Many CFSI staff members contributed to this work, including Dan Miller, John Thompson, and Eric Wilson. A special thanks to Andrew Dunn for his help with the data analysis.

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This paper benefits from financial support from The Prudential Foundation. The opinions expressed in this report are those of CFSI and do not necessarily represent those of our sponsors.
Low-to moderate-income (LMI) consumers are more apt to change auto carriers in their search for the best price, which may make them more likely to purchase basic policies that only meet minimum requirements and leave them exposed to risk.

LMI consumers are most likely to find their first auto insurance policies through their own shopping rather than recommendations from family or friends, highlighting an opportunity to acquire them as customers more easily.

LMI consumers are more likely to pay higher rates for their auto insurance than higher-income individuals, indicating the underwriting process can shift to improve fairness among insurance product offerings.
Some degree of auto liability insurance is required in nearly every state to help pay for damage one driver may cause to another driver, their passengers, or property.¹ It makes sense, therefore, that 98 percent of car owners say they have insurance. Even with a high rate of ownership, however, auto insurance coverage is not necessarily adequate or understood, especially for low- to moderate-income (LMI) individuals.²

Having adequate auto insurance is important for a number of reasons. Vehicles are a lifeline to employment and well-being for many Americans, yet more than 6 million auto accidents³ occurred in the United States in 2016, potentially interrupting access to those vehicles for drivers. Moreover, 13 percent of motorists – 27.6 million drivers – in the United States were driving uninsured in 2015,⁴ and available research indicates a strong negative correlation between income and driving without insurance.⁵ This is clearly problematic, since the average cost for a claim involving an uninsured driver is $20,000.⁶

The need for vehicles, high frequency of accidents, and high costs of being uninsured all support the case for adequate auto insurance to protect consumers from having to pay more than they can afford should an accident occur. This is particularly important for LMI consumers, who are less likely to have savings for emergencies such as auto accidents.

This brief takes a closer look at the auto insurance coverage, acquisition channels, knowledge, and claims experience of American consumers, with a particular focus on LMI consumers. The data in this brief comes from a larger CFSI report on LMI insurance consumers.⁷

¹ A minimum liability auto insurance is not required in New Hampshire, and in Arizona and Virginia you can get special exemptions if you prove you can cover yourself financially by meeting specific state requirements.
² In this brief, LMI refers to household incomes under $60,000 annually.
⁴ Facts and Statistics: Uninsured Motorists, Insurance Information Institute, citing a 2017 report from the Insurance Research Council. Absolute figure obtained by multiplying this percentage by the total number of licensed drivers. Licensed Drivers, Bureau of Transportation Statistics, 2013.
⁵ Uninsured Drivers: A Societal Dilemma in Need of a Solution, Consumer Federation of America, March 2013.
⁶ In 5 States, 20% or More of Drivers Have No Insurance; Countrywide Average Increases, Insurance Journal, March 15, 2018.
⁷ Insuring the Way to a Financially Resilient America: Developing Successful Products for LMI Consumers, CFSI, June 2018. See full report for details on the research methodology.
Since the vast majority of consumers have some type of auto insurance, we decided to look more closely at their relationship with their existing coverage. When it comes to changing auto insurance companies, auto insurance owners are fairly evenly distributed across the number of times they have changed companies, but LMI drivers are least likely to remain at the same company. This distinction is likely related to the main reason consumers (54 percent), and LMI consumers in particular (59 percent), drop or replace any insurance policy – it is too expensive. Therefore, we see that LMI consumers are willing to shop around and switch auto insurance carriers rather frequently to secure lower prices. This may result in these consumers purchasing basic policies that only meet minimum requirements, leaving them more exposed to risk. This extra exposure can be especially threatening for LMI individuals who are much less likely to feel somewhat or very prepared for the unexpected (37 percent of LMI consumers, compared with 53 percent of individuals earning $60,000 to $100,000 and 72 percent of those earning over $100,000).

NONSTANDARD AUTO INSURANCE OPPORTUNITY

About 30 to 40 percent of the total private passenger auto insurance market is considered “nonstandard,” or high-risk, when it comes to auto insurance.8 These high-risk drivers may include people who have had tickets, had at-fault accidents, are newly licensed, are elderly, have allowed their coverage to lapse, or have poor credit. This set of insurers, in particular, have a unique opportunity to look at customers holistically, ensure they have the right tools to be insured properly with auto insurance, and provide assistance to support them in becoming “lower-risk” drivers.

