



*Investors and environmentalists
for sustainable prosperity*

Pay As You Drive ***Insurance Innovation for Transportation Efficiency***

Pay-As-You-Drive (PAYD) insurance is now becoming common parlance. But people use it to mean different things. A clear understanding of the different uses is important in framing any policy discussion. Among the varying, though related, concepts embraced by the phrase PAYD are:

- A method of automobile insurance rating that prices insurance by the mile (e.g., \$0.045 per mile)
- A method of automobile insurance rating that provides for rebates or surcharges based on how many miles a person drives
- A method of automobile insurance rating that verifies actual miles a person drives. Principal methods of verification are:
 - Technology-based mileage verification, in which a telematics device attached to the car's data port transmits data on miles driven to the insurance carrier
 - Self reporting of miles by the insured
 - Third-party mileage verification, in which the odometer reading is manually collected by a third-party rather than self-reported or self-estimated
- Purchased miles programs, in which a customer buys, for example, 5,000 miles of coverage rather than 6 months of coverage.

But when it comes down to it, all PAYD products give consumers an incentive to limit their driving by more accurately communicating the link between miles driven and the risk of loss through pricing.

Increasingly in the US, PAYD is seen as being synonymous with Usage-Based insurance, which may or may not include miles driven as a rating factor. Those Usage-Based products set pricing based on information collected from the consumer on location, time of day, acceleration, braking, or other factors or behaviors. Usage-Based products can only be considered PAYD products if they communicate pricing by the mile, give significant weight to miles driven in setting the rate, or otherwise communicate price in a way that rewards limited driving.

The difference between PAYD and Usage-Based auto insurance matters if governments want to encourage insurance offerings which reduce vehicle miles traveled (VMT) to meet air pollution goals or to reduce costs related to traffic congestion and accidents.

Today, few US insurers offer meaningful incentives to limit VMT.

Barriers to Industry

Insurers face some barriers to product innovation, including:

- *Regulatory obstacles*: states typically require insurance coverage to be duration-based and mileage verification requirements are sometimes impermissible
- *Costs*: telematics devices present large upfront costs to the carrier, while third-party verification presents consumer-acceptance challenges, data reliability and trust concerns for insurers, and some costs
- *Sufficiency of actuarial data*: miles driven and loss costs are not always perceived as being very closely related
- *Privacy concerns*: consumer advocates, regulators and others may be resistant to telematics observations
- *Intellectual property*: existing patents seen as limiting entry

Even if these barriers are overcome, products brought to market may not reduce VMT substantially unless they are designed to do so.

Questions for Discussion

- If insurance products reduce aggressive driving behavior, and if that reduces crashes and increases the fuel efficiency of vehicles on the road, is that good enough?
- Insurance companies and states are both interested in acquiring similar data on VMT, although for different purposes. How can the two best work together to secure such data?
- What are the consequences of choosing not to change course on auto insurance?
- Can we start to see the outline of model regulations and incentives that would satisfy all interests—environmental, social, industry and consumer? What should states and the Federal government do to bring such changes about?

The Opportunity

With a new administration committed to reducing carbon emissions and air pollution and an upsurge in federal spending, there is strong potential for securing meaningful federal incentives to help industry overcome these barriers. And with the recent adoption of the Insurer Climate Risk Disclosure Survey, the National Association of Insurance Commissioners is poised to consider its role in scaling up PAYD offerings to consumers.

Our Challenge

Can we start to see the outline of model regulations and incentives that would satisfy all interests—environmental, social, industry and consumer?