Control your own car insurance costs: Pay as you drive

By Amy Danise, Insure.com - Last updated: May 29, 2009

If you don't put many miles on your car, the insurance industry has plans for you to save money on your car insurance.

[Let Insure.com help you find affordable car insurance now.]

Progressive Exhibit 2012
Liberty Mutual v. Progressive
CBM2013-00009

Car insurers have long offered low-mileage discounts based on your commuting distance to work and/or annual mileage. Now they're considering ways for you to pay for car insurance based on *exactly* how much you drive. It's called usage-based car insurance, also known as "pay as you drive" or PAYD. A device in your car tracks your actual mileage and, come renewal time, your car insurance price is partly calculated based on your usage — and potentially even your driving habits and aggressiveness on the road.

Some insurers have been working toward this moment for years. Progressive, for example, has been testing and refining usage-based programs since a 1999 Texas test. "We put our toe in the water," says Richard Hutchinson, General Manager of Progressive's MyRate program, the newest incarnation of Progressive's pay-as-you-drive insurance program.

With MyRate, Progressive is going full throttle into usage-based insurance. The program is currently available in Alabama, Georgia, Kansas, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Missouri, New Jersey and Oregon. The company plans to offer it in additional states throughout the year.

Here's how it works: A device that plugs in under your steering column collects data on your mileage, when you drive, how often you drive and *how* you drive. Data is sent automatically to Progressive from the device via a cellular connection. Conventional factors such as your age, location, vehicle and driving record are still used in addition to usage in setting your car insurance premium.

"This empowers you to control your insurance costs," says Hutchinson. Savings can go as deep as 25 percent or more on the liability and property-damage portion of your insurance bill. However, it could also backfire: Someone who logs a lot of miles, or who drives like a crazy person, or who drives a lot after midnight (a high accident-rate time), could see a 9 percent surcharge.

David Snyder, Vice President of the American Insurance Association, an industry trade group, notes that insurers have long based rates partly on miles driven, but one driver's miles can be very different from another's in terms of risk exposure. For example, 10 miles driven on a back road at midnight carry far more risk than 10 miles driven on the highway on a sunny day. Tracking devices pinpoint some of this risk.

Road ragers need not apply. Sudden braking and acceleration, such as

The rocky road to pay-as-you-drive insurance

There are three main hurdles to changing the face of car insurance to pay-as-you-drive, according to insurers:

Technology

First, technology must support the idea. A device to track driving is needed and devices vary among insurance companies. It must accelerating more than 7 mph in one second, boosts your insurance rate under Progressive's program. Even if you drive in a relatively calm manner, you may simply not like the feeling that every time you slam on the brakes or go for a midnight ice cream run, your car insurance rate is creeping upward.

"People have different views on whether it's an invasion of privacy," says Loretta Worters of the Insurance Information Institute (III). "But people are willing to do it for the rate reduction."

The savings range will depend on your state. For example, Progressive's Alabama customers can see discounts of 40 to 0 percent, with no surcharge range, and have a "technology expense" of $5 a month.

Computing car insurance premiums to take into account *how much* you drive, *when* you drive and *how* you drive gets complicated. According to the 2008 rating manual filed by Progressive with the Alabama department of insurance, MyRate customers can fall into one of over 400 "usage-based insurance groups" depending on their driving habits. To be eligible for discounts, drivers must fall into one of the first 75 groups.

send the data without drivers being inconvenienced by sending it themselves.

Privacy

Second, drivers must be willing to be "observed" by their insurers via the data stream. Privacy remains a big question mark for consumer acceptance of pay-as-you-drive insurance. However, so far drivers have shown willingness to sacrifice privacy in exchange for saving money.

State regulations

Third, state regulators must approve the new programs and rates. "In some states it's an education process," says Hutchinson of Progressive. "It raises a lot of questions."

Recipe for savings

>How to whittle down your car insurance cost:

Usage-based car insurance
+
Limited driving
+
A minivan (generally lower premiums)
+
The highest deductibles you can afford
+
All the discounts to which you're entitled

Progressive customers can check their "Trip Details Log" driving profile online, sort trips by date and type of trip, and see their anticipated future discount. They can also drop out of the MyRate program any time and return to a standard policy if they don't like their expected new rate.

"You have to pay some attention because you could end up in a higher position," explains Hutchinson. "People are reducing their mileage and this fits nicely. It's a good idea for *some* drivers out there. We're not trying to shove it at them." In addition, you can choose MyRate for one vehicle in your house but not the others. If you have a car that sits in the garage most of the time, MyRate would garner you large discounts.

Progressive holds three patents related to its usage-based insurance system.

While Progressive was first out of the gate in implementation of usage-based car insurance, there's a pack forming at the starting line. But some competitors may have an entirely different idea about how to run this race. Here's what some of the nation's other auto insurers are up to.

