Nearly 1 in 4 Americans downgraded or canceled their auto insurance in the past year. Among them, 8% made one of the most consequential financial decisions a driver can make: they dropped full coverage and switched to liability only insurance. For those drivers, it was a budget decision. For everyone else on the road, it is a risk they never agreed to. If someone carrying only liability coverage causes an accident and hits your vehicle, the financial consequences for your claim are immediate, measurable, and often worse than most people expect. And if you are the one who downgraded, the loss you are exposed to is even larger than the premium savings you gained.

The data behind this trend comes from the CCC Crash Course 2026 report, which documents a structural shift in how Americans are interacting with their auto insurance. The report found that 29% of consumers canceled or downgraded insurance in the past year. Car insurance was the most commonly cut product, at 15%. These are not isolated decisions. They are a direct response to years of premium increases, and they are reshaping the landscape of every insurance claim filed in the country.

Why Drivers Are Cutting Coverage in 2026

Auto insurance premiums rose 46% between 2022 and 2024, according to Insurify. While rates stabilized slightly in 2025 with a 6% national average decline, premiums remain historically elevated. The average annual full-coverage premium sits at $2,144 nationally, and for drivers in high-cost states like Washington D.C., New Jersey, and Michigan, the numbers are nearly double that.

At the same time, the **vehicle affordability crisis** is squeezing household budgets from multiple directions. Average new car payments crossed $763 per month. Used car payments average $531. Nearly a third of trade-ins carry negative equity. When something has to give, insurance coverage is often the first line item that gets reduced. Drivers keep the minimum required by their state and hope nothing happens.

A J.D. Power study from 2025 found that 7% of policyholders avoided filing a claim specifically because they feared a premium increase. Another 1 in 5 consumers said they would temporarily go without insurance entirely to free up cash for necessities. These numbers tell a clear story: financial pressure is not just changing how people buy insurance. It is changing how much protection exists on the road for everyone.

What Liability Only Insurance Actually Covers

When a driver drops to liability only coverage, they are keeping only the portion of their policy that pays for damage they cause to other people and other vehicles. They are removing comprehensive coverage, which handles theft, weather, and vandalism, and collision coverage, which pays for damage to their own vehicle in a crash. What remains is the legal minimum required to drive.

The problem is not that liability coverage exists. The problem is that state minimums are dangerously low relative to modern vehicle values and repair costs. Georgia, for example, requires only $25,000 in property damage liability per accident. Texas requires $25,000. California requires $5,000. When the average repair cost now exceeds $4,800 and average used vehicle values sit well above $20,000, those minimums leave an enormous gap between what the at-fault driver's insurance will pay and what it actually costs to make the other driver whole.

State	Min. PD Liability	Avg. Used Vehicle Value	Gap Risk
California	$5,000	$28,000+	Extreme
Florida	$10,000	$26,000+	High
New York	$10,000	$29,000+	High
Georgia	$25,000	$26,000+	Moderate
Texas	$25,000	$27,000+	Moderate

What Happens When a Liability Only Driver Hits You

If someone carrying only liability coverage causes an accident and damages your vehicle, their policy will pay for your property damage up to their coverage limit. That is the good news. The bad news is that the limit may not cover your full loss.

Consider a real-world scenario. A driver with $25,000 in property damage liability rear-ends your three-year-old SUV. The repair estimate comes in at $18,000, which includes structural work and ADAS sensor recalibration. The vehicle's pre-accident market value was $38,000. Your diminished value loss, the permanent reduction in market value caused by the accident history, is conservatively $5,700 based on a professional appraisal. The total property damage exposure is $23,700 in repairs plus diminished value alone. That fits within the $25,000 limit, but barely. Add any rental car costs, towing, or supplemental repairs, and you are over the line.

Now change the state to California, where the property damage minimum is $5,000. That same accident leaves you with $18,700 in unrecovered losses. Your options at that point are to file under your own collision coverage (if you have it), pursue the at-fault driver personally through small claims or civil court, or absorb the loss entirely.

