



PulsePoints: Home and Auto Insurance

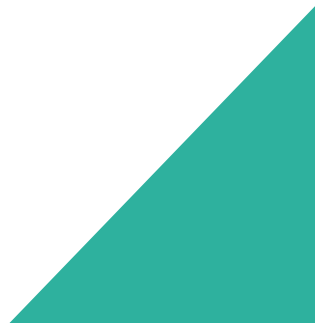
# What homeowners, renters and drivers know—and ought to know

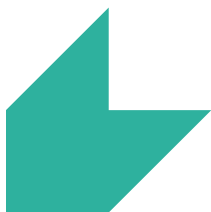
*December 15, 2015*



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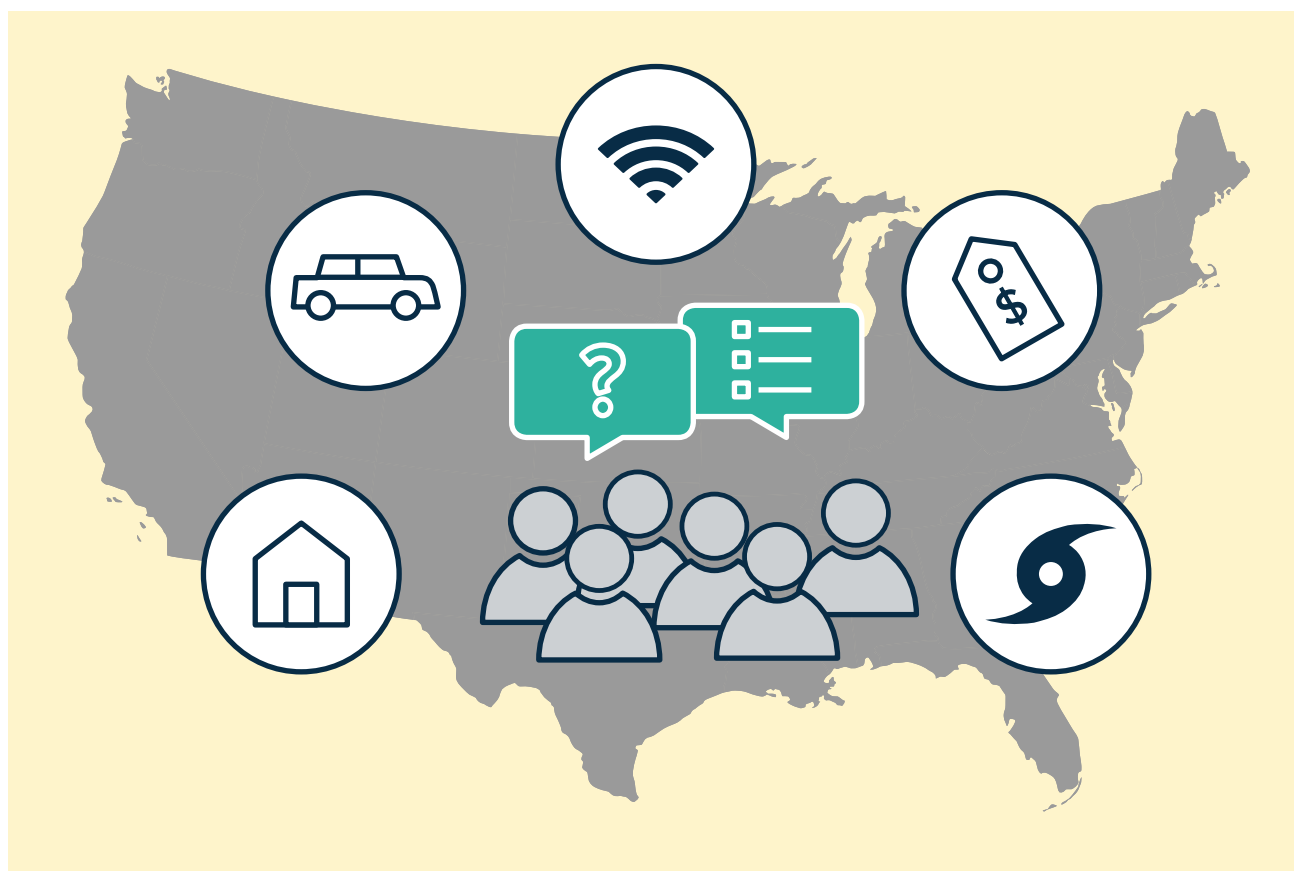
# The Takeaway: Key PulsePoints

For many Americans, their home is their largest investment. But, according to the Insurance Information Institute's (I.I.I.) annual *Pulse Survey*\*, understanding some key aspects of homeowners insurance remains a challenge.

In *PulsePoints: Home and Auto Insurance*, we present findings from a survey of more than 1,000 adults in the United States. We asked homeowners specific questions about their insurance and the protective measures they took to prepare for a catastrophe. In this poll, we also surveyed Americans' sentiments

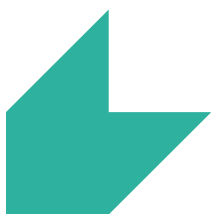
about emerging technologies that could affect their insurance needs and pricing (e.g., telematics devices and self-driving cars).

Answers reveal a wide range of results that point to some interesting (and sometimes surprising) facts and trends, including: that insurers can improve how they engage consumers in helping them to better understand the details of their insurance policies; and that many Americans are quite accepting of emerging, even disruptive, technologies.

