INSURANCE INSIGHT INC

Debt protection increases confidence in American consumers

Debt across the United States is on the rise as Americans increase their spending and negative equity is higher than ever before.

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The debt landscape in the United States 2021

According to a recent study by CNBC, the average American has $90,460 in debt[1] – this includes all types of consumer debt products, from credit cards to personal loans, mortgages, and student debt. According to another study, Americans owe nearly $1.4 trillion in auto loan debt and the average monthly car payment in the U.S. is $563 for new vehicles, $397 for used vehicles and $450 for leased vehicles[2].

As debt grows across the United States, so does the national amount of negative equity. Negative equity occurs when the value of your vehicle falls below the outstanding balance on your auto loan. You can calculate negative equity by taking your vehicle's current market value and subtracting the remainder of your auto loan. If you are left with a negative value, that is the negative equity of your vehicle. Automotive debt is unique from other forms of debt because the value of a vehicle depreciates much quicker than the value of other assets. Unlike real estate, which generally appreciates in value over time, a vehicle will drop over 20% in value within the first 12 months[3].

As Americans take on more and more debt year after year, the need for consumers to make informed purchasing decisions increases exponentially. High-quality debt protection products are more relevant in today's automotive market than ever before.

We recently conducted an anonymous survey through a third party vendor of over 1,500 Americans who are in the market for a vehicle. This study outlines the results of that survey and provides comprehensive insights into their buying habits and what influences their decisions when it comes to automotive purchases.

[1] https://www.cnbc.com/select/average-american-debt-by-age/
[2] https://www.lendingtree.com/auto/debt-statistics/
[3] https://www.carfax.com/blog/car-depreciation

What works to combat negative equity

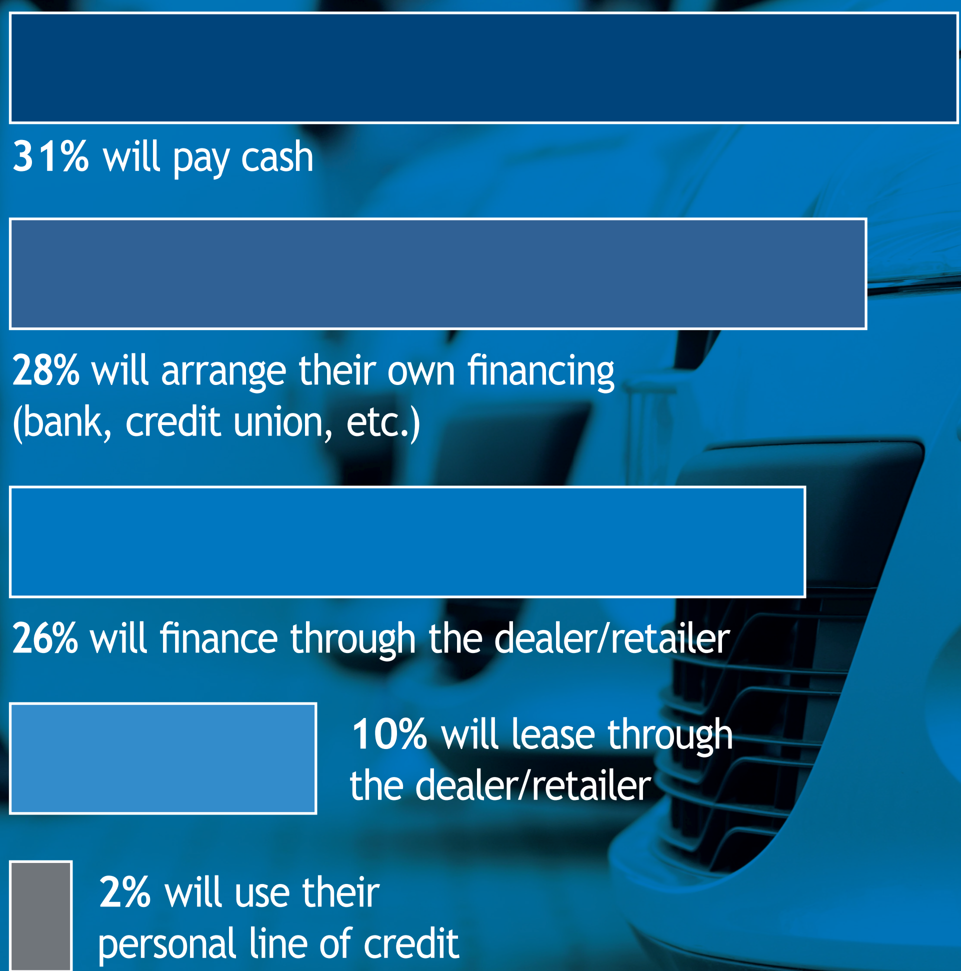
What a lot of consumers don’t consider when it comes to taking on additional automotive debt is the unexpected. Losing one’s job, facing unexpected financial strain, experiencing a healthcare crisis - these are not things one can plan for. When something unexpected happens, often the average consumer may no longer be able to afford their loan or lease payments.

