OLR RESEARCH REPORT

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PAY-AS-YOU-DRIVE AUTO INSURANCE

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You asked for a description of "pay-as-you-drive" auto insurance programs and a summary of California's existing program.

SUMMARY

"Pay-as-you-drive" auto insurance is the common term for auto insurance policies that are priced based on how a driver uses his or her vehicle. It is a usage-based program that offers drivers the option of having customized premium rates based on actual miles driven or driving behavior, according to the Insurance Information Institute. A mileage-based program rewards people who drive very few miles, while a performance-based program rewards people who drive carefully.

The California Insurance Department adopted a mileage-based pay-as-you-drive regulation in 2009. The department has more recently approved four insurance companies to offer the pay-as-you-drive program. The approved insurance companies are able to offer drivers premiums that are based in part on actual, verified miles driven, rather than on estimated mileage. (The policyholder's driving record remains the most important rating factor; the number of miles driven is the second most important factor.) The policyholder agrees in advance to have the miles driven verified at the end of the policy period and the premium adjusted if justified. The program is optional; policyholders may continue to purchase a traditional auto insurance policy.

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PAY-AS-YOU-DRIVE AUTO INSURANCE

Insurers have developed two types of pay-as-you-drive auto insurance programs: mileage based and performance based. In a mileage-based program, the policyholder's insurance premium reflects actual miles driven. The program offers those who drive less than average a lower premium. The driver's odometer is checked at the end of the policy period to verify miles driven or a technological device is installed in the vehicle to monitor mileage. Proponents of a mileage-based program also tout its potential environmental impact. By encouraging people to drive less, the programs can help reduce greenhouse gas emissions.

In a performance-based program, the policyholder's insurance premium takes driving behavior into account. A device is installed in the policyholder's vehicle that relays information about when and how a car is being driven. The device can track information about the driver's behavior, such as speeding, sudden braking, and time of day (e.g., rush hour when driving is riskier due to traffic density). Policyholders whose driving habits reveal road safety awareness are offered a lower premium.

Miles driven and driving record factor into premiums for a traditional auto insurance policy, as well. However, under a traditional rating program for auto insurance, drivers report estimated mileage driven per year, which can be unreliable. A driver's safety record is looked at retrospectively through Department of Motor Vehicle records and claims filed under the policy (i.e., claims experience). Proponents of performance-based programs say monitoring actual driving behavior through the use of technology provides more immediate feedback on the driver's riskiness, which can help improve driving habits.

For more information about pay-as-you-drive auto insurance, see the Insurance Information Institute's website at http://www.iii.org/issues_updates/pay-as-you-drive-auto-insurance.html.

CALIFORNIA

The California Insurance Department adopted a mileage-based pay-as-you-drive program in 2009 by amending its regulation on private passenger automobile rating factors (Cal. Admin. Code tit. 10, § 2632.5, copy enclosed). The regulation refers to the program as a verified actual mileage program.

Under the regulation, there are three mandatory rating factors for private passenger automobile insurance: the first, and most important rating factor, is a policyholder's driving safety record; the second is miles driven; and the third is years of driving experience. There are a number of optional rating factors that an insurer may also use (e.g., vehicle type, academic standing, driver gender, and marital status, among others). The regulation allows insurance carriers the option of offering a program that bases the miles-driven rating factor on verified actual mileage rather than on estimated mileage.

The regulation allows insurers to (1) use technological devices that accurately collect vehicle mileage information or (2) request service records that document the vehicle's odometer reading or obtain a verified odometer reading through a variety of other means. An insurer must make available all verification methods it offers to all policyholders equally. The regulation specifically provides that an insurer cannot use a technological device to collect or store information about the location of the insured vehicle.

Under a verified actual mileage program, the regulation allows an insurer to retroactively or prospectively adjust premiums based on the actual miles driven, provided it notifies the policyholder of this before the policy's effective date. An insurer may offer a discount to a policyholder who participates in the verified actual mileage program. The discount must be based on demonstrated cost savings or actuarial accuracy associated with obtaining and using actual miles driven rather than estimated mileage. An insurer that offers a verified actual mileage program may also offer policyholders the option to purchase coverage for a specified price per mile driven.

The California Insurance Department has approved four insurers to offer the verified actual mileage program: State Farm; Auto Club of Southern California; Sequoia; and, effective January 1, 2012, Civil Service Employees Insurance Company.

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