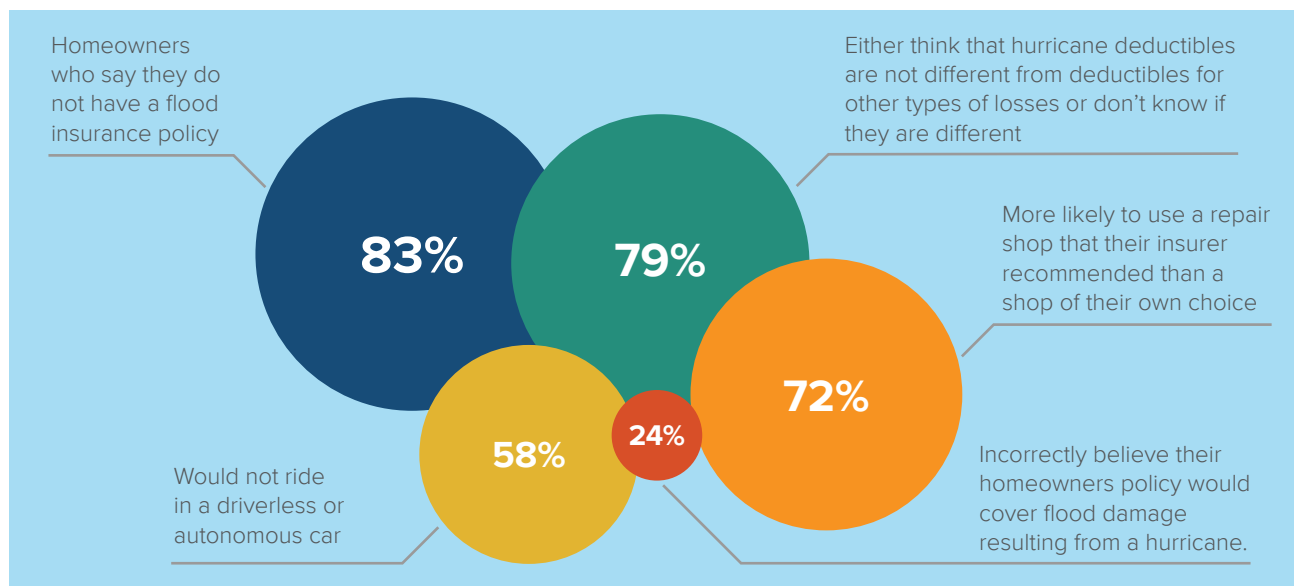


\*See Appendix 1 for full text of *Pulse* poll questions.





## Key Findings From the I.I.I. Pulse Survey



In spite of ongoing efforts to inform and educate consumers, many still find aspects of the insurance contract puzzling, including:

- How their insurance company calculates the cost to replace their home should it be destroyed.
- That they have a separate hurricane deductible.
- That there are separate homeowners insurance and flood insurance policies—and that these policies offer two fundamentally different coverages.

Americans have limits to what they will do to protect their dwellings. Only a minority surveyed:

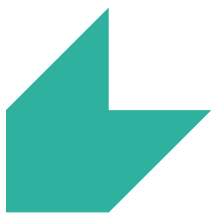
- Have earthquake or flood protection.
- Have taken steps to protect their homes from a natural disaster.

Consumers are mostly open to emerging technologies with one key exception: A majority won't set foot in a self-driving car.

Americans generally approve of insurance practices in repairing automobiles:

- Most indicate they are open to the use of generic parts for auto repairs, regardless of whether they are paying for the part out-of-pocket or an insurer is paying for it as part of a claim settlement.
- Most say they would welcome an insurer's recommendation of which body shop to use.

**Consumers are mostly open to emerging technologies—with one key exception: A majority won't set foot in a self-driving car!**



# I. How Well Do We Understand Our Homeowners Insurance Coverage?

What do homeowners understand—and what don't they “get”—about their policy? There are several areas of the insurance contract that remain unclear to a significant segment of consumers. The I.I.I. *Pulse Survey* focused on a few key points:

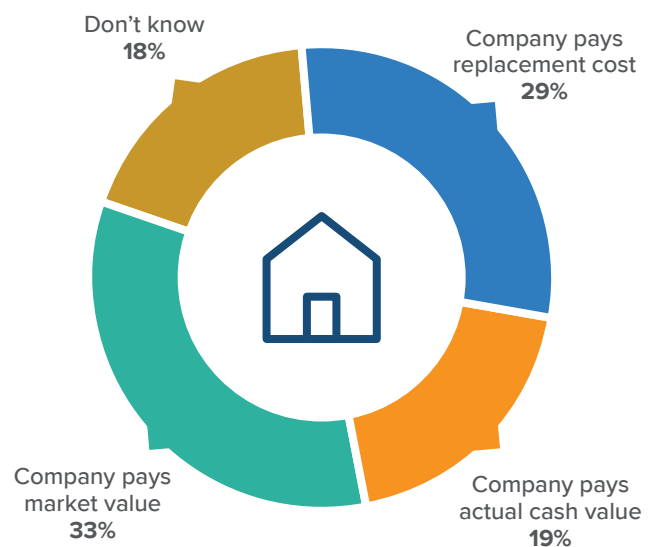
## 1. Insuring to Rebuild/Replace: Getting Coverage Amounts Right

More than 50 percent of homeowners surveyed were unfamiliar with how their insurance company would calculate the cost to replace their home should it be destroyed (**Fig. 1**):

- 29 percent responded that their insurer would base the payout on the replacement cost of the structure; 19 percent believed that the actual cash value would be used. (Fact: Either of these choices could be correct, depending on the terms of the policy.)
- However, slightly more than half did not know. 33 percent said the insurer would use the home's market value (fact: this is never true). Another 18 percent responded that they had no idea what the insurer would do.

Fig. 1

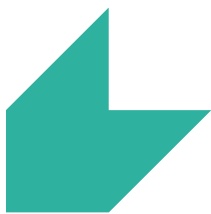
### How is your insurance claim calculated?



**Replacement cost:** Insurance that pays the full dollar amount to replace damaged property, up to the policy limit, without deducting for depreciation.

**Actual cash value:** Insurance that pays damages equal to the replacement value of damaged property minus depreciation.

Only 21 percent of homeowners were aware that they had a separate hurricane deductible.



## 2. Coverage for Natural Disasters: What's Covered, What's Not

### Deductibles (Fig. 2)

- Nearly four out of five respondents either did not understand that their hurricane deductible was different from deductibles applied to other types of losses (such as fire or theft) or did not know whether it was different.
- Only 21 percent of homeowners were aware that they had a separate hurricane deductible.
- In the South, the percentage of homeowners who knew hurricane deductibles differ from those for other perils was only slightly higher (27 percent) despite the fact the region has experienced many of the nation's most devastating hurricanes—from Andrew to Hugo to Katrina.

### Additional Living Expenses

Many of the homeowners surveyed were uncertain



**Deductible:** The amount of a loss paid by the policyholder.

**Hurricane deductible:** A deductible that applies solely to damage from a hurricane; generally calculated as a percentage of the insured value of a home.

**Additional living expenses:** Part of a standard homeowners policy that pays the additional costs of living away from home if the policyholder cannot live there due to damage from an insured disaster.