Out of those that own auto insurance, only 38 percent think they are definitely well-covered, and consumers making more than $100,000 are more likely than LMI consumers to say they are definitely well-covered (47 percent vs. 32 percent). Furthermore, 15 percent of LMI individuals indicate they are probably or definitely not well-covered by their auto insurance, which is a higher proportion than those with higher incomes. Again, LMI consumers who are more likely to be struggling financially are also more likely to be susceptible to the negative financial effects of a car accident if they are not adequately insured.

“The auto rates never drop but the value of the car does so you pay more for less … you use it and you can get thrown off the policy.”

— MALE, BALTIMORE

When first purchasing auto insurance, individuals overall (62 percent), and LMI individuals in particular (68 percent), are most likely to shop around for their own coverage. People making more than $60,000 are more likely to continue with their parents’ policy or agent (37 percent) than LMI individuals (23 percent).

In selecting the current auto insurance company used, many consumers are still likely to find their company through their own shopping (49 percent), family or friends (30 percent), or advertising (13 percent). For current insurance companies, there are no statistically significant differences by income in how people find their companies, indicating there is potentially a bigger opportunity to engage LMI individuals in higher-quality auto insurance when they are first purchasing, and focusing on customer retention to keep them adequately insured.

### Acquisition Channels

<table>
<thead>
<tr>
<th>Annual Household Income</th>
<th>Definitely yes</th>
<th>Probably yes</th>
<th>Probably no</th>
<th>Definitely no</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>38%</td>
<td>48%</td>
<td>9%</td>
<td>1%</td>
</tr>
<tr>
<td>&lt;$60K</td>
<td>32%</td>
<td>48%</td>
<td>12%</td>
<td>3%</td>
</tr>
<tr>
<td>$60K to &lt;$100K</td>
<td>42%</td>
<td>50%</td>
<td>8%</td>
<td>2%</td>
</tr>
<tr>
<td>$100K+</td>
<td>47%</td>
<td>47%</td>
<td>6%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Do you think you are adequately covered by the auto policy you have?

What is the main reason you selected the company you bought your car insurance from/kept your car insurance policy with that company?

- Good value for money: 44%
- Was recommended to me (friend, bank, auto dealer, etc.): 11%
- Well known company: 10%
- Easy to do business with: 9%
- Has products that best fit my needs: 9%
- Responsive when I have questions or need information: 6%
- Communicates clearly: 1%
- Provides information the way I want it: 1%
- Some other reason: 7%

These percentages are relative to all the answer choices respondents could select. For example, in this case, “value for money” was the most selected answer choice at 44 percent.
The main reason by far for keeping an auto insurance policy is because it provides good value for money, or in other words, it is priced in a way that is perceived to be cost-effective (44 percent). This is true across income levels. Such price sensitivity when selecting auto insurance opens the door to improve messaging around auto insurance products to indicate their value and ensure individuals are adequately insured and not just paying the minimum amount.

Three-quarters of individuals find the process of purchasing auto insurance to be somewhat or very easy, still leaving about one quarter who find it somewhat or very difficult. This is true across income levels, indicating that insurers could improve the purchase process for one in four drivers to help match them with the appropriate auto insurance product and ultimately provide them the peace of mind insurance is meant to provide.

“Would be helpful if there was a way for them to tell you the average cost that people have to pay when they get in an accident.”

— MALE, FRESNO

How well do you understand each of the following types of insurance?