Your Diminished Value Claim Still Exists

Here is a point that many drivers miss: diminished value is a component of property damage liability in most states. When the at-fault driver's insurer pays your property damage claim, your diminished value loss should be included in that settlement. The at-fault driver's coverage level does not change your legal right to diminished value. It only limits how much their policy will pay in total.

If the at-fault driver's liability limit is high enough to cover both your repair costs and your diminished value, you can recover both from their insurer. If it is not, the repair costs typically get paid first, and your diminished value claim may be partially or fully unrecoverable through their policy. In that scenario, understanding your own coverage options becomes critical. Our **insurance claim FAQ covering appraisals, diminished value, and total loss** explains how the process works across different claim types.

What Happens If You Are the One Who Dropped Full Coverage

The 8% of drivers who downgraded from full coverage to liability only made a calculated bet that they would not be in an accident where they were at fault or where the other driver's coverage was insufficient. When that bet goes wrong, the financial exposure is total.

Without collision coverage, you have no first-party protection for your own vehicle's damage. If you cause an accident, your insurance pays the other driver but nothing toward your own repairs. If the other driver hits you but is uninsured or underinsured, and you do not carry uninsured motorist property damage (UMPD) coverage, you have no insurer to turn to at all.

> *If you dropped full coverage and another driver hits you, you can still file a third-party claim against their liability insurance. But if their limits are exhausted by repair costs alone, your diminished value claim has nowhere to go. The coverage gap falls entirely on you.*

The math gets worse when the at-fault driver has no insurance at all. The Insurance Information Institute estimates that roughly 14% of U.S. drivers are uninsured. In some states, the rate exceeds 20%. If an uninsured driver totals your car and you have no collision or UM coverage, you are left with a civil lawsuit against someone who, by definition, could not afford insurance in the first place. The probability of collecting on that judgment is low.

The Uninsured and Underinsured Motorist Coverage Gap

Uninsured motorist (UM) and underinsured motorist (UIM) coverage exists precisely for the scenarios created by the current coverage downgrade trend. UM coverage steps in when the at-fault driver has no insurance. UIM coverage fills the gap when the at-fault driver's limits are not enough to cover your full loss.

The challenge is that UM/UIM coverage is not required in every state, it varies significantly in scope, and many drivers who are cutting costs have reduced or eliminated this coverage along with their collision and comprehensive. Scenarios like hit-and-run collisions, where the at-fault driver is never identified, are particularly devastating without UM protection. For a detailed look at how this plays out in states with specific fault rules, see the analysis of **hit-and-run diminished value claims in the Carolinas**, where the interaction between UM coverage and diminished value recovery is especially complex.

Whether UM/UIM coverage includes diminished value is another layer of complexity. Most UM policies are written to cover property damage, but whether diminished value falls within that definition depends on the state, the policy language, and sometimes the willingness of the claimant to push back on an initial denial. Some carriers have paid diminished value under UM coverage when the claimant provided a professional appraisal and pressed the issue. Others have not.

Coverage Downgrades Are Making Total Loss Claims Worse

The coverage downgrade trend is happening at the same time that total loss frequency has hit a record 23.1% of all claims. The CCC Crash Course 2026 report documents how **1 in 4 crashed vehicles is now declared a total loss**, driven by an aging fleet, rising repair costs, and the increasing complexity of repairing ADAS-equipped vehicles.

When those two trends collide, the outcomes are painful. A driver with liability only coverage whose car is totaled in an at-fault accident receives nothing from their own insurer. A driver with full coverage whose car is totaled by an underinsured driver may receive a settlement that does not cover the loan balance, let alone the cost of a replacement vehicle. Tariff-driven repair cost inflation, detailed in the analysis of **how auto parts tariffs are pushing more cars into total loss**, is accelerating this problem by making even moderate damage expensive enough to trigger a total loss declaration.

The rising repair costs that are **pushing more cars into total loss territory** create a feedback loop. As more vehicles are totaled, more drivers face the sudden expense of replacing a car in a market where prices remain elevated. That financial pressure leads to more coverage downgrades, which increases exposure, which makes the next accident even more costly for everyone involved.