Fig. 2

### Hurricane deductibles

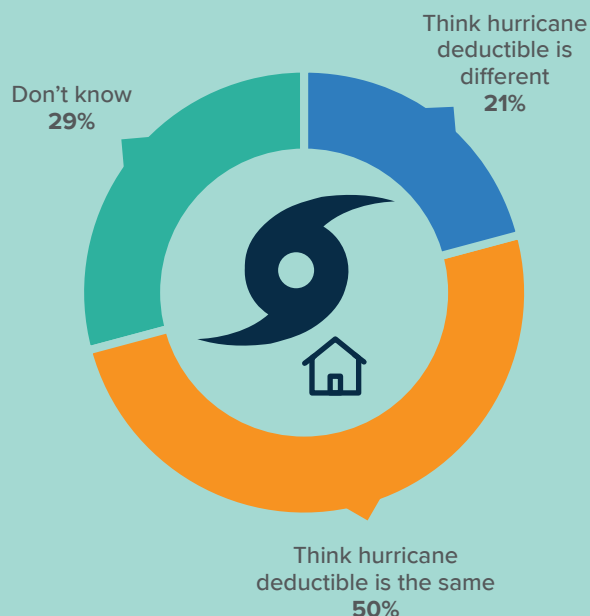
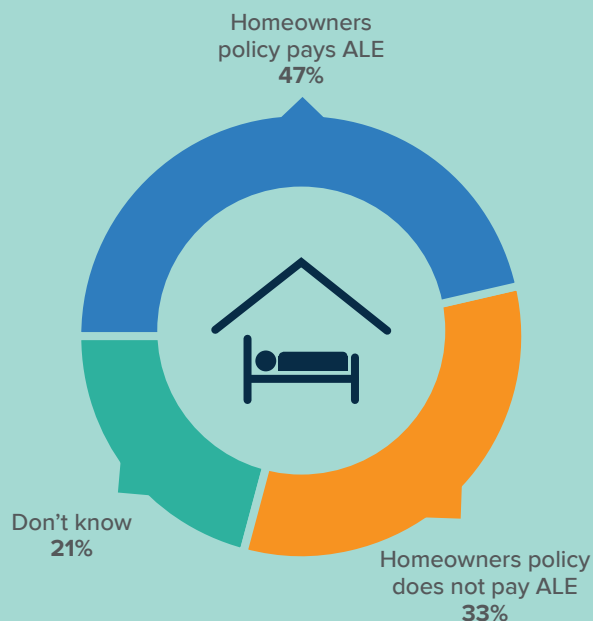
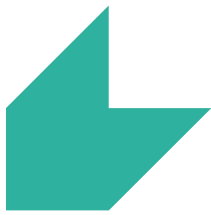


Fig. 3

### Additional living expenses (ALE)





whether their insurance policy would pay for the cost of living away from their home if it were severely damaged and needed to be rebuilt after a loss (**Fig. 3**).

- One-third of respondents said their policy would *not* cover such costs;
- Nearly half—47 percent—answered that their policy would pay such expenses;
- 21 percent did not know;
- Homeowners in the South (53 percent) and Northeast (52 percent) were the most likely to think their homeowners insurance would cover additional living expenses.

### Flood Insurance

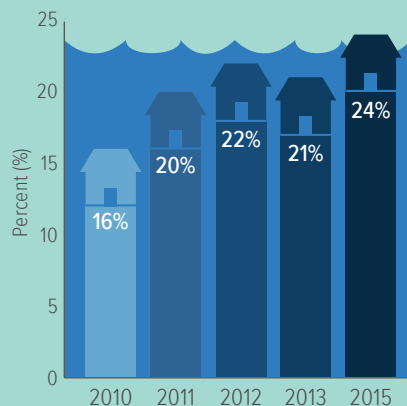
For many homeowners, the distinctions between homeowners insurance and flood insurance remain unclear.

- Nearly one-quarter of homeowners (24 percent) incorrectly thought their homeowners policy would cover flood damage resulting from a hurricane—that's the highest proportion since 2010 (**Fig. 4.1**). An additional 19 percent said they did not know.
- 56 percent of respondents were aware their homeowners policy did not cover damage from flooding during a hurricane—curiously, those in hurricane prone regions were the *most* likely to answer incorrectly (**Fig. 4.2**):
  - In the South, 34 percent of respondents wrongly believed flood damage was covered by their homeowners policy.
  - In the Northeast—hit hard by superstorm Sandy just three years ago—the proportion was 30 percent.

## Hurricane-caused flood damage

Fig. 4.1

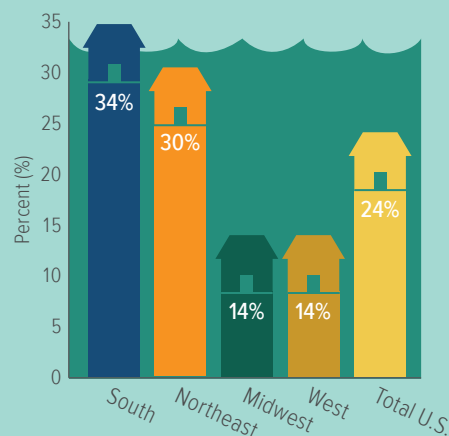
**Believe homeowners insurance covers flood damage, 2010–2015\***



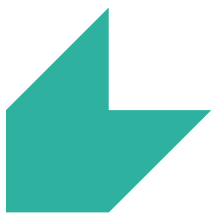
\*Question not asked in 2014.

Fig. 4.2

**Believe homeowners insurance covers flood damage, by region**



**Coverage for flood:** Standard homeowners policies do not cover flood damage. For the most part, consumers must get flood insurance from the National Flood Insurance Program.



## II. How Well Do We Manage Our Own Risk?

What actions are homeowners willing or able to take to protect their homes and belongings? They will do some things, according to the I.I.I. *Pulse Survey*, but there were notable limits and exceptions.

### 1. Flood Insurance: Same Dwelling, Separate Coverage

Despite the fact that flooding is the most common and costly natural disaster in the United States, 83 percent of U.S. homeowners said they did not have a flood insurance policy. Only 14 percent of U.S. homeowners said they had such a policy—a statistic that has remained fairly consistent in recent years, in spite of major events affecting coastal and inland areas from New England to Texas (**Fig. 5.1**).

- The South had the highest proportion of homeowners with a flood policy: 21 percent (**Fig. 5.2**).
- In the Northeast, 11 percent had a policy, followed by 10 percent in the Midwest; and 9 percent in the West.



