

# Background on: Pay-as-you drive auto insurance (telematics)

## Auto | Technology

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## 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 monitored, to drive more carefully. The more positively they react to the incentive, the less they

pay for their insurance. With commercial programs, the fleet owner benefits through lower premiums.

At their simplest, usage-based programs record miles driven, offering those who drive less than average a lower rate. But a growing number of insurers are offering more complex programs that take driving behavior into account. These use telematic devices to relay information about when and how the car is being driven. Various data-collection mechanisms exist, including smart phone apps and plugged-in or hard-wired devices.

Nine of the top 10 private passenger automobile insurers have usage-based insurance programs in place. And [car manufacturers](#) are partnering with insurers to offer usage based insurance solutions.

## History

Progressive Insurance, an early pioneer in the field, developed a usage-based product in the mid-1990s. Other large insurers, such as State Farm and Allstate, have products in many states, and the Verisk Data Exchange platform captures data from millions of vehicles to generate analytics on driving behavior that support UBI programs and claims applications for auto insurers.

## How UBI programs affect insurance rates

Using the number of miles driven and a driver's safety record to help calculate auto insurance premiums is nothing new. Both are considered when calculating premiums for traditional policies. With traditional policies, insurers generally ask drivers when they apply for a policy – and periodically for as long as they remain insured by the same company – to estimate the number of miles they drive each year.

However, many underestimate their mileage, and some may overestimate it. The continuous monitoring provided by UBI programs can help insurers more accurately gauge risk and set rates at policy initiation and renewal, as well as do a better job of segmenting and targeting markets.

## Impact on driver safety

Drivers often only vaguely understand the link between their safety record and how their insurance is priced. Unless their price goes up significantly after an accident or speeding ticket, they do not always link price to the way they drive.

Telematics technology provides immediate feedback that can help change bad habits or encourage good ones. Simple data about distances driven, frequency of operation, braking and acceleration, and driving patterns can build awareness of the connection between driving behavior and insurance rates.

A Willis Towers Watson [study](#) indicates that crash rates fell as much as 80 percent in commercial fleets monitored via telematics.

## Regulation and privacy concerns

For the insurer, savings from better driving must offset the costs of technology and any telematics-based discounts. Insurers must also manage regulatory requirements in the states where they do business. Many states require insurers to obtain approval for new rating plans. Rate filings usually must include statistical data that supports the proposed rating structure.

Tracking mileage and driver behavior in UBI programs also has raised privacy concerns. As a result, some states have enacted legislation requiring disclosure of tracking practices and devices. Some insurers also limit the data they collect.

## Consumer buy-in

Although willingness to share driving data is a prerequisite, consumers also have to buy into the principle of the cost of their auto insurance being determined by how they drive. According to a Willis Towers Watson [survey](#), resistance to that idea is very low, with only 7 percent of respondents disagreeing with the premise that UBI is a better way to calculate premiums than traditional methods.

## Additional resources

[From IoT Data to Actionable Insights](#). Verisk, 2019

[Usage-Based Insurance](#). NAIC, May 17, 2019

[Usage-Based Auto Insurance: A New Technological Dawn?](#) Willis Towers Watson, May 31, 2017