Unless you own your vehicle outright, there are only two main options to avoid accumulating negative equity or being unable to afford your payments in the event of the unexpected: put more money down upfront or invest in high-quality debt protection

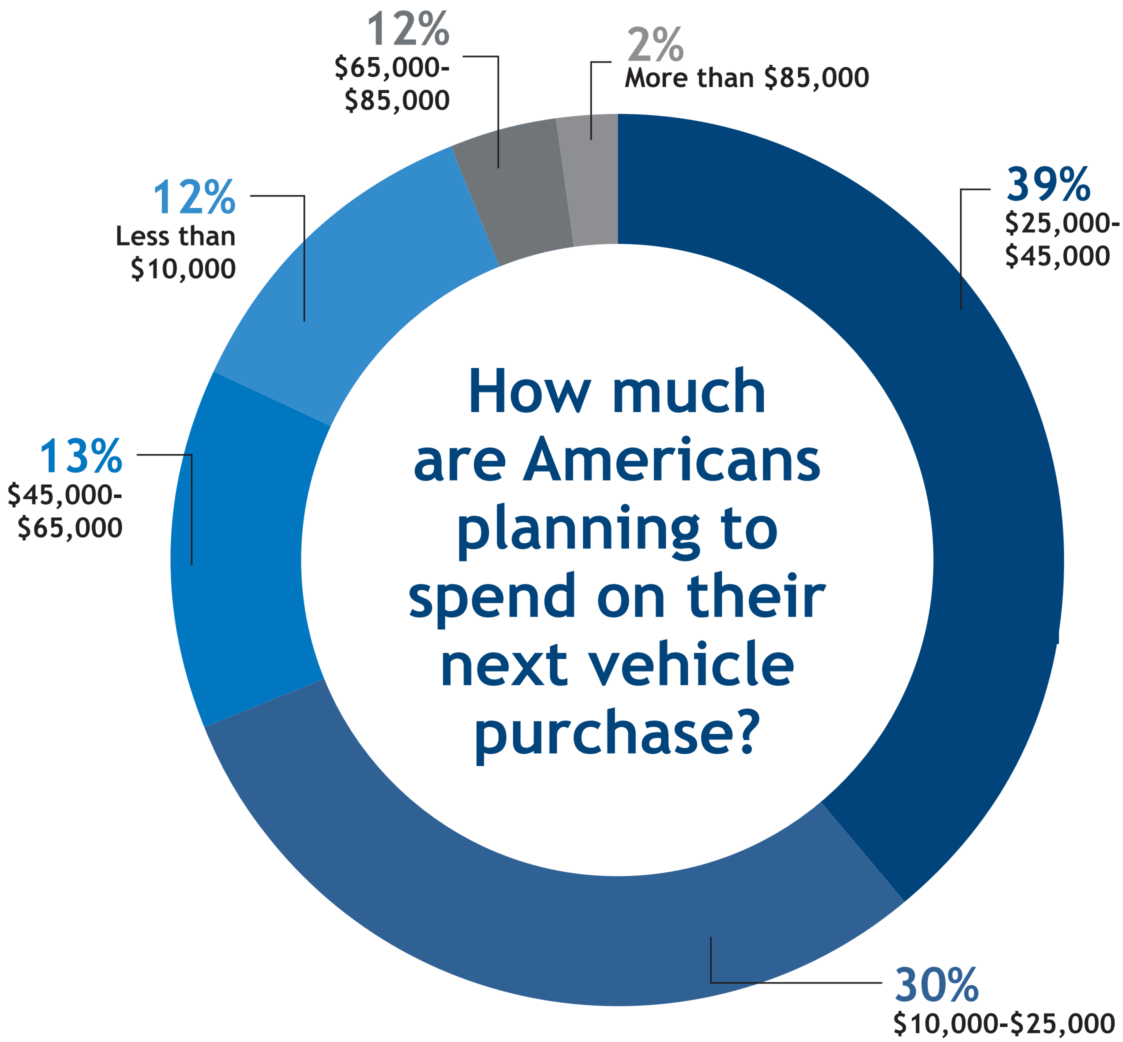
Even if you can’t afford to purchase a vehicle outright, you can significantly shorten the financing terms by putting more money down. Because manufacturers build cars to last longer than they did 20 years ago, if you can decrease your loan term to three or four years and drive your vehicle for seven to eight years, you will get the best value for your vehicle over the shortest time period.