### Flood insurance take-up

Fig. 5.1

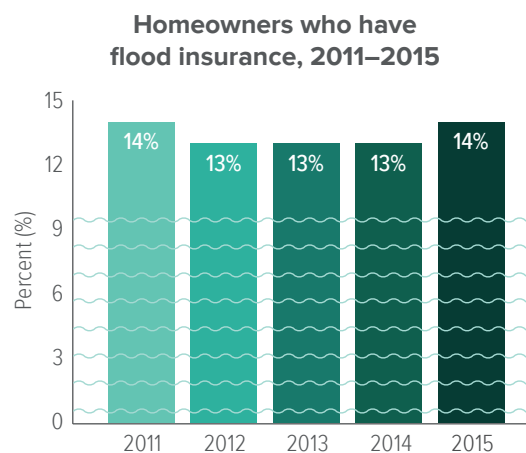
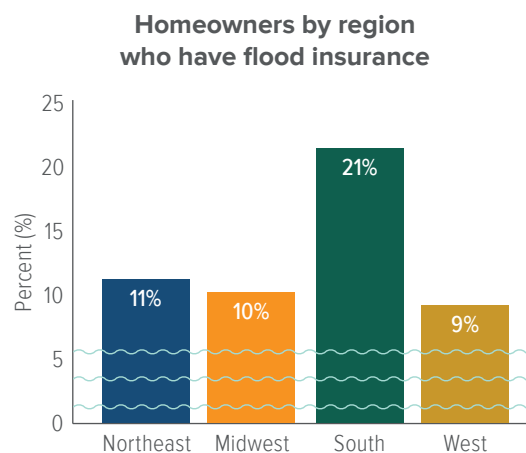
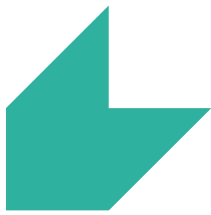


Fig. 5.2







## 2. Earthquake Insurance: Essential...to a Fault

- One out of 10 homeowners said they had coverage for damage from an earthquake.
- That number was greatest in the earthquake-prone West, where 18 percent of homeowners said they had purchased separate earthquake insurance coverage (Fig. 6).

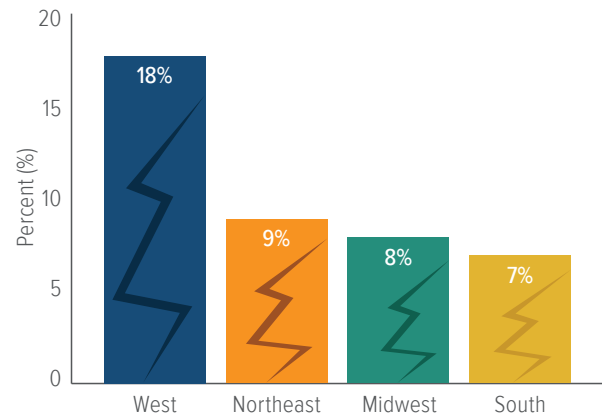


### **Earthquake protection:**

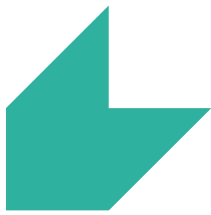
Standard homeowners policies do not cover earthquake damage. Consumers can either buy a separate policy or an endorsement.

Fig. 6

### **Consumers who have earthquake coverage, by region**







### 3. Renters Insurance: Rent the Home; Own the Coverage

While nearly all U.S. homeowners had homeowners insurance, only two out of five renters had renters insurance. However, that proportion is gradually increasing.

- Of the respondents who owned their homes, 95 percent reported having homeowners insurance, while 40 percent of those who rented had renters insurance (**Fig. 7.1**).
- The percentage of Americans with renters insurance has been on the rise since the first time *Pulse Survey* posed the question in 2011, when 29 percent reported having the coverage.

- The percentage was highest in the Midwest and the South, where 47 percent had renters insurance.
- Older renters were more likely to have renters insurance. Of renters 65 and older, 52 percent had renters insurance (**Fig. 7.2**). For younger renters, the percentage fluctuated around 40 percent.



**Renters insurance:** Provides those who rent a home with coverage for theft of or damage to their possessions as well as liability protection.

Fig. 7.1

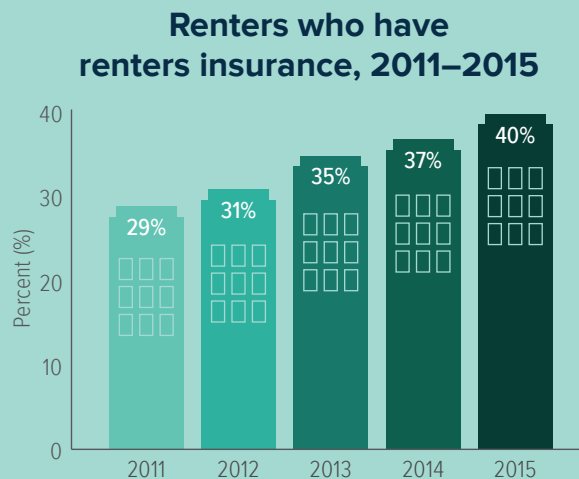
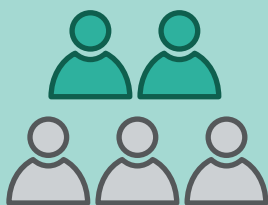
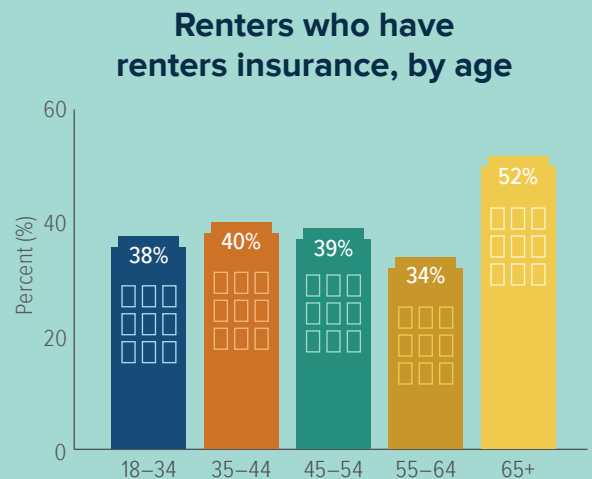
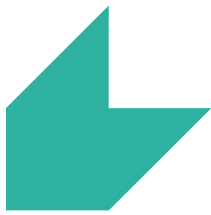


Fig. 7.2



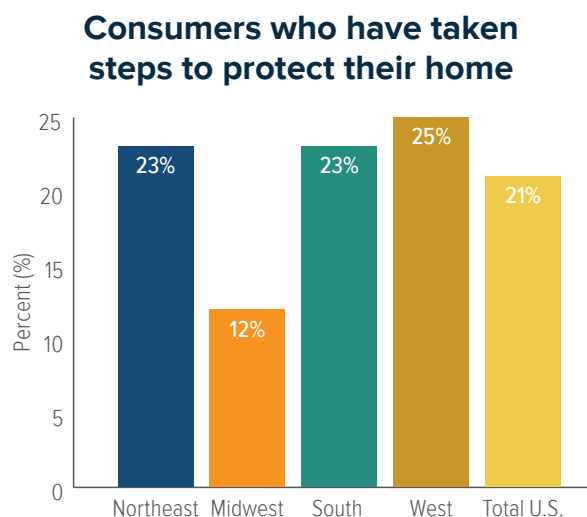
Only two out of five U.S. renters have renters insurance.



