in connection with the Total Loss may be less than the amount you still owe to your financier. This is because the value of your car starts to depreciate the moment you first purchase it. If the purchase of your car is mostly financed, you can be at higher risk of having a shortfall between the value of your car and the amount paid by an insurer for your vehicle after it is declared a Total Loss.

GAP insurance may also be called Motor Equity insurance or Shortfall insurance. Some GAP insurance products may also include options for extra cover for incidental / out of pocket expenses such as registration and insurance for the replacement car.

You may be able to get a portion of your premium refunded if you pay your entire loan before the end date of your GAP insurance contract. Check your Product Disclosure Statement (PDS) because premium refunds will vary between insurers. If you are unsure, contact your insurer.

Loan Termination Insurance

Loan Termination Insurance can provide cover for the remaining period of your car loan if you have an accident or long-term illness/injury that forces you to return the car to the dealer. Often, an accidental death benefit is also provided.

Similar to GAP insurance, Loan Termination Insurance will typically cover the difference between the value of your car and the amount outstanding on your loan.

You may be able to get a portion of your premium refunded if you pay your entire loan before the end date in your Loan Termination Insurance contract. Check the PDS because premium refunds may vary between insurers. If you are unsure, contact your insurer.

Mechanical Breakdown Insurance/Extended Warranties

Mechanical breakdown insurance can provide cover for an unexpected mechanical failure that occurs after the statutory or manufacturer’s warranty has expired.

Mechanical breakdown insurance typically provides cover over a specific period for costs incurred in repairing or replacing parts in a mechanical failure.

Some insurance providers may also reimburse you for incidental costs up to policy limits during the breakdown, including towing, car hire, locksmith services and in some cases accommodation.

These insurance policies are often referred to as extended warranties. It is important to note that it is different from a manufacturer's extended warranty because it is provided by an insurance company and may have different conditions and inclusions and exclusions.

Tyre and Rim Insurance

Tyre and Rim Insurance can provide cover if one or more of your vehicle’s tyres or wheels are damaged in the normal course of driving (such as when you drive over a pothole).

These insurance policies provide cover up to policy limits for costs of repair and replacement of tyres and rims if damage occurs as a result of blowouts, punctures and various road hazards.

Some insurance providers may also provide coverage for towing, temporary car hire and accommodation if the incident that caused the claim occurs when you are away from home. Make sure you read the PDS before you purchase tyre and rim insurance and know what you are covered for. General wear and tear is usually excluded from tyre and rim insurance coverage.

Frequently Asked Questions

How are add-on insurance premiums paid?

Add-on insurance premiums may be included as part of the loan repayments or paid separately by the consumer in one payment or instalments.

What if I change my mind about purchasing add-on insurance?

You will be able to cancel your policy within the cooling off period, and any premium paid will be refunded, unless an incident has occurred that may result in a claim. You can also cancel your policy after the cooling off period has expired, though your premium refund will be reduced by the cost of the period that you had cover for. If the insurance premium was financed through the car loan, any refund will be paid to the financier and taken into account as part of your debt obligation.

Check the PDS as cooling off periods and premium refunds may vary between insurers.

For more information on buying insurance, click here [http://understandinsurance.com.au/buying-insurance] .

How do I make a claim?

Contact your lender or insurer as soon as practical after the incident has occurred to be guided about what to do next. Your PDS also includes a section about how to claim. Ensure you have as much information about the incident as you can when you contact the claims department.

Don’t worry if you can’t find your policy documents. Your insurer has electronic copies of every policy.

You can find more information on the claims process and how to make claims here [http://understandinsurance.com.au/claims-explained] .