
Pay-Drive (Usage-Based Auto Insurance)

Southern California Casualty Actuarial Club
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Pay-Drive Regulations

- What do the regulations allow?
- What was considered?
- What now?
- Will it help?

Pay-Drive Regulations

2632.5 (c)(2) "Second Mandatory Factor" as used in Subchapter 4.7, is the number of miles he or she drives annually, per California Insurance Code Section 1861.02(a)(2).

Except as provided in section (c)(2)(F) this factor means the estimated annual mileage for the insured vehicle during the 12 month period following the inception of the policy. Insurers may not retroactively or prospectively adjust premiums based on actual miles driven unless notice is provided to the policy holder prior to the effective date of the policy. Estimated annual mileage shall be determined only as follows and except as otherwise set forth in this section, an insurer shall use the applicant's estimated annual mileage

Pay-Drive Regulations

2632.5 (c)(2)(E) An insurer may obtain and use smog check odometer readings from the California Bureau of Automotive Repair, the California Department of Motor Vehicles, or any other governmental agency that maintains odometer readings to estimate annual miles driven.

Pay-Drive Regulations

2632.5 (c)(2)(F) The Commissioner finds that basing the Second Mandatory Rating Factor on verified actual miles driven, rather than on estimated miles driven, **may enable policyholders to reduce their premiums by driving less and create incentives for innovation in automobile insurance rating in California with numerous attendant benefits**...an insurer may offer an automobile insurance program that uses verified actual mileage rather than estimated mileage to determine the Second Mandatory Factor.

An insurer may offer a verified actual mileage program instead of, or in addition to, an estimated mileage program...

An insurer offering both estimation and verification methods for determining mileage...may require an insured who chooses verified mileage for one vehicle to choose verified mileage for all vehicles insured under the same policy.

Pay-Drive Regulations

2632.5 (c)(2)(F)(i) Verification methods:

- Odometer readings by the insurer (or directed by the insurer)
- Odometer readings from an automotive repair dealer
- Odometer reading from any governmental agency that maintains public records of odometer readings
- Odometer readings reported by the insured
- Technological device
- Any other method approved by the Commissioner

Pay-Drive Regulations

- Restrictions on technological devices
 - An insurer shall only use a technological device to collect information for determining actual miles driven under the Second Mandatory Factor.
 - An insurer shall not use a technological device to collect or store information about the location of the insured vehicle.
 - Nothing in this section shall prevent a motor club or insurer from using a technological device to collect information about the location of the insured vehicle as part of an emergency road service, theft service, map service or travel service.
- Significant restrictions, thwarted opportunities

Pay-Drive Regulations

2632.5 (c)(2)(F)(ii) An insurer employing verified actual mileage pursuant to section 2632.5(c)(2)(F) may retroactively or prospectively adjust premiums based on actual miles driven provided notice is given to the policyholder prior to the effective date of the policy.

Pay-Drive Regulations

2632.5 (c)(2)(F)(iii) An insurer that offers both a mileage estimation program and a verified actual mileage program may provide a discount to a policyholder who participates in a verified actual mileage program. Any discount... shall be based on **demonstrated cost savings or actuarial accuracy** associated with obtaining and using actual miles driven rather than estimated mileage. If an insurer offers a discount, under section (c)(2)(F) all policyholders in the verified actual mileage program, regardless of the method of verification used, shall qualify for a discount.

- It does not have to be the same discount. The amount of the discount may vary based on the verification method used.

Pay-Drive Regulations

- What will qualify as “demonstrated” or “actuarial accuracy”?
 - Likely treat as any other new discount to start
 - Look to other states experience, if available
 - Look to other insurers
 - Judgment
 - More detailed support expected as the programs mature

Pay-Drive Regulations

- Conditions on the verified mileage program
 - If an insurer offers both estimated and verified actual mileage programs, participation by a policyholder in a program to determine actual mileage shall be voluntary.
 - An insurer employing verified actual mileage shall make available all verification methods it offers to all insureds equally. No insurer shall offer or use a verification method that is not uniformly offered to the public.
 - An insurer offering both mileage programs shall include both programs in one class plan.

Pay-Drive Regulations

- Additional Options on the verified mileage program
 - Price Per Mile Option
 - Up to insurers to figure out how to make this work legally
 - Combination of verified actual annual mileage with Percent Use, Academic Standing, Gender, Marital Status and Driver Training allowed
 - Subject to disaggregation

Pay-Drive Regulations

- Combine / Disaggregate
 - Disaggregation for years licensed

	Years Licensed	Gender	Marital Status
Before 2008	31.71	31.25	Incl.
After	63.42	7.16	14.02

- Effect on annual mileage?

Pay-Drive Regulations

- Additional Options on the verified mileage program
 - **Class plans can be submitted without accompanying rate filings**
 - This is a change in the class plan instructions, rather than the regulations

“The Department emphasizes that no rate application will be required to accompany the verified actual mileage or specified price per mile class plans if the class plans submitted are revenue neutral.”

- Applies to any revenue neutral class plan!

Pay-Drive Regulations - Timeline

- September 5, 2008 Notice of Proposed Action and Initial Regulations released
- October 20, 2008 Hearing on Regulations
- June 24, 2009 Revised Text
- July 31, 2009 Revised Text
- October 15, 2009 Final Text

Pay-Drive Regulations – Timeline

- Recommended and Adopted
 - Expanded mileage verification methods
 - Combination of mileage with specified optionals

Pay-Drive Regulations – Timeline

- Recommended and Rejected
 - Quality of miles
 - Acceleration, deceleration, time of day, location etc.
 - Recognition of consumer concerns
 - Recognition of insurer capabilities
 - Variance for increased expenses
 - Prescribed mileage bands

Pay-Drive Regulations – What next?

- Filing activity
 - State Farm - Drive Safe and Save™
 - Two methods of verification (odometer and On-Star)
 - Discount varies by method (1%, 5%)
 - Interinsurance Exchange of the Auto Club of Southern California
- Consumer activity
 - Unknown
- Additional changes to regulations
 - None expected

Will it Help?

A. Yes

- Verified miles are better than estimates – better risk distinction, more refined categories
- Combining factors may do for mileage weight what it did for years licensed weight
 - Also allows better risk distinction, more refined categories
- Other programs (other jurisdictions) have implemented considerable rate differentials, but...

B. No

- No consideration of the quality of the miles driven
- Collecting location prohibited / collecting anything beyond mileage prohibited*

- More restrictive than before

*Unless used for emergency road service, theft service, map service or travel service

C. Maybe

- Consumer interest levels
 - Early market research indicated 25%-30% might be interested in mileage-based insurance
 - Millennials more interested
 - Aging boomers on fixed incomes more interested
 - Consumers feel they have little control over the number of miles driven; more control over how (e.g., speed)
 - According to Progressive 1 in 4 of eligible costumers have opted into the MyRateSM program (2009)

C. Maybe

- Company interest levels
 - Limited number of usage-based programs in other states
 - Too early to tell

Final Answer

All of the above