## 4. Mitigation Against Natural Disasters: Preventive Measures All Can Take (but Not All Do)

About one out of five Americans said they had taken steps to protect their home from a natural disaster. Fewer than half of those who said they had not made such improvements thought it would be too expensive, while about a third were unsure of what steps they needed to take.

Fig. 8



- Residents in the West were the most likely to say they have made improvements to their home to strengthen it against a natural disaster: 25 percent (Fig. 8).
- In both the Northeast and the South, 23 percent said they had made home improvements. In the Midwest, 12 percent reported that they had taken such steps.
- Of the 77 percent of respondents who said they had not made improvements, 42 percent thought it would be too expensive; 34 percent were unsure what steps to take; 33 percent said they needed

more information; 22 percent said it would be too difficult; and 32 percent thought that none of these answers applied to them. (Respondents could select more than one answer.)

## 5. Impact of Seasonal Hurricane Forecasts: Do People Listen (and How Do They React)?

Each year, before the hurricane season starts on June 1, scientists at the National Oceanic and Atmospheric Administration (NOAA), Colorado State University and other research organizations release forecasts for the upcoming hurricane season.

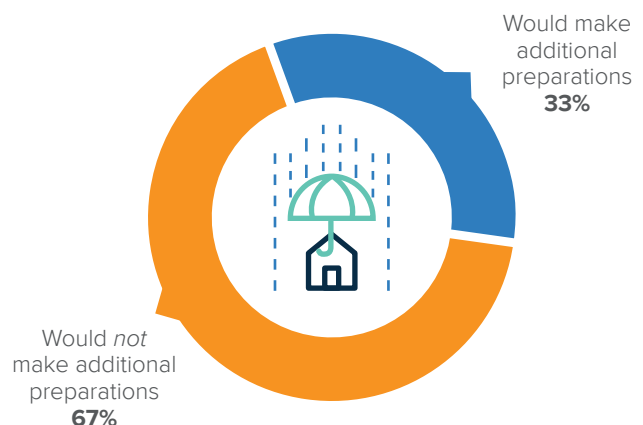
The I.I.I. *Pulse Survey* found that:

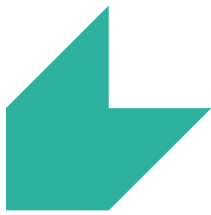
- 67 percent of residents in hurricane-prone areas who had heard seasonal hurricane forecasts would *not* make additional preparations if a worse-than-normal hurricane season were forecast (Fig. 9).
- One-third said they would take additional preparedness measures.

Fig. 9

### Preparing for hurricane season

**If a worse-than-normal hurricane season is forecast...**





## 6. Maintaining a Home Inventory: Knowing What Would Need to Be Replaced

About half of American homeowners (52 percent) said they had an inventory of their possessions to help document losses in case of a disaster—an increase of 4 percentage points from a year ago.

- Home inventories were more common in the South (57 percent) and the Northeast (56 percent—up sharply from 45 percent in 2014) (Fig. 10).
- In the West, 50 percent of respondents had a home inventory—up 10 percentage points from a year ago.



**Home inventory:** It is important to have an inventory of your possessions. It can also help you buy the right amount of insurance before a disaster. If disaster strikes, the inventory can help your insurance claim settle faster. It also helps verify any losses for your tax return.

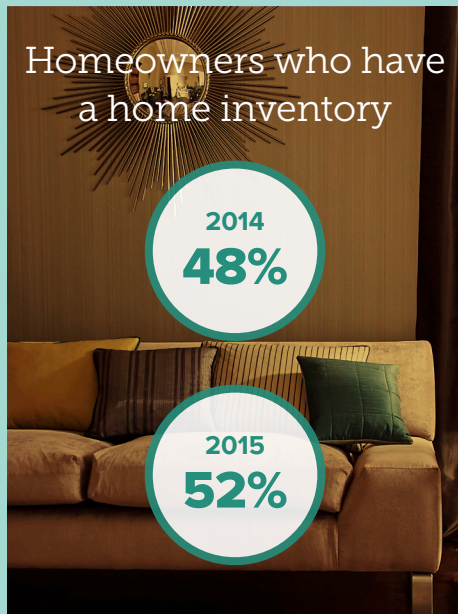
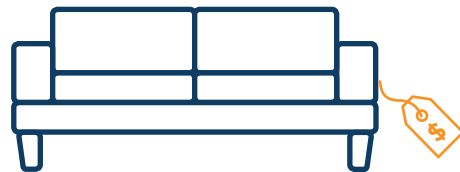
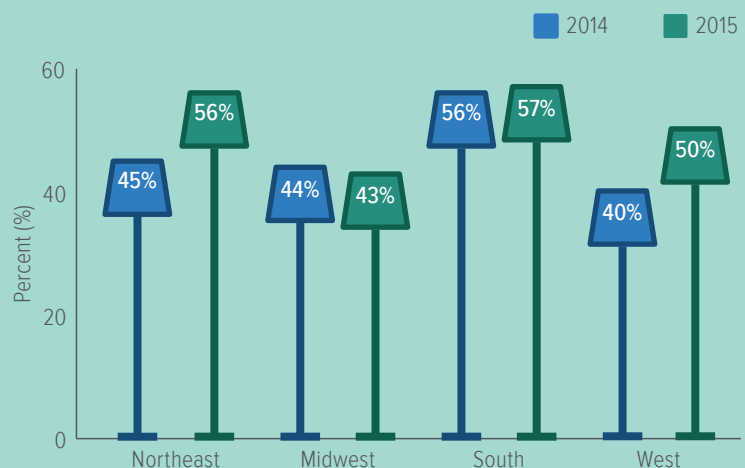
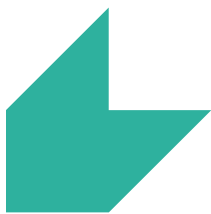


Fig. 10

### Homeowners who have a home inventory, by region, 2014–2015





## III. Views on Emerging Technologies and Other Issues

Emerging technologies such as telematics—in-vehicle devices that capture and report data—and self-driving cars are gradually changing the world of auto insurance. The I.I.I. *Pulse Survey* asked how respondents felt about these technologies.

### 1. Self-driving Cars: Stop...Then Go

Several manufacturers have announced plans to develop self-driving cars over the next 10 years. However, nearly three out of five people—58 percent—said they would *not* ride in a driverless car (**Fig. 11.1**).