However, for some Americans, putting down a lot of money may be unrealistic. Our recent market research shows that 56% of Americans in the market for a vehicle plan to finance their purchase either through the dealership, a bank or credit union, or their personal line of credit. In situations where you are financing the purchase of the vehicle, it’s important to consider purchasing a high-quality debt protection plan.

How are Americans purchasing their vehicles?



How much are Americans planning to spend on their next vehicle purchase?



Are Americans planning to purchase new or used vehicles?

When asked which brands consumers are considering, the top 5 choices were:

33% Toyota

20% Subaru

24% Honda

18% Chevrolet

21% Ford

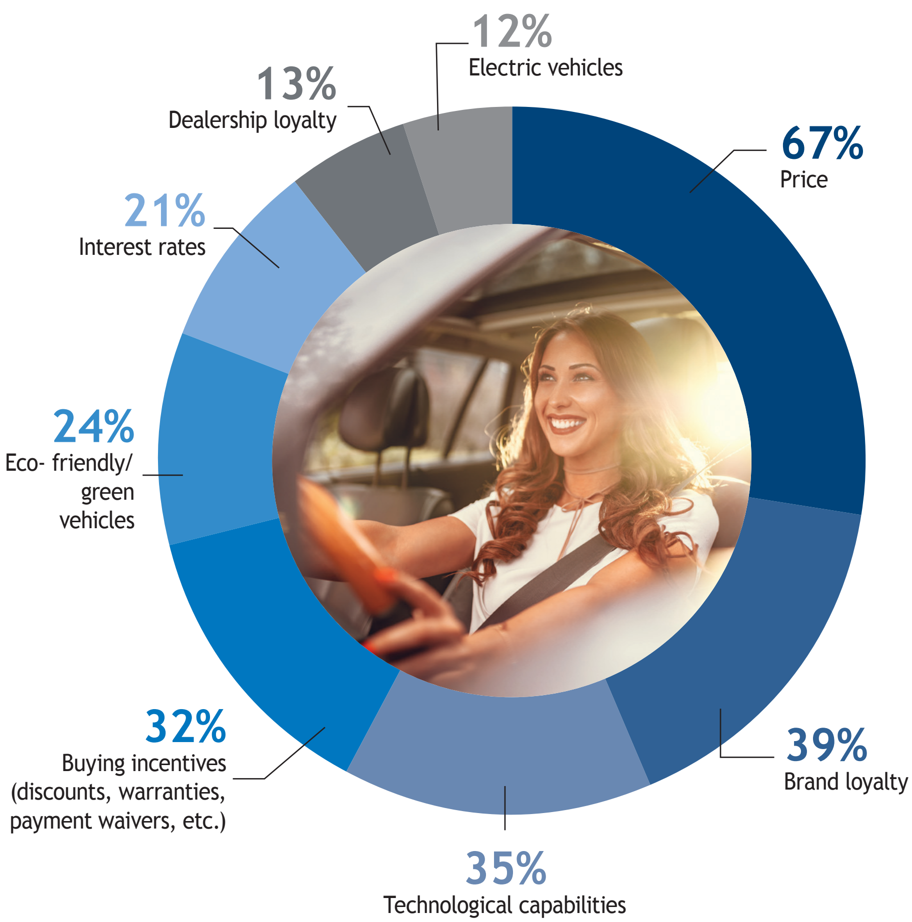
What influences consumers' automotive buying decisions

According to the Conference Board, consumer confidence has gone up 10 points from the end of 2020 leading into 2021[4]. And while many were affected by the pandemic financially, a study by McKinsey found that 86% of vaccinated Americans expect their finances will return to normal by the end of 2021[5].

