



Understanding Usage-Based Insurance

Is Tracking Technology Right for You?

Many consumers are familiar with the phrase “try before you buy.” Now auto insurers are employing “pay for how you drive.” It’s called usage-based insurance (UBI) or telematics which means the auto insurer monitors your driving behavior and uses that information to determine your rates. Please review the following information to help you better understand this new type of coverage.

What is UBI?

Usage-based insurance (UBI), also known as telematics, works by tracking driving behavior through devices installed in a vehicle or through smart phones. Wireless devices transmit data in real time back to insurers. The devices can measure miles driven, time of day, where the vehicle is driven, rapid acceleration, hard braking, hard cornering and air bag deployment, among other things. The data collected is then used by the insurer to help determine premiums.

Since 2008, every vehicle sold in the U.S. has been equipped with an event data recorder. The first UBI programs started with insurers offering mileage-linked discounts through global positioning systems and cellular systems that tracked miles driven.

How are UBI premiums determined?

There are several variations of UBI including pay-as-you-drive, pay-how-you-drive, pay-as-you-go and distance-based insurance. These options are different from how insurers charge for traditional auto insurance. Traditional auto insurance relies on actuarial analysis of data including driving record, credit-based insurance score, personal characteristics, vehicle type, garage location and more.

A UBI program adds individual driving behaviors as an additional rating factor. UBI may have a direct impact on your premium as UBI programs associate costs with individual and current driving behaviors instead of relying on statistics based on past trends and events.

For example, if you mainly drive short distances at slower speeds, you will probably be charged less than a driver who drives long distances at high speeds. UBI creates unique pricing tailored to the individual.

What are the downsides?

Insurers tracking mileage and monitoring behavior has raised privacy concerns. You might be uncomfortable sharing your location and driving behavior with an insurer.

UBI is a relatively new technology, and insurers are still developing how raw data collected will be used to price auto insurance policies. You may not agree characteristics of your driving behavior should lead to higher premiums. Also, not everyone is a better than average driver and may not be eligible for discounted rates.

What are the advantages?

Linking insurance premiums to your driving performance allows insurers to price premiums more accurately. Your premiums may go up or down depending on your driving behavior. Low-risk drivers will receive lower premiums.

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Consumer Alert



Consumer Alert

UBI may help you save money on insurance premiums. Consequently, driving without hard stops and bursts of acceleration will likely improve your fuel economy. Real-time tracking may also accelerate the response time if you're involved in an accident.

Is UBI right for me?

Before you decide if UBI is right for you, ask the following questions:

- Do I trust my insurer with my information?
- Do I think my driving behavior will help my premiums? If not, am I willing to alter my driving behavior for a discount?
- What is the potential savings I'll receive if I let my insurer monitor my driving behavior?
- What exactly will be monitored? What devices will be used?
- Will my insurer allow me to decide whether information from a telematics device is used after an accident to settle a claim?

What next?

As tracking technology continues to develop, UBI will become more common. By the end of 2018, it's estimated that 80 percent of new cars for sale in the U.S. will be equipped with on-board telematics devices and by 2020, 70 percent of all auto insurers will use telematics.

Mobile phone apps are also being used to monitor driving behavior. This technology shift suggests UBI may become the most common way to determine auto insurance premiums.

For more information contact the South Carolina Department of Insurance Office of Consumer Services. The specially trained staff is available to assist consumers with their insurance-related questions and concerns. You may contact the Office of Consumer Services by calling our toll-free number 1-800-768-3467 Monday-Thursday 8:00 a.m. - 6:00 p.m. or Friday 8:00 a.m. - 5:00 p.m.