U.S Households' Homeowners Insurance and Financial Well-being

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Abstract

This study investigates the association between U.S. households' homeowners' insurance decisions and financial well-being by analyzing the moderating role of financial literacy. We have used the weighted cross-sectional data from 2019 to 2022, Understanding American Study (UAS), different waves, to examine the associations between households' financial well-being and homeowners' insurance decisions. With the help of Ordinary Least Squares (OLS), we found that households that own homes freely without mortgages and have homeowner insurance are significantly and positively associated with households' financial well-being. Further, we analyzed the moderating role of households' financial literacy. We found a strong positive association between medium to high financial literacy after interacting with households who own homes with homeowners' insurance on the household's financial well-being. This suggests that financial literacy moderates households' financial well-being when predicting various impacts on homeowners' insurance decisions. We also found some heteroscedasticity problems, but with the help of bootstrapping and Robust variance-covariance estimates, we solved the heteroscedasticity problem and found consistent results with our original OLS model. This study also has implications for academicians, financial planners, and policymakers. Policymakers can use this study to incentivize homeowners' insurance among mortgage-free households and improve mortgage and loan programs by adding financial literacy as a module. This paper should help academics base their discussion on the financial well-being of households, and financial planners can use this paper to examine clients' demographics and socioeconomic differences and how these differences affect their financial well-being.

Keywords: Insurance, Financial Well-Being, Decision-Making under Risk and Uncertainty, Financial Literacy.

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