But while Americans may be ready to spend money, they're facing an accelerated annual inflation rate of 5%[6], and 29% of Americans also say their debt has increased during the pandemic[7]. 42% want to replenish their emergency funds, and 44% say they need to increase the size of that emergency fund[8]. After a year and a half of uncertainty, consumers want to feel safe, secure, and confident in their spending.

[4] https://conference-board.org/data/bcicountry.cfm?cid=15
[5] hsps://www.forbes.com/sites/blakemorgan/2021/07/06/50-stats-about-post-covid-consumers/?sh=5655a92f1966
[6] https://tradingeconomics.com/united-states/inflation-cpi
[7] https://www.thebalance.com/half-of-americans-dont-have-usd250-to-spare-5120766
[8] https://www.forbes.com/sites/blakemorgan/2021/07/06/50-stats-about-post-covid-consumers/?sh=5655a92f1966

When asked which factors drive their final purchasing decisions:



It's interesting, although not surprising, that as respondents got older, the more they selected brand loyalty. The longer Americans have been driving, the more they grow attached to particular brands. The number of people who selected brand loyalty as a factor got progressively smaller in younger age groups.

Regardless of which concerns they have, what consumers are looking for is a safety net. Something that reassures them that as the world changes daily, they've properly protected their automotive investments from unforeseen challenges.

When we asked our respondents what factors are contributing to their concerns over their next vehicle purchases:

- **47%** The current/future state of the economy
- **23%** Their age
- **23%** Environmental impacts
- **16%** Credit score/ability to obtain financing
- **16%** Potential job loss
- **14%** Potential critical illness
- **13%** The COVID-19 pandemic
- **12%** Current health concerns
- **9%** Potential physical disability
- **2%** Potential bankruptcy

For older respondents (60 and up), age was the top concern, while younger respondents (18-29) were more concerned about the economy and environmental impacts. For respondents ages 30-44, the top concern was the economy, and their ability to obtain financing was second.

We asked consumers if they could purchase their vehicles knowing that they could return it should something unexpected happen, such as job loss, critical illness, or physical disability, would they feel more confident in their purchasing decisions:

74% agreed they would feel more confident with a vehicle return program.

The percentage that responded yes got considerably higher in younger age groups. 81% of respondents ages 18-29 would feel more confident with the option to return their vehicle. For respondents ages 30-44, it went up again to 85%.

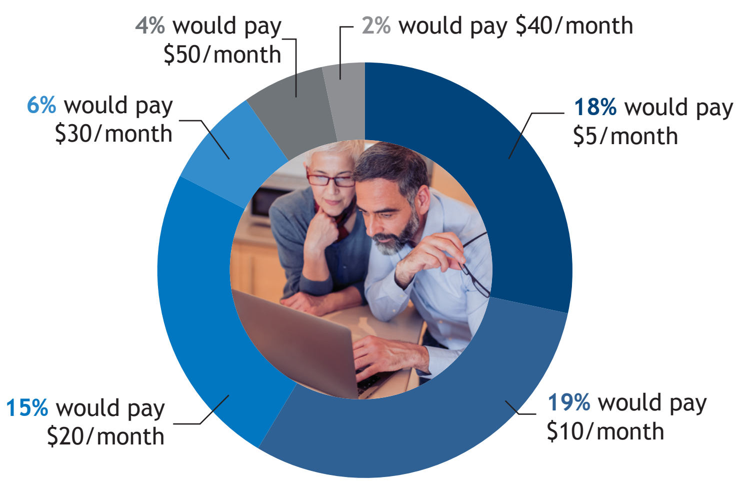
When we asked respondents if they could purchase their vehicle knowing that their monthly payments would be covered on their behalf should something unexpected happen, such as job loss, critical illness, or physical disability, would they feel more confident in their purchasing decisions:

74% once again agreed they would feel more confident with payment relief.

The percentage of respondents who said yes went up again in younger age groups. 85% of respondents ages 18-29 said yes, and 86% of respondents ages 30-44 said yes.

