Commissioner Announces Final Approval of Usage Based Auto Insurance Regulations

Newly-approved amendments for California’s personal auto rating factor regulations now allow insurers to use verified actual mileage when establishing rates and premium. While certain limitations do remain, the revisions allow insurers more flexibility to price this “second” mandatory factor while addressing consumer privacy concerns.

Announced October 16 by the California Insurance Commissioner Steve Poizner, the new regulations lift insurer restrictions for only using estimated annual mileage with limited exceptions for rates and premiums. Additionally, the regulations introduce a price-per-mile rating option while allowing insurers to review verified annual mileage in combination with specified optional factors.

California auto classification plans are subject to two principal criteria unique to the state. First, auto rating factors must be established through a process known as “sequential analysis.” Second, the resulting factors must comply with a defined weighting scheme for the first three mandatory factors. The insured’s driving safety record must have the greatest weight, followed by annual mileage and years licensed. While there are mechanisms to verify driver safety record and years licensed, insurers did not have a means to verify actual miles driven. To address this, the new regulations specifically allow technological devices to collect actual mileage.

In 2006, weight calculations for the optional factors changed, requiring that no individual optional factor could have a weight greater than the third mandatory factor. This created additional pressure on insurers to increase the rate level effect of the first three mandatory factors.

The regulatory amendments may create incentives for insurers to expand mileage rating categories and create more rate level distinction. The amendments are also flexible enough to allow future innovation for allowably collecting mileage information.

To address the privacy concerns raised when the regulatory change was under review, the Commissioner specifically prohibits insurers from using a technological device to collect information on where, when or how the car is driven. Insurers may only collect location information as part of an emergency road service program, theft tracking service, map service or travel service.

Some jurisdictions, which have prohibited location data collection while the car is in use,
have implemented usage based insurance rating that also considers the quality-of-miles. For example, some insurer rating plans outside California have rate-level distinctions dependent on how often a technological device records quick acceleration or hard-braking. Other insurers charge more when the car is driven at peak travel times.

Additionally, commercial auto insurers using technological devices commonly rate on where, when and how the vehicle is driven.

The final California regulations are the result of a collaborative effort involving the insurance department, insurers, consumer groups, environmental groups and transportation researchers.

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