- Resistance to driverless cars was highest among older respondents (**Fig. 11.2**). People over the age of 64 were the most likely to say they would not ride in a driverless car (70 percent) followed by people between the ages of 55 and 64 (66 percent).

- This proportion declined by age: Of those ages 18 to 34, only 44 percent would not ride in a driverless car.
- When viewed by household income, households earning between \$35,000 to under \$50,000 were the least likely to be willing to ride in a driverless car: 70 percent (**Fig. 11.3**).



**Self-driving cars:** Also known as driverless or autonomous cars, self-driving cars are controlled by computers and GPS.

**Telematics,** pay-as-you-drive and usage-based insurance are all terms used for programs that offer drivers the option of having premiums tailored to their individual driving patterns, based on information collected through a device linked to the policyholder's vehicle.

### Would you be willing to ride in a driverless car?

Fig. 11.1

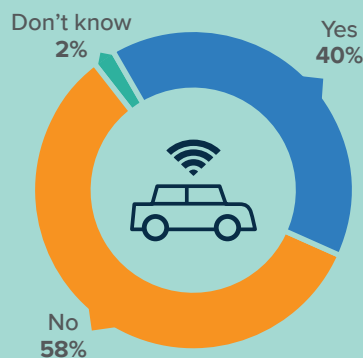


Fig. 11.2

Respondents by age range answering "no"

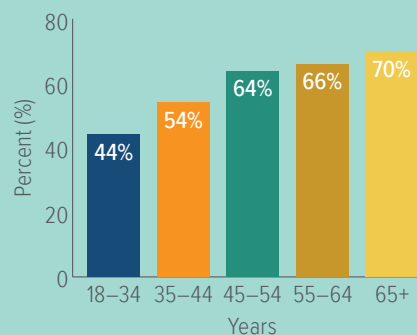
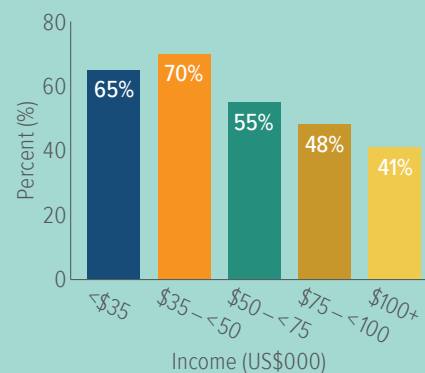
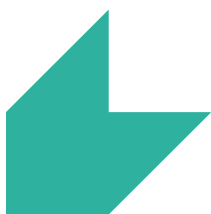


Fig. 11.3

Respondents by income range answering "no"





## If you owned a car that was completely self-driving, what do you think would happen to your insurance premiums?

Fig. 12.1

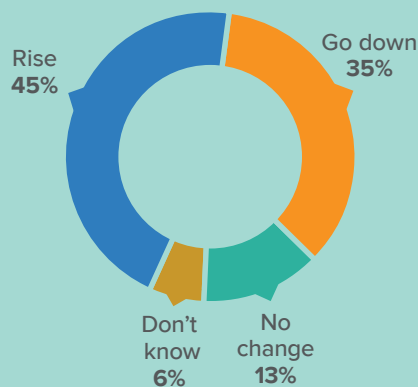


Fig. 12.2

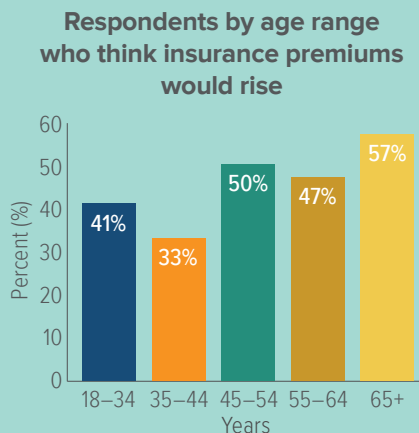
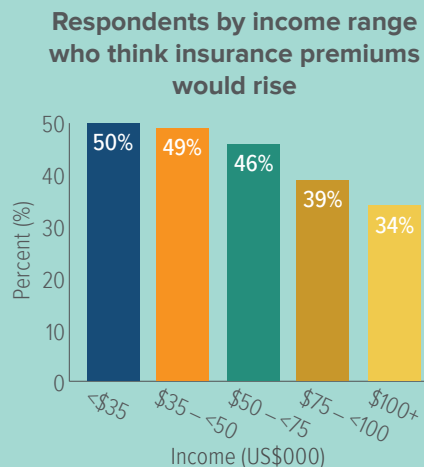


Fig. 12.3



Certain segments among *Pulse Survey* respondents believe that the cost of their auto insurance would go up if they owned a self-driving car (Fig. 12.1).

- Older respondents, age 65 or older, and respondents earning less than \$35,000 were most likely to think their auto insurance premiums would rise—57 percent and 50 percent, respectively (Figs. 12.2 and 12.3).
- 35 percent of respondents thought their premiums would go down if they owned a self-driving car.

## 2. Telematics and Information Sharing: Yes, but How Much Is Too Much?

The survey found that more than half of auto insurance policyholders (56 percent) would be willing to allow their insurer to install a device in their vehicle to collect their driving information in order to set premiums (Fig. 13).

- 39 percent of policyholders would allow insurers to collect information about their driving behavior *only* if assured that their insurance premium would go down.

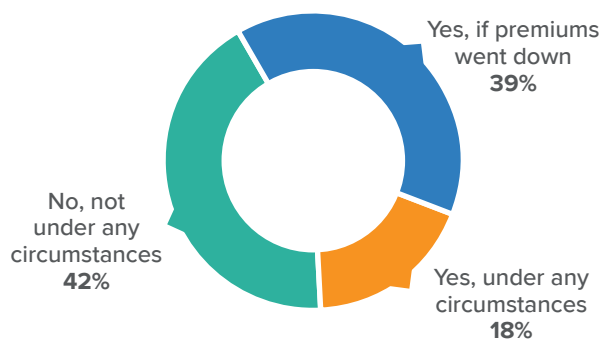
- 42 percent of insured drivers would not allow the collection of driving data under any circumstance.

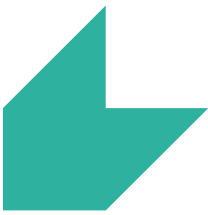
Younger respondents were more likely to be comfortable sharing their driving data with their insurer.

- 61 percent of insured motorists between the ages of 18 and 34 would agree to allow insurers to collect information about their driving habits.

