

Pay As You Drive

"Americans drive too much. This isn't a political or moral argument; it's an economic one."

(Stephen J. Dubner and Steven D. Levitt; Published: April 20, 2008, New York Times Freakonomics blog).

This statement is true beyond the rising gas prices of recent months; insurance costs, new buzz words like "carbon footprint," and even the costs to society that are levied by simply getting in a car and driving down the road are all taking a toll. What is the solution? Using mass transit, vanpooling, or carpooling is a great start.

Insurance companies are also realizing the importance of rewarding auto owners that drive less and providing more equal distribution of premium costs. The newest trend in insurance companies is to charge customers on a "pay-as-you-drive" (PAYD) system. A tiny chip is inserted in your vehicle and it wirelessly reports how many miles you drive per month. Once the insurance company receives the information, your premium is automatically adjusted according to your driving volume. This distributes the premium costs evenly among drivers; people who drive 30,000 miles per year will be charged more than people only driving 3,000 miles per year. Consumers can easily see the advantages and disadvantages to switching to this type of premium assessment.

GMAC Insurance was the first to explore a PAYD program by expanding the functions of their OnStar® system in 2007 to report the miles driven by each car. Over the past year, GMAC Insurance has offered this service to 2.8 million subscribers of OnStar and says they can help them to reduce insurance costs by up to 54%. The highest percentage of savings naturally goes to those who drive the least; the savings for average drivers (12,000-15,000 miles per year) is approximately 13% (www.onstar.com/us_english/jsp/new_at_onstar/low_mileage.jsp).

Progressive® Insurance is another company offering a PAYD system to its customers however it is only accessible in Alabama, Michigan, Minnesota, and Oregon at this time, with more states to come soon. In some states, there is an additional \$30 "technology fee" that is to be paid at the beginning of every renewal period which covers the cost of transferring information between the device and Progressive. In comparison to GMAC's program, the Progressive Insurance device also takes into consideration how you drive; so in addition to miles driven, it also reports speed, stopping conditions, and times of day when you drive (<http://auto.progressive.com/progressive-car-insurance/myrate-eligibility.aspx>)

Certain issues, such as privacy infringement, information transmission abilities, and tracking technology have been raised since the inception of PAYD programs. The companies offering this service have gone to great lengths to make the systems secure and personal information is not given to third parties. Strict terms and conditions policies help to ensure that both the customer and company are protected. Both GMAC and Progressive allow cancellation at any time without incurring any additional fees.

If you are a minimal driver this is a great system to help save on automobile costs during this growing period of oil and gas prices. If you are interested, contact your insurance company to see if they offer a program like the ones described above. Happy commuting!