<table>
<thead>
<tr>
<th>Insurance Type</th>
<th>Annual Household Income</th>
<th>Very well</th>
<th>Somewhat well</th>
<th>Not too well</th>
<th>Not at all well</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>All</td>
<td>43%</td>
<td>45%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>&lt;$60K</td>
<td>38%</td>
<td>45%</td>
<td>13%</td>
<td>3%</td>
</tr>
<tr>
<td>Auto*</td>
<td>All</td>
<td>43%</td>
<td>45%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td></td>
<td>&lt;$60K</td>
<td>39%</td>
<td>45%</td>
<td>11%</td>
<td>4%</td>
</tr>
<tr>
<td>Homeowners or Renters</td>
<td>All</td>
<td>40%</td>
<td>46%</td>
<td>11%</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>&lt;$60K</td>
<td>34%</td>
<td>46%</td>
<td>14%</td>
<td>5%</td>
</tr>
<tr>
<td>Life</td>
<td>All</td>
<td>37%</td>
<td>45%</td>
<td>14%</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>&lt;$60K</td>
<td>34%</td>
<td>45%</td>
<td>16%</td>
<td>4%</td>
</tr>
<tr>
<td>Disability</td>
<td>All</td>
<td>24%</td>
<td>38%</td>
<td>28%</td>
<td>9%</td>
</tr>
<tr>
<td></td>
<td>&lt;$60K</td>
<td>21%</td>
<td>34%</td>
<td>30%</td>
<td>13%</td>
</tr>
</tbody>
</table>

*Beyond basic liability required by law.

10 The insurance products in scope for the overall research were auto, homeowners, renters, life, and short- and long-term disability insurance.
Auto insurance, beyond basic liability insurance that is typically required by law, is one of the most understood insurance products of those in scope for this research. Most consumers (87 percent) claim to understand it very or somewhat well. LMI individuals are more likely than other income brackets to say they understand this type of auto insurance not too well or not well at all (15 percent).

Yet as with other types of insurance coverage, this high reporting of understanding was further fleshed out in our focus group research, as participants frequently demonstrated they made auto insurance choices based on price and were perplexed by the nuances of coverage and rates.

Focus group participants indicated it was challenging to understand or predict rate increases, or when certain coverage would be beneficial. This indicates an opportunity to better align auto insurance coverage with LMI consumer needs, and increase transparency at the time of purchase.

Nearly one-third of auto insurance policyholders have had a claim in the past five years, and for 78 percent of them, the claim covered all or most of the expense. The vast majority (90 percent) say it was very or fairly easy to file a claim, with those making over $100,000 being slightly more likely to say this than LMI individuals. About three-quarters (76 percent) of policyholders feel they received fair value for their claim based on what they pay for their policy, but this was lower for LMI (70 percent) than those making between $60,000 and $100,000 (78 percent) or those making over $100,000 (84 percent). This shows that even though there is an overall positive experience for auto insurance claims, there is an opportunity to improve the claims process for LMI individuals, in particular, to adequately provide support in the time of shock and incentivize their policyholder tenure.
While auto insurance ownership is high across the income spectrum because of regulatory requirements, the cost of purchasing auto insurance can be disproportionately high for low-income consumers. A 2016 study from the Consumer Federation of America found that personal driving history is not the reason low-income consumers are paying more for their auto insurance than average consumers. Instead, their higher rates are based on answers to questions about their economic status when applying for auto insurance. They found that in 15 cities, these consumers paid an average of 59 percent more for auto insurance than their non-LMI counterparts.\(^{11}\) This can make it difficult for LMI individuals to even operate their vehicles affordably, which are often lifelines to employment and well-being, with proper insurance. This highlights an opportunity for insurers to innovate by using data in alignment with CFSI’s Consumer Data Sharing Principles, and more appropriately price and match auto insurance to LMI drivers based on need.\(^ {12}\)

\(^{11}\) Major Auto Insurers Raise Rates Based on Economic Factors, June 2016.

OPPORTUNITIES FOR INSURERS

> Engage LMI customers when first shopping for auto insurance by providing transparent, clear advice.

> Retain LMI customers through clear messaging, options for lower prices, and/or explanations of price increases.

> Innovate to provide lower-cost, personalized options that do not discriminate based on LMI status.

Innovation Ideas

We asked focus group and survey respondents what they thought about incorporating a monitoring device in their car to potentially lower insurance rates, and how likely they would be to use such a device.

Over half found a plug-in car device to be at least somewhat appealing, and about half would be at least somewhat likely to use it. Those earning under $60,000 were a little more apt to find the idea appealing.

Yet, the focus group participants approached this idea with great hesitation. They expressed an extreme lack of trust, and wanted to maintain ownership over their data and how it was used.

“I had them put a camera in my car. I came to a stop sign and slowed down from 25 miles an hour and the thing went off. I called them to ask what happened and they said I braked too fast. After that I ripped it out of my car.”

— MALE, BALTIMORE