

CAR INSURANCE 101

# Understanding Car Insurance



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Whether you're a first-time driver or simply haven't had to deal with car insurance before, our guide to getting car insurance will give you an understanding of the [basics of car insurance](#) and help you get the best auto coverage at the most affordable price.

For many people – even those drivers who have owned a car for years – auto insurance can be confusing. But you don't need an auto-insurance agent's knowledge of car insurance. The following insurance basics will provide much of what you need to get the right policy for you and your family.

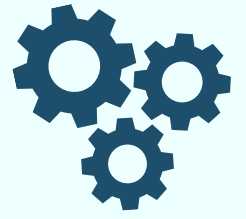
# What is car insurance?

[Car insurance](#) is a contract between you and an insurance company that provides financial protection in the case of an auto accident or if your car is damaged by other means, such as severe weather or theft. It can also cover the cost if you injure someone or damage their property.

Car insurance rates are based on personal risk factors such as age, location, vehicle, credit score, driving history, etc.



# How does car insurance work?



Essentially, you agree to pay a certain amount of money, known as your premium, every six months to a year, in exchange for protection against sudden financial hardship after an accident. The insurance company calculates your premium based on how much coverage you need and your personal risk factors.



That includes the age of the vehicle, driver's age, driving record and geographic location where the vehicle is housed or used, to name a few.



– Mark Snyder,  
Expert at Hi Marley

## Recommendations



Carefully consider what coverage level you need. If you have assets you need to protect, ensure you have enough insurance to protect your family.



Car insurance rates differ from person to person and company to company. Be sure to shop around for the best rates.

# Types of coverage



## Comprehensive coverage

Protects your vehicle from non-collision incidents such as theft, vandalism, and natural disasters.



## Collision coverage

Covers damage to your vehicle resulting from collisions with other cars or objects.



## Liability coverage

Pays for damages and injuries you cause to others in an accident.



## Personal injury protection

Pays for medical expenses for you and your passengers injured in an accident. It also covers funeral costs.



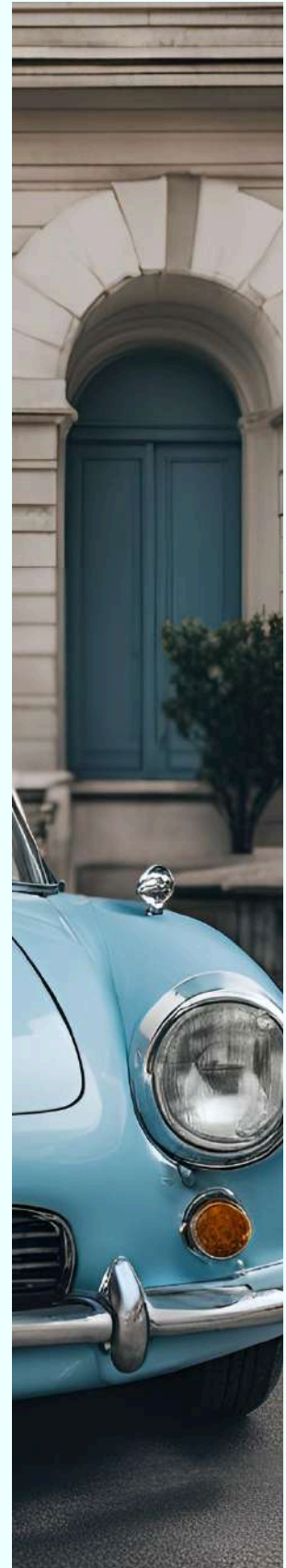
## Uninsured motorist coverage

Pays for your medical bills if an uninsured driver strikes your car or if you're injured in a hit-and-run



## Underinsured motorist coverage

Used when someone causes an accident but doesn't have enough insurance to cover all medical bills



# Additional types of coverage



1

## Rental reimbursement

Pays for a rental car when your vehicle is damaged or stolen

2

## Roadside assistance

Provides assistance if your vehicle breaks down or you need a tow.

3

## Gap insurance

Pays the difference between your car's value and the amount you owe on your loan if your car is totaled.

4

## Rideshare driving insurance

Offers extra coverage for drivers working for companies like Uber or Lyft.

5

## Classic car insurance

Some insurers provide classic car insurance to protect vintage vehicles.



# What doesn't car insurance cover?



Maintenance  
or mechanical  
failures



Wear and  
tear of car



Unlisted  
drivers



Driving on a  
ridesharing  
platform



## Do I need car insurance?

The simple answer is **yes**. Most states require you to have some auto insurance. And you need it to protect yourself. Accidents and injuries add up to thousands of dollars and could bankrupt you.

