

Telematics and Usage-Based Insurance

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The NAIC's Center for Insurance Policy and Research (CIPR) released a white paper analyzing the future of "telematics" in premium rate-making by auto insurers. Telematics allow for the measurement of actual driving habits, through remote access to a vehicle's real-time driving data. Thus, a driver's actual experience can be studied in data transmitted from, for example, the vehicle's navigation system, speedometer, odometer and tachometer, braking and acceleration systems, suspension system, engagement of anti-lock brakes, late-night driving habits, and more. Auto insurers have discovered telematics, which have been used in some forms since cars became computerized in the 1980s, as a means to better understand the risks they insure. Information about actual driving experience allows insurers to much more accurately price their products, and predict risks. NAIC discusses the many benefits of insurers' use of telematics—for insurers, their customers, and the public at large. The most touted benefit of usage-based insurance (UBI) is that it gives consumers greater control over their premium costs. It allows insurers to reward those who already drive safely, and motivate those who do not to improve in order to lower premiums. According to the NAIC, evidence from Canada and the UK indicates that increased UBI use improves driver behavior. Given the general societal benefit of increased road safety, it may be expected that policymakers will increasingly seize on UBI as a public safety issue. The employment of UBI may also reduce insurers' reliance on historical rating factors that sometimes resulted in unfair discrimination, leading to regulation. **Particularizing rate-making to individuals, rather than demographic groups, could mitigate potential unfair discrimination in older rate-setting models.** NAIC's paper also explores some of the challenges telematics pose for insurers. These include what data to record—and how to store it, what type of technology to employ, and how to analyze the data in useful ways to determine risk levels, and, consequently, premium levels. Ultimately, insurers may be forced to jump on the bandwagon, as several major insurers are already providing UBI incentive programs, lowering premiums for drivers that establish with data their safe driving habits. According to NAIC, "[a]s the use of telematics grows, companies will have to include both increases and decreases to rates in order to avoid adverse selection." At least one insurer recently announced it will also raise premiums on drivers who choose the program, and are revealed to be riskier drivers. As UBI becomes more widespread, questions will inevitably arise that will leave consumers, regulators, and insurers grappling with a host of unforeseen consequences.

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