

Insights

Pay-As-You-Drive Insurance Offers Potential Benefits to Consumers and the Environment

Motor vehicle travel is a major contributor to air pollution, traffic congestion, and national security risks due to reliance on oil from outside the United States.

Despite efforts to encourage less reliance on personal vehicles, driving remains the overwhelming mode of choice. In large part, this is due to the economics of driving. Many of the largest costs (vehicle purchase costs and insurance) are fixed and must be paid on a vehicle regardless of how much it is driven.

The U.S. Environmental Protection Agency (EPA) is promoting innovative incentive concept known as Pay-As-You-Drive (PAYD) insurance, where customers purchase insurance on a per-mile basis, rather than as a fixed yearly premium. By changing how insurance is paid, the cost of coverage would effectively relate to how much a vehicle is driven, and turn a fixed cost into a variable cost. The more miles driven, the more you pay; the less you drive, the more you save—thereby providing a new incentive for people to drive less.

Although it is widely recognized that the amount of driving affects your risk of accident, traditional insurance

policies do not use mileage as a major risk factor when premiums are calculated. PAYD insurance would incorporate the risk factors currently used into a per-mile premium and allow individuals to decide



how much to spend on automobile insurance. Mileage would be tracked using odometer audits or through advanced global positioning system technologies.

To date, no insurance companies offer per-mile insurance. However, Progressive Insurance has pilot tested the concept in Texas; additionally, Norwich Union, the largest insurance company in the United Kingdom, has announced a pilot test.

ICF Consulting is supporting EPA in working with environmental organizations, insurance trade organizations, actuarial organizations, and transportation agencies in the United States to promote this concept.

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