

## What is auto insurance?

### Understand your car insurance and what it covers

### **Auto Insurance**

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Basic personal auto insurance is mandated by most states and provides you with some financial protection in case of an accident. But is it enough? What are the options? Learn how car insurance works and what types of coverage are available.

### **Understanding auto insurance?the basics**

Auto insurance is a contract between you and the insurance company that protects you against financial loss in the event of an accident or theft. In exchange for your paying a premium, the insurance company agrees to pay your losses as outlined in your policy.

Auto insurance provides coverage for:

- Property? such as damage to or theft of your car
- Liability ? your legal responsibility to others for bodily injury or property damage
- Medical? the cost of treating injuries, rehabilitation and sometimes lost wages and funeral expenses

Basic personal auto insurance is mandated by most U.S. states, and laws vary. Auto insurance coverages are priced individually (a la carte) to let you customize coverage amounts to suit your exact needs and budget.

Policies are generally issued for six-month or one-year timeframes and are renewable. The insurance company sends a notice when it?s time to renew the policy and pay your premium.

# Who is covered by my auto insurance?and under what circumstances?

Your auto policy will cover you and other family members on your policy, whether driving your car or someone else?s car (with their permission). Your policy also provides coverage if someone who is not on your policy is driving your car with your consent.

Your personal auto policy only covers personal driving, whether you?re commuting to work, running errands or taking a trip. It will *not* provide coverage if you use your car for commercial purposes?for instance, if you deliver pizzas.

Personal auto insurance will also not provide coverage if you use your car to provide transportation to others through a ride-sharing service such as Uber or Lyft. Some auto insurers, however, are now offering supplemental insurance products (at additional cost) that extend coverage for vehicle owners providing ride-sharing services.

## Is auto insurance coverage mandatory?

Auto insurance requirements vary from state to state. If you're financing a car, your lender may also have its own requirements. Nearly every state requires car owners to carry:

- **Bodily injury liability** ? which covers costs associated with injuries or death that you or another driver causes while driving your car.
- **Property damage liability**? which reimburses others for damage that you or another driver operating your car causes to another vehicle or other property, such as a fence, building or utility pole.

In addition, many states require that you carry:

- Medical payments or personal injury protection (PIP), which provides reimbursement for medical expenses for injuries to you or your passengers. It will also cover lost wages and other related expenses.
- Uninsured motorist coverage reimburses you when an accident is caused by a driver who does not have auto insurance? or in the case of a hit-and-run. You can also purchase *under* insured motorist coverage, which will cover costs when another driver lacks adequate coverage to pay the costs of a serious accident.

Even if PIP and uninsured motorist coverage are optional in your state, consider adding them to your policy for greater financial protection.

## What other types of auto insurance coverage are typical?

While most basic, legally mandated auto insurance covers the damage your car causes, it does *not*cover damage to your own car. To cover your own car, you should consider these optional coverages:

- Collision reimburses you for damage to your car that occurs as a result of a collision with another vehicle or other object?e.g., a tree or guardrail?when you?re at fault. While collision coverage will not reimburse you for mechanical failure or normal wear-and-tear on your car, it will cover damage from potholes or from rolling your car.
- Comprehensive provides coverage against theft and damage caused by an incident other than a collision, such as fire, flood, vandalism, hail, falling rocks or trees and other hazards?even getting hit by an asteroid!
- Glass Coverage provides coverage from windshield damage, which is common. Some auto policies include no-deductible glass coverage, which also includes side windows, rear windows and glass sunroofs. Or you can buy supplemental glass coverage.

### What is gap insurance and do I need it?

Collision and comprehensive only cover the market value of your car, not what you paid for it?and new cars depreciate quickly. If your car is totaled or stolen, there may be a ?gap? between what you owe on the vehicle and your insurance coverage. To cover this, you may want to look into purchasing gap insurance to pay the difference. Note that for leased vehicles, gap coverage is usually rolled into your lease payments.

**Next steps:** Check out this handy infographic on the types of required and optional drivers insurance coverages.

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