

# Understanding Usage-Based Insurance

## How does UBI work?

Usage-based insurance, 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.

## How are 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 advantages and disadvantages of UBI?

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.

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.

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 should I consider when trying to decide if UBI is right for me?

- 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?

For more information on auto insurance, please visit [www.ldi.la.gov/autoinsurance](http://www.ldi.la.gov/autoinsurance).



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