

Why “Name Your Price” Insurance Can Cost You Dearly

Many people zero in on price when buying insurance. However, that strategy is only safe if you never file a claim. Tom Hopkins of The Delp Company discusses why it's important to consider more than just the price tag of insurance.

A national insurance company has implemented an interesting marketing strategy: Tell us the premium you want to pay, and we'll sell you the level of coverage it affords.

This budget-based approach to selling insurance focuses on price and minimizes the value of coverage. Buyers using this strategy will be satisfied if they never have a claim. In fact, who insures you, or whether you carry any insurance, doesn't matter if you never experience a claim.

However, most insurance buyers will experience a claim, and the level of insurance product quality and coverage will become important. Higher-quality products usually mean lower costs of insurance at the time of a claim. I'll use a simple example of a car rental reimbursement claim:

- ▲ It takes 60 days to repair a damaged 2010 BMW.
- ▲ The cost of renting a comparable vehicle is \$100 per day.
- ▲ Under one policy, rental reimbursement coverage is \$30 per day to a maximum of 30 days (or \$900).
- ▲ Under another policy, rental reimbursement coverage is \$12,500 per occurrence with no time limit.

Being covered by the first (cheaper) policy means only \$900 would be collected from the insurance company, as renting a comparable vehicle would cost more than the policy cap. Either the customer will incur significant out-of-pocket expenses, or he or she will have to drive a car that fits the insurance company's budget. On the other hand, the second policy means full reimbursement of the \$6,000 and no choice between paying for driving a comparable car or keeping within a much smaller budget.

This is why you shouldn't confuse the price of insurance with the cost of insurance. You might save initially on the premiums (or price), but will the coverage be there when you need it? Will the money you save cover the additional costs of shortfalls in coverage?

When reviewing insurance policies, the goal should first be to minimize the cost of insurance (again, not to be confused with price). This means choosing the most comprehensive coverage form to meet your needs. Only after this is accomplished does it make sense to focus on the price.

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