

# Auto Insurance

## WHAT IS AUTO INSURANCE AND WHY IS IT IMPORTANT?



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Driving can be dangerous and costly if you are involved in accident. The National Safety Council determined that 4.6 million people were injured and 40,000 people died in motor vehicles crashes in 2016. If you plan to drive, you will need car insurance because the odds are you will experience some kind of accident while driving. The car insurance industry estimates that the average driver will be in a car crash about every 17 years. This means that over the course of your lifetime, you will be involved in a total of three to four car accidents.

**What is auto insurance?** Car insurance, is a contract (*agreement*) between you and insurance company; you pay the insurance company to cover certain financial losses you be subjected to when you are involved in a car accident.

There are three main reasons why you need auto insurance: to provide financial protection, because your auto lender may require it, and/or because it may be required under state law. There are many insurance companies and insurance products available in the marketplace for you to choose from, which can make buying insurance confusing and frustrating. Nonetheless, as a driver, it will be your responsibility to learn the tools needed to select the right coverage, understand your insurance policy, and find the best price.

**Answer each question with a complete sentence on a separate piece of paper.**

1. How many people were killed in car accidents in 2016?
2. In the course of driver's life time, how many car accidents will they have?
3. What is car insurance?
4. What are the three main reasons for purchasing auto insurance?
5. Why can buying insurance be confusing and frustrating?
6. Who's responsibility is it for a driver to obtain car insurance?

One of the main reason why drivers buy auto insurance is to financially protect themselves and others. If you are found to have caused a car accident you are responsible for any costs related to that accident. A car accident can be very expensive, especially if someone is seriously injured. Having auto insurance, helps you protect your **assets** (*money and things you own*) as well as pay for auto accident costs. When a car accident happens, there can be many different costs. A car accident can result in property damage, vehicle damage, medical expenses, loss of wages, pain and suffering as well as others expenses. If you don't have insurance, the cost of a single accident can lead to bankruptcy.



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Another reason for people to buy car insurance is because it may be required under state law. In most states, drivers are required to carry a minimum amount of liability insurance. Auto **liability insurance** helps cover only the costs of the other driver's property and bodily injuries. Not maintaining at least the minimum required insurance coverage could result in various penalties. Depending on the state, not having auto insurance can lead to your license being suspended, having your vehicle registration suspended, and/or receiving a ticket.

In addition, you will need to have auto insurance if you finance the purchase of your car or lease a car. The lender or the lessor require their customers to have car insurance in order to protect the cost of the vehicle. If you are making a car payment then the car is not owned by you but instead by the bank; thus, they want to protect their car in the case it is damaged, lost, or stolen. Not maintaining car insurance on a financed or leased vehicle could result in **repossession** (*seizure*) of the car by the bank.

**Answer each question with a complete sentence on a separate piece of paper.**

7. What is the main reason why drivers buy auto insurance?
8. What are four possible costs that a driver can be responsible for if they cause an accident?
9. What can a single car accident lead to?
10. In most states, what are drivers required to carry?
11. If a driver doesn't have the minimum required insurance, what can it lead to?
12. Why do car lenders require their customers to have auto insurance?
13. What can happen if you don't maintain car insurance on a financed or leased car?