How to Protect Yourself in a Market Full of Underinsured Drivers

Review Your UM/UIM Limits

If your UM/UIM property damage limits are set to your state minimum, consider raising them. The cost of increasing UM coverage is typically a fraction of the cost of collision coverage, and it provides protection in the exact scenarios that are becoming more common: hit-and-run collisions, uninsured drivers, and drivers whose liability limits fall short of your actual loss.

Understand What Your Policy Covers for Diminished Value

Most diminished value claims are filed as third-party claims against the at-fault driver's liability insurance. If their coverage is sufficient, you recover from their insurer. If it is not, you need to know whether your own policy provides any path to recovery. Some UM policies cover diminished value; many do not. Some states allow first-party diminished value claims under collision coverage; most do not. Knowing your specific policy language before an accident happens puts you in a dramatically stronger position.

Get an Independent Appraisal Before You Negotiate

Whether you are filing against the at-fault driver's insurer, your own UM coverage, or your collision coverage, the single most effective tool you have is an independent professional appraisal. It establishes the actual market value of your vehicle and quantifies the diminished value loss with real comparable sales data. Without it, you are negotiating on the insurer's terms, using their math.

In a market where **distracted driving has surged 57%** and more vehicles carry accident history than ever before, the financial stakes of every claim are higher. An appraisal that captures those stakes accurately is not an optional extra. It is the foundation of any credible recovery.

The Bigger Picture for 2026 and Beyond

The coverage downgrade trend is not a temporary blip. As long as vehicle prices remain elevated, loan terms stretch longer, and insurance premiums sit near historical highs, a growing number of drivers will carry less protection than they should. That creates systemic risk for every vehicle owner on the road. More underinsured drivers mean more claims that bump into coverage limits. More gaps between what is owed and what is paid. More situations where the only thing standing between a fair recovery and a total loss is the quality of your documentation and your appraisal.

The collision itself is never planned. But how you prepare for the financial aftermath is entirely within your control. Understanding your coverage, knowing your rights, and having a professional appraisal ready to deploy are the difference between recovering what you are owed and absorbing a loss that belongs to someone else.

Frequently Asked Questions

Can I file a diminished value claim if the at-fault driver only has liability coverage?

Yes. Diminished value is a component of property damage in most states, and your right to claim it does not depend on the at-fault driver's coverage level. However, the total payout from their policy is capped at their liability limit. If repair costs consume most or all of that limit, there may be little or nothing left for your diminished value recovery. In those cases, UM/UIM coverage or a direct claim against the at-fault driver may be your remaining options.

What happens if the at-fault driver's insurance limit does not cover my full loss?

When the at-fault driver's property damage liability limit is exhausted before your full loss is covered, the remaining balance falls to you. If you carry underinsured motorist property damage coverage, that policy may cover the difference. If not, your options are limited to filing under your own collision coverage (which does not include diminished value) or pursuing the at-fault driver directly through civil court.

Does my UM/UIM coverage include diminished value?

It depends on your state and your specific policy language. Some states allow diminished value claims under UM/UIM coverage, and some carriers have paid these claims when the policyholder presented a professional appraisal and pushed back on the initial denial. However, most standard UM policies do not explicitly mention diminished value, and many carriers will deny the claim unless challenged. Reviewing your policy language before an accident happens gives you the clearest picture of your coverage.

Should I keep full coverage even on an older vehicle?

The decision depends on your specific vehicle's value, your financial capacity to absorb a total loss, and the cost of coverage. However, with total loss frequency at record highs and 1 in 4 crashed vehicles now being written off, the risk of losing your car entirely in an accident is higher than it has ever been. If you cannot afford to replace your vehicle out of pocket at current market prices, the cost of maintaining collision and comprehensive coverage is likely worth the protection it provides.

How does an independent appraisal help when coverage limits are low?

An independent appraisal establishes the precise dollar value of your total loss, meaning the full amount the at-fault driver's insurer owes within their policy limits, including diminished value when applicable. If the at-fault driver's limit does not cover the full loss, the appraisal also serves as the foundational document for any UIM claim you file with your own carrier or any civil action you pursue against the at-fault driver directly. Without a professional appraisal, you have no defensible number to put in front of anyone.