Allstate

spokesperson Raleigh Floyd says that in the company's various tests of usage-based insurance, "Our focus is the driver, and helping everyone improve their own awareness of their driving habits — good or bad. We're looking at ways to make safer driving something everyone can achieve. Those safer drivers should also be able to save on their insurance."

Allstate is testing several devices and refining the feature and service combinations they feel will best deliver safer, more convenient driving.

"We are also looking beyond the devices — to the way we shape our entire program: Everything from the way we share driving insight with customers to the experience they have while driving. We need to nail three things: engagement, enjoyment and peace of mind. If we keep the driver's experience at the center of everything we do, all the other pieces should fall into place," says Floyd.

"It feels like what's next."

— Raleigh Floyd, spokesperson for Allstate

Allstate won't speculate on a launch date — or even divulge when testing began — but "it feels like what's next," says Floyd. "Customers are happy to tell us what works and what doesn't. They will certainly shape what we deliver in the marketplace."

Erie Insurance

is doing a test with 500 volunteers in Pennsylvania and Ohio. Erie is tracking speed, mileage, and acceleration and braking. Results do not affect premiums of the volunteers.

The Hartford

completed a six-month usage-based test in January 2008 using policyholder volunteers in Connecticut. GPS devices were used to track mileage and other data. The company has not released results from the test.

MileMeter

sells car insurance "by the mile" in Texas. Customers can purchase 1,000 to 6,000 miles and buy more miles as needed during a six-month policy period. MileMeter does not use tracking devices inside customer cars; instead, customers attest that the odometer readings they've given are accurate.

State Farm

is testing on a small scale in Oregon to determine the feasibility of usage-based insurance. Customers in the test have devices installed that track only mileage and are not paying usage-based rates.

Benefits beyond insurance rates

Drivers participating in pay-as-you-drive car insurance have hit upon other advantages to the programs.

Worters of III observes that parents use the "black boxes" to track teens' driving habits and speeding.

If pay-as-you-drive car insurance takes hold and drivers everywhere trim mileage in order to save money, it will ultimately benefit everyone. According to a 2005 report titled "Pay-As-You-Drive Pricing and Regulatory Objectives," by Todd Litman of the Victoria Transport Policy Institute, "Reductions in total vehicle travel may provide proportionally larger reductions in total crash costs, since about 70 percent of crashes involve multiple vehicles, and the average crash results in about 1.5 claims. . . . If your current mileage does not change but all other vehicles reduced their mileage by 10 percent, you could expect a 7 percent reduction in crash risk, since 70 percent of your crashes involve other vehicles. If you and all other vehicles reduce mileage by 10 percent, you could expect a 17 percent reduction in total crashes."

"If your current mileage does not change but all other vehicles reduced their mileage by 10 percent, you could expect a 7 percent reduction in crash risk."

— Todd Litman, Victoria Transport Policy Institute

A June 2008 pay-as-you-drive report by Litman also states that the programs can result in pollution and emissions reductions: "If applied to all vehicles it will achieve approximately a third of the Kyoto emission reduction targets for private vehicles."

It's an attractive proposition. "Some states have asked if we'd launch in their state," says Hutchinson, particularly states concerned with miles traveled and greenhouse gases.

"More and more, acceptance is climbing," observes Hutchinson. "People view insurance as part of overall transportation costs and they're looking for relief."

- **Related Articles**
- 11 ways to save on car insurance
- More car insurance stories
- Share
- Pin it

More from Amy Danise here

Ready to get a quote?

Get quick and easy auto insurance quotes

Zip Code:

Zip Code Currently insured?: Yes No

Explore Litigation Insights

Docket Alarm provides insights to develop a more informed litigation strategy and the peace of mind of knowing you're on top of things.

Real-Time Litigation Alerts

Keep your litigation team up-to-date with **real-time alerts** and advanced team management tools built for the enterprise, all while greatly reducing PACER spend.

Our comprehensive service means we can handle Federal, State, and Administrative courts across the country.

Advanced Docket Research

With over 230 million records, Docket Alarm's cloud-native docket research platform finds what other services can't. Coverage includes Federal, State, plus PTAB, TTAB, ITC and NLRB decisions, all in one place.

Identify arguments that have been successful in the past with full text, pinpoint searching. Link to case law cited within any court document via Fastcase.

Analytics At Your Fingertips

Learn what happened the last time a particular judge, opposing counsel or company faced cases similar to yours.

Advanced out-of-the-box PTAB and TTAB analytics are always at your fingertips.

API

Docket Alarm offers a powerful API (application programming interface) to developers that want to integrate case filings into their apps.

LAW FIRMS

Build custom dashboards for your attorneys and clients with live data direct from the court.

Automate many repetitive legal tasks like conflict checks, document management, and marketing.

FINANCIAL INSTITUTIONS

Litigation and bankruptcy checks for companies and debtors.

E-DISCOVERY AND LEGAL VENDORS

Sync your system to PACER to automate legal marketing.

WHAT WILL YOU BUILD? | sales@docketalarm.com | 1-866-77-FASTCASE