We asked those who said yes if paying up to 6 months of vehicle finance payments on their behalf would be sufficient, and **76% agreed that it would.** High-quality debt protection is becoming more and more relevant to American consumers as their futures and the economic landscape continue to change daily. When we asked how much those in the market for a vehicle would pay for these types of coverage:

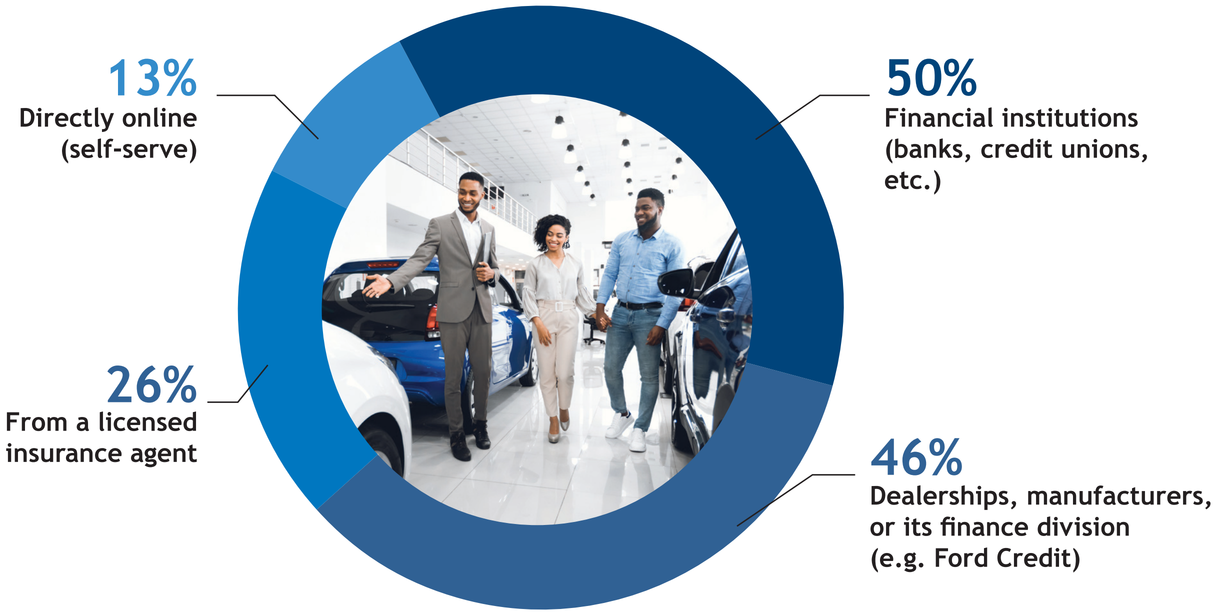
64% of Americans would pay for debt protection products, some up to $50/month.



Who do American consumers trust?

While it's important to understand what American automotive consumers want and need, it's also important to understand who is best positioned to recommend these products. Historically, debt protection products were offered in the Finance and Insurance office of a dealership. However, the pandemic, digital disruption, and many other factors have shifted the way consumers expect to buy products. It's up to the industry to keep up with these changes to continue providing the best customer experience possible.

When we asked who consumers would feel most comfortable purchasing these types of products from:



While most consumers want to purchase or lease their vehicles through the dealership, the majority plan to finance through a financial institution such as a bank or credit union, which is also where most feel comfortable purchasing debt protection products. Offering a high-quality, proven, customer-centric debt protection program at the dealership level may give Americans a reason to finance or lease through the dealership rather than seeking an alternative such as a bank or credit union.

Who is Insurance Insight Inc.?

Insurance Insight Inc. is a 100% Canadian, licensed, specialty insurance brokerage offering a variety of high-quality products and solutions. We work with automotive dealers, manufacturers, and lenders to distribute both life and general insurance products. We have the expertise, systems, and experience to execute specialty insurance programs in the automotive industry.

What is WALKAWAY Finance Protection™?

WALKAWAY Finance Protection™ is a unique program that provides consumers with the financial flexibility they need when an unexpected life event occurs. It offers consumers a cost-effective way of structuring their automotive lease or finance contract, so they have options in a time of need. WALKAWAY Finance Protection™ is the original vehicle return program that pioneered a new industry. WALKAWAY Finance Protection™ products help people get out of vehicle loans and leases when they experience one of the life events the program covers.

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