# What car insurance is required by law?

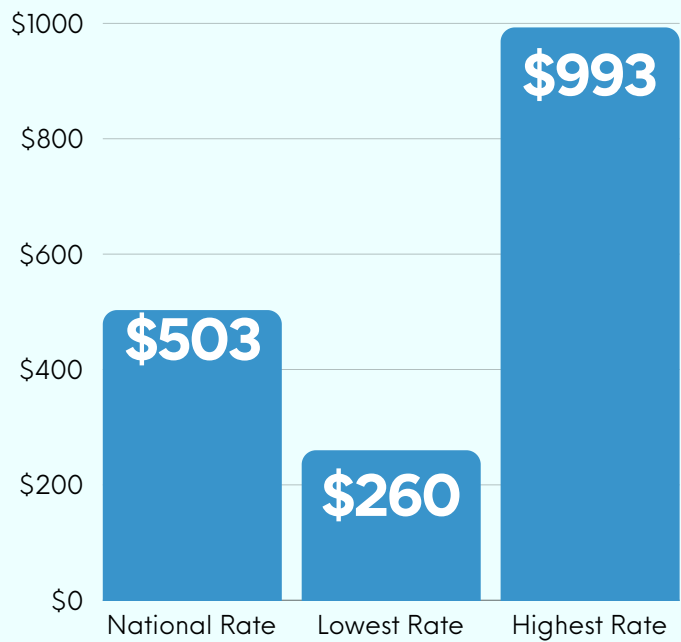
Every state has different auto insurance requirements. Just about every state requires you to carry minimum liability coverage, the amount of which varies from [state to state](#). For example:



The state of Florida has one of the highest minimums



Iowa has one of the lowest state minimums



# How much car insurance do I need?

1. Up to \$100,000, per person, for the medical bills of those you injure
2. With a \$300,000 cap per accident
3. Up to \$100,000 to repair other drivers' cars and property that you damage



# Cost of car insurance

## FULL COVERAGE

**\$1,895** per year

**\$158** per month

These rates are for a coverage limit of 100/300/100.

- \$100,000 in bodily injury per person
- \$300,000 in bodily injury per accident
- \$100,000 in property damage per accident

## STATE MINIMUM

**\$503** per year

Your minimum requirements vary by state, and most states have really low limits.

The amount of coverage you purchase is one of the most important factors determining your [auto insurance costs](#).



Full coverage insurance is more expensive than the state minimum



Full coverage insurance provides more protection than state-mandated coverage



Full coverage includes liability, comprehensive, and collision coverage



# Where do you buy car insurance?

When it comes time to get your auto insurance policy, it's a good idea to shop around and compare quotes from several companies. You can get quotes from:



Local insurance agents



Sites that provide quotes from multiple insurers



Directly from car insurance companies

## Tips to save on car insurance

- Compare car insurance quotes from multiple insurers
- Increase your deductible
- Bundle your auto insurance with other types of insurance from the same company
- Improve your driving record
- Maintain your credit score



# Mistakes to avoid while buying car insurance



## Not shopping around

Failing to compare quotes from multiple insurers can result in missing out on affordable rates.



## Choosing the cheapest policy without considering coverage

Opting for the lowest premium can leave you underinsured. Ensure the policy provides adequate coverage for your needs.



## Forgetting to update your policy

Life changes like moving, getting married, or buying a new car can affect your insurance needs. Keep your policy updated to reflect your current situation.



## Overlooking customer service and claims process

The cheapest policy may come with poor customer service or a complicated claims process. Consider the insurer's reputation for handling claims and customer satisfaction.

# Common car insurance terms

|                           |  |
|---------------------------|--|
| <b>BODILY INJURY</b>      | An injury sustained by a person.   |
| <b>CLAIM</b>              | Any request or demand for payment under the insurance policy's terms.  |
| <b>DEDUCTIBLE</b>         | Usually, the insured must pay a dollar amount on each loss to which the deductible applies. The insurance company pays the remainder of each covered loss up to the policy limits  |
| <b>EFFECTIVE DATE</b>     | The date that coverage begins on an insurance policy.  |
| <b>FIRST PARTY</b>        | Term used to refer to an insured.  |
| <b>LIABILITY</b>          | Any legally enforceable obligation or responsibility for the injury or damage suffered by another person   |
| <b>NO-FAULT INSURANCE</b> | This may pay for your medical treatment, lost wages or other accident-related expenses regardless of who caused the accident. This coverage is subject to the terms, limits and conditions of your policy contract and is not available in all states. |
| <b>POLICY LIMIT</b>       | The maximum amount a policy will pay, either overall or under a particular coverage.   |
| <b>PRINCIPAL DRIVER</b>   | The person who drives the car most often   |



# Methodology

[insure.com](https://www.insure.com) gathered average car insurance rates from Quadrant Information Services for a 40-year-old male driver, unmarried, with a clean driving record and good credit score, driving a 2021 Honda Accord. The rates are for a full coverage policy of 100/300/100 with comprehensive and collision coverage and a \$500 deductible.



# Source

Insurance Information Institute. "[Insurance Handbook](#)." Accessed June 2024.

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