

Expert Interview: Pay-As-You-Drive/Usage-Based Insurance

20 Oct 2009

What are the success factors driving the hot topic of connecting in-vehicle telematics with the insurance industry? The commercial attraction of usage-based insurance schemes is obvious but the obstacle of consumer uncertainty has yet to be conquered. Stephen Longden, ITS & Telematics Specialist at SBD, talks about current developments and trends in Pay As You Drive (PAYD) insurance.

Q: Why is PAYD insurance a hot topic within the telematics industry at the moment?

Stephen Longden: There is currently a high level of interest in PAYD insurance as the California Insurance Commissioner has proposed the implementation of government regulations supporting insurance charges based on the distance driven. Progressive Insurance is pushing ahead with its roll-out of PAYD services in the US. Progressive's MyRate service is now available in 15 states with Colorado set to join this summer.

Research from SBD's report, Connecting usage-based insurance with OE telematics, found that insurance schemes based on variable payment using data on the actual distance driven are seen as a "green" tool encouraging drivers to reduce the distance they drive and the associated emissions.

In addition to the expected environmental benefits of PAYD insurance, the concept is also a way of improving road safety. The more sophisticated PAYD systems collect data on vehicle speed, time of day, and the type of roads used in addition to the distance driven. Drivers of vehicles equipped with these monitoring systems are thought to drive more carefully and have fewer collisions.

Many PAYD insurance schemes across the world are aimed at young drivers with restrictions on the time of day driving is allowed. These schemes use financial incentives to encourage these young customers not to drive during high-risk periods such as night time and weekend evenings.

Q: What are the links between in-car telematics and PAYD insurance?

SL: Many PAYD insurance systems are based on the same core technology as in-vehicle telematics devices: GPS positioning and mobile phone communications. Some vehicle manufacturers, such as Fiat, are beginning to offer PAYD insurance services as one of a suite of applications available through their OE telematics systems.

Although PAYD insurance has been trialled and deployed in many countries, it has not yet achieved significant success. The market will remain a niche if it continues to be offered as a standalone service. Piggy-backing on automotive telematics systems is the key to reducing system and installation costs to gain widespread deployment.

Q: Who is leading the PAYD insurance industry?

SL: PAYD insurance schemes have been implemented across Europe, North America, Asia, Middle East and Africa. However, many of these schemes have been short-lived demonstrations or limited to specific consumer groups such as young drivers.

Italy is currently leading the way for PAYD insurance. MetaSystem's Octo Telematics division claims to have 800,000 customers for its PAYD insurance services. One of the secrets of Octo's success is its cooperation with Fiat and Magneti Marelli. Octo Telematics acts as a middle-man collecting and processing the vehicle usage data from Fiat's Blue&Me in-car telematics hardware and providing it to insurance companies.

The roots of Italy's success in deploying PAYD insurance lie in the widespread use of stolen vehicle tracking services. Consumers understand the concept of receiving discounts in the insurance fees if they fit a tracking system. This concept is being expanded to include distance driven monitoring in addition to the stolen vehicle tracking.

Q: What is needed for the success of PAYD usage-based insurance?

SL: Widespread deployment of PAYD insurance will be reliant on the cost savings from OE telematics hardware becoming commonplace. However, success for PAYD insurance also needs changes in consumer behaviour and perception.

Data privacy issues have delayed the markets in France, Germany and Spain. Consumers in these countries are uneasy about the concept of having Big Brother monitoring when and where they drive.

Another barrier to success is the confusion perceived by many customers encountering PAYD insurance. Consumers express concern about the uncertainty generated by PAYD. Not knowing how much they will be charged each month is not popular with some consumers and insurance companies need to overcome this concern through their marketing activities.

"Connecting usage-based insurance with OE telematics" is available now and helps the industry understand the factors needed for successful global PAYD strategies and how using the service with OE telematics could build a profitable foundation to this niche market. Please register your interest in this report by contacting Juanita Appleby on jappleby@sbd.co.uk or phone +44 (0)1908 305101 today.