Fig. 13

## Willingness to allow collection of personal driving information to set premiums





**Crash parts** are those most frequently damaged in auto accidents, generally limited to the cosmetic parts of the car such as fenders, hoods and door panels.

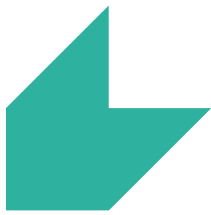
### 3. Insurer Recommended Auto Repair Solutions: Choices and Consumers

Some auto insurance companies offer their policyholders a choice between generic and original equipment manufacturer (OEM) replacement crash parts when repairing a damaged vehicle. The *Pulse Survey* asked how consumers felt about using the less expensive generic crash parts for repairs.

- Almost three-quarters of policyholders (74 percent) would consider using generic crash parts if they were paying for vehicle damage themselves (**Fig. 14.1**).
- Almost two-thirds (64 percent) would agree to use generic crash parts if their insurer were paying for repairs (**Fig. 14.2**).
- The policyholders most likely to consider using generic crash parts when paying out-of-pocket earned between \$50,000 and \$75,000—82 percent. They were closely followed by those earning \$35,000 to \$50,000 and residents of the West, 81 percent of whom were favorable toward using generic crash parts in out-of-pocket repairs.

Insurance businesses' practice of offering direct repair programs to policyholders (to provide their customers easy access to a network of recommended auto repair shops) met with strong general approval. Almost four out of five policyholders (79 percent) said they wanted their insurer to recommend an auto repair shop (**Fig. 15.1**).

- If offered the choice between a repair shop of their own choice or an insurer recommended shop, 72 percent said they were more likely to use the recommended shop (**Fig. 15.2**).
- Respondents living in the Northeast and those earning \$100,000 or more were more likely to say they would use an insurer-recommended shop (77 percent) along with those age 18 to 34 and those earning \$35,000 to under \$50,000—76 percent of whom responded positively toward using a recommended repair shop.



## Using generic crash parts for auto repairs

Fig. 14.1

Would use if paying out-of-pocket

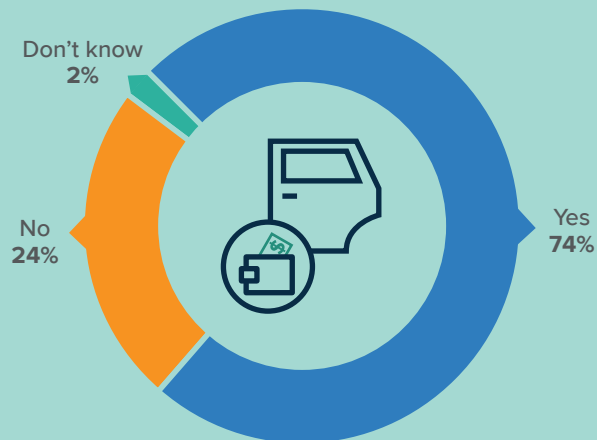
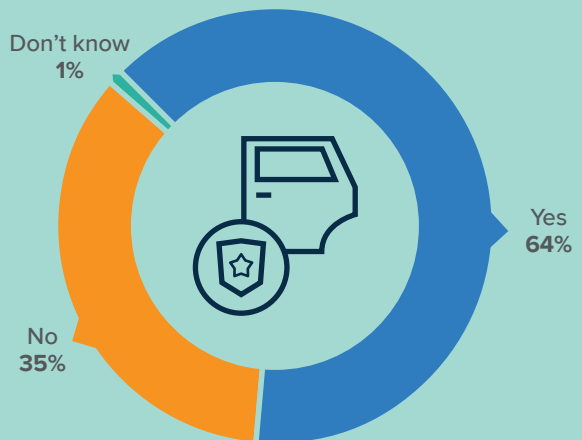


Fig. 14.2

Would use if insurance company were paying



## Using insurer recommended auto repair shops

Fig. 15.1

Want insurer to recommend a repair shop

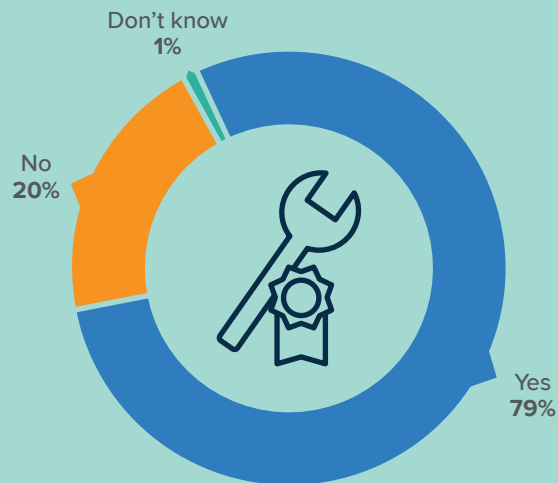
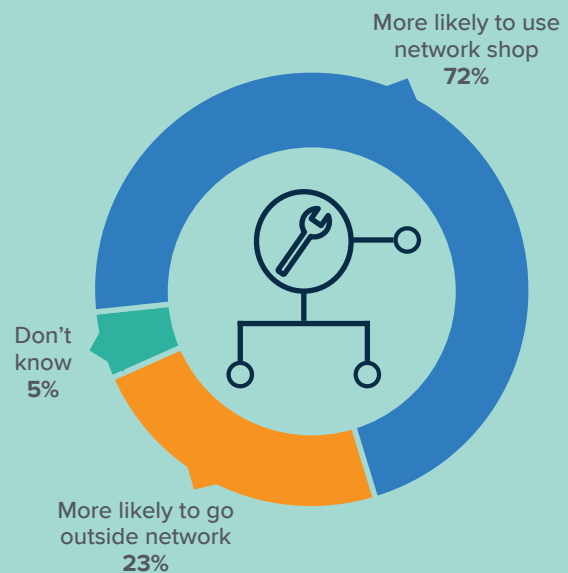
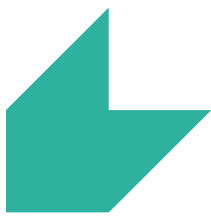


Fig. 15.2

Likelihood of using an insurer-recommended repair shop







# Conclusions

The I.I.I. *Pulse Survey* research suggests there is work to be done both in educating consumers about the role of insurance and in mitigating risk, particularly when it comes to hurricane, flood and earthquake damage. While the insurance community can take

steps to inform and instruct their customers, policy-holders can, and should, also take steps to educate themselves so that they can make the best coverage and preparedness choices for their needs and budget.

## Consumers can:



**Seek out reliable sources of information online**, such as the Insurance Information Institute's website, [www.iii.org](http://www.iii.org).



