

Pay-As-You Drive Auto Insurance (Telematics)

NOVEMBER 2014

THE TOPIC

Pay-as-you-drive, *telematics* and *usage-based insurance* are all terms used for programs that offer drivers the option of having premiums tailored to their individual driving patterns.

The programs give drivers a financial incentive to drive less and, depending on the information that is monitored, to drive more carefully. The more positively they react to the incentive, the less they pay for their auto insurance. (With commercial programs, the fleet owner benefits through a lower premium.)

At their simplest, usage-based programs record the actual miles driven, offering those who drive less than average a lower rate.

A growing number of auto insurers are offering more complex programs that also take driving behavior into account. These use a telematic device installed in the car to relay information about when and how a car is being driven.

RECENT DEVELOPMENTS

- **Consumer Attitudes:** A January 2014 survey by the Deloitte Center for Financial Services found that about half of respondents were interested in having an insurer track their driving with a telematic device. Deloitte split that group in two roughly equal groups, respondents in one that said they would allow such monitoring without stipulating a minimum discount for granting permission; other respondents indicated they would do so if discounts made monitoring worthwhile. Older drivers and females were generally more resistant to monitoring than younger ones. Income levels made little difference.
- An October 2013 survey of auto insurance shoppers by comScore found that awareness of pay-as-you-drive (PAYD) had more than doubled since 2009, with 40 percent of shoppers aware of PAYD insurance in 2013, up from 23 percent in 2009. Only 9 percent of those who were aware of PAYD actually have PAYD. One quarter of respondents said that privacy was "very much of a concern" when it comes to PAYD.
- Nearly 90 percent of respondents to a September 2013 consumer survey by Towers Watson said they were open to buying a usage-based insurance policy if there was no risk of premiums increasing. Sixty percent of those interested in usage-based insurance were willing to change their driving habits. Forty percent were concerned about insurers sharing the data.

BACKGROUND

Using the number of miles driven and a driver's safety record to help calculate auto insurance premiums is nothing new. Both are taken into account in calculating premiums for traditional policies. With traditional policies, drivers are generally asked by their insurer when they apply for a policy, and periodically throughout the period that they remain insured with the same company, to estimate the

number of miles they drive each year. However, many underestimate mileage and some may overestimate it. Usage-based programs provide continuous updates on mileage.

A driver's safety record has always been a significant factor in the ultimate price of coverage, but unless the price goes up significantly after an accident or speeding ticket, drivers do not always link price to the way they drive. Telematics technology provides immediate feedback about the riskiness of a driver's behavior and therefore may be more successful in changing bad habits.

To monitor a customer, the insurer provides a device called a "dongle," which is hooked into the car's computer systems. Typically, the dongle monitors when and where a car is driven along with the length of the trip. Some devices can monitor the speed of the car, use of seatbelts, engine temperature and "acceleration events" for example, speeding up and braking.

If vehicle operators are more aware of such behavioral factors, they may actually become better drivers. Studies indicate crash rates fell between 20 percent and one-third in cars monitored via telematics.

For the insurer, savings from better driving must offset the costs of technology and any telematics-based discounts. Instead of permanently installing the dongle, some insurers only let drivers keep the device for about six months. In that time, the driver has gotten enough feedback that he or she will have learned to drive more safely, triggering the insurance savings. Then another customer receives the device, starting the cycle anew.

Progressive Insurance, an early pioneer in the field, developed a usage-based product in the mid-1990s. The Snapshot product generated more than \$2 billion in premium in 2013, according to the company's 10-K filing. Other large insurers such as State Farm and Allstate also have products in many states, as does the Insurance Services Office (ISO, a Verisk Analytics company), which files on behalf of many smaller insurers.

KEY SOURCES OF ADDITIONAL INFORMATION

Usage-Based Auto Insurance [1]. Towers Watson, 2013.

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