

# CLIMATE SOLUTIONS PORTFOLIO

## #6: Pay-As-You-Drive Vehicle Insurance

### Proposed Measure

With *Pay-As-You-Drive* (PAYD, also known as *Distance-Based Insurance*) pricing, a vehicle's insurance premiums and registration fees are based directly on its annual mileage. Existing rating factors are incorporated so that higher-risk motorists pay more per kilometre than lower-risk drivers. For example, a \$500 annual premium becomes 2.5¢ per km; a \$2,000 annual premium becomes 10¢ per km.

Since private vehicle insurance and registration fees average about \$1,500 per vehicle-year and the drivers travel about 20,000 kilometers a year, the PAYD fee would average about 7.5¢ per vehicle-km overall, equivalent to a 75¢ a litre increase in fuel prices. This is not a new fee – it is simply a different way to pay an existing fee. Based on standard transportation price elasticity values this should reduce affected vehicles' annual mileage by 10-15%.

PAYD has been tried with successful results. In Houston, Texas, the Progressive Insurance Company saved consumers an average 25% compared to traditional auto insurance; in the UK, 5,000 people are trialing PAYD through Norwich Union Insurance. In Ontario, Aviva Canada is using the Autograph recording device to track speed, distance and time of day, and over 1,000 drivers are achieving discounts averaging over 20%.

### Benefits

- (a) Reduces per capita fuel consumption and greenhouse gas emissions.
- (b) Reduces crash risk to all road users by giving motorists, particularly higher risk drivers, a new financial incentive to reduce their mileage and therefore accident exposure.
- (c) Reduces traffic congestion, parking congestion, and roadway costs.
- (d) Increases fairness, by making the premiums better reflect the insurance claim costs of each individual vehicle.
- (e) Increases insurance affordability by giving motorists a new opportunity to save money, allowing motorists to choose the insurance price structure that best meets their needs.
- (f) Benefits lower-income households, because they tend to drive their vehicles less than average.

### Execution

- **ICBC** - Implement a pilot project using odometer-based PAYD insurance and registration fees. Calculate the per-kilometre fees by dividing the current premiums and registration fees by the average annual mileage of each vehicle group (typically about 20,000 annual kilometre). Collect mileage data by means of an odometer audit performed at the beginning and end of the policy term, using third parties such as Aircare inspection stations and vehicle service stations to record odometer readings and check for signs of tampering. The pilot should include at least 1,000 volunteers the first year, doubling in size every year until PAYD pricing is available to all BC motorists, unless an unsolvable problem is encountered. The pilot could include variations such as monthly self-reported mileage and billing, verified by annual odometer audits.
- **Cabinet** - Require ICBC to implement a PAYD vehicle pricing pilot project.

**Resources:** *Distance-Based Vehicle Insurance as a TDM Strategy*, by Todd Litman: [www.vtpi.org/dbvi.pdf](http://www.vtpi.org/dbvi.pdf)