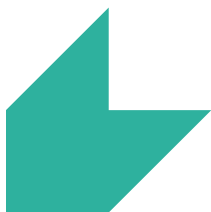
**Schedule an appointment with their insurance professional** to review coverage and ask specific questions about their policies.



**Create a home inventory.** Free from I.I.I., the Know Your Stuff Home™ Inventory Tool enables users to create, manage and safely store photographic home inventories. Available at: [www.knowyourstuff.org](http://www.knowyourstuff.org).



**Research** how they can better protect their dwellings and belongings and how much those steps might cost. Information available from FLASH ([www.flash.org](http://www.flash.org)) and IBHS ([www.disastersafety.org](http://www.disastersafety.org)).



## Methodology

This report presents the findings of a telephone survey conducted among two national probability samples, which, when combined, consists of 1,015 adults 18 years of age and older, living in the continental United States. Interviewing for this survey was completed between May 7 and May 10, 2015. The landline sample yielded 514 interviews, and the cellphone sample yielded 501 interviews. For the overall sample, the margin of error is plus or minus 3 percentage points at the 95 percent confidence level. Percentages may not add up to 100 percent due to rounding into whole numbers, respondents answering “don’t know” or because of questions where multiple responses are allowed.

## Geographic Regions

The continental states are contained in four geographic regions as follows:

### Northeast

- **New England:** Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut
- **Middle Atlantic:** New York, New Jersey, Pennsylvania



### Midwest

- **East North Central:** Ohio, Indiana, Illinois, Michigan, Wisconsin
- **West North Central:** Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas



### South

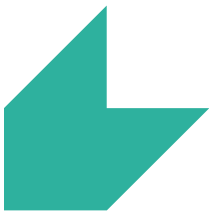
- **South Atlantic:** Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida
- **East South Central:** Kentucky, Tennessee, Alabama, Mississippi
- **West South Central:** Arkansas, Louisiana, Oklahoma, Texas



### West

- **Mountain:** Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada
- **Pacific:** Washington, Oregon, California

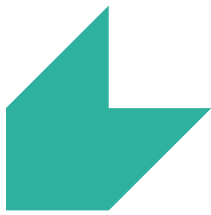




## Appendix 1

### Pulse Poll Questions

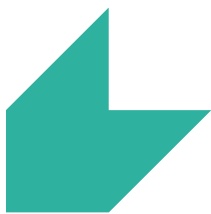
1. If you make a claim under your homeowners policy, what will your insurance company pay to replace your destroyed home and property? Would you say... *(asked of respondents who have homeowners insurance)*
  - The replacement cost, which is what you would pay for the items at today's cost
  - The actual cash value, which is what you would pay for the items at today's cost, minus depreciation
  - Or, the market value of your home, which is the price you would pay to buy a similar house on the real estate market today
  - Don't know
2. Is your deductible for hurricane damage different from the deductible for other kinds of losses? *(asked of respondents who have homeowners insurance)*
  - Yes
  - No
  - Don't know
3. Does your homeowners policy cover the cost of living away from home if you are unable to live in your home while it is being rebuilt after a hurricane? *(asked of respondents who have homeowners insurance)*
  - Yes
  - No
  - Don't know
4. Does your homeowners policy cover damage from flooding during a hurricane? *(asked of respondents who have homeowners insurance)*
  - Yes
  - No
  - Don't know
5. Do you have a separate flood insurance policy? *(asked of respondents who have homeowners insurance)*
  - Yes
  - No
  - Don't know



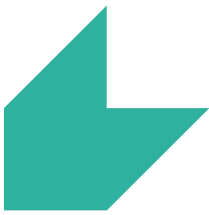
6. Standard homeowners insurance policies do not cover damage from earthquakes. Coverage is available either in the form of an endorsement or as a separate policy. Do you have earthquake coverage, either as an endorsement or as a separate policy? *(asked of respondents who have homeowners insurance)*
  - Yes
  - No
  - Don't know
7. Renters insurance provides renters with financial protection against the loss or theft or destruction of your possessions when you rent an apartment or a house. For example, renters insurance would cover you if you had a loss because of a burglary or fire.

It also covers your responsibility to other people who are injured in your home and for living expenses if you can't live in your apartment because of a fire or other event. Do you have renters insurance? *(asked of respondents who rent their home)*

  - Yes
  - No
  - Don't know
8. There have been a number of catastrophic natural disasters in recent years. Have you taken any steps to better protect your home from any kind of natural disaster?
  - Yes
  - No
  - Don't know
9. If an above-average hurricane season is forecast, do you prepare your home... *(asked of respondents who have heard hurricane forecasts)*
  - More
  - Less
  - Or, about the same
  - Don't know
10. Do you have an inventory of your possessions to help document losses to your insurer in case of a disaster? *(asked of respondents who have homeowners insurance)*
  - Yes
  - No
  - Don't know



11. Would you be willing to ride in a driverless car?
- Yes
  - No
  - Don't know
12. If you owned a car that was completely self-driving, what do you think would happen to your insurance premiums? Would they...
- Rise
  - Not change
  - Go down 25% or less
  - Go down more than 25%, but less than 50%
  - Or, go down 50% or more
  - Don't know
13. As you may know, some people with auto insurance have agreed to have their insurer install a device in their car that records how and when the car is driven. The information helps the insurer determine the auto insurance premium. Insurers that offer these devices say that a policyholder's premium would be lowered if the device indicated good driving.
- I'm going to ask you a question about your opinion of insurance companies collecting information about how and when you drive in order to set your auto insurance premium. Please tell me which statement you agree with. Would you... *(Asked of respondents who have auto insurance)*
- Allow your insurer to collect this information only if you were assured that your premium would go down
  - Allow your insurer to collect this information whether or not your premium went down
  - Or, you would not agree to allow your insurer to collect this information
  - Don't know
- 14.1. If your vehicle was damaged and you had to pay out of your own pocket to repair it, would you consider using generic crash parts? *(Asked of respondents who have auto insurance)*
- Yes
  - No
  - Don't know
- 14.2. If your vehicle was damaged in an accident and insurance paid for repairs, would you agree to use generic crash parts? *(Asked of respondents who have auto insurance)*
- Yes
  - No
  - Don't know



15.1. If your vehicle was damaged in an accident, would you want your insurer to recommend an auto repair shop that it had checked out and guaranteed? *(Asked of respondents who have auto insurance)*

- Yes
- No
- Don't know

15.2. If your insurer recommended an auto repair shop within its guaranteed network, would you be more likely to use that shop or go to another shop outside the network? *(Asked of respondents who have auto insurance)*

- More likely to use shop in network
- More likely to go outside of network
- Don't know