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61st Montana Legislature

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September 3, 2010

TO: Revenue and Transportation Interim Committee
FROM: Megan Moore, Legislative Research Analyst
SUBJECT: Details on Availability of Mileage-Based Motor Vehicle Insurance Policies

The Revenue and Transportation Interim Committee previously received information about mileage-based insurance as part of the committee's consideration of SJR 16.¹ The purpose of this memo is to provide specific information about the mileage-based products offered in California, Oregon, and Texas, whether those products are available in Montana, and what factors contribute to the decision to provide mileage-based insurance here.

States With Mileage-Based Insurance

California

The California Department of Insurance issued new regulations, effective October 2009, that allow insurers to offer policies based on actual miles driven.² State Farm Mutual Automobile Insurance and the Automobile Club of Southern California applied to offer policies under the new regulations. Both applications are under review by the Department of Insurance.³ State Farm has the largest market share of private passenger motor vehicle providers in California.⁴

Oregon

Oregon offers a tax credit to companies that provide motor vehicle insurance policies that are, "at least 70 percent based on a mile-based rating plan or a time-based rating plan." The credit is \$100 per vehicle but may not exceed \$300 for each policy. The credit is not refundable, may not be carried forward, and expires after the total credits claimed exceed \$1 million. The credit was to expire December 31, 2009, but was extended to December 31, 2015.⁵

¹ Jeff Martin, Memorandum on Mileage-Based Motor Vehicle Insurance, April 30, 2010.

² See <http://www.insurance.ca.gov/0400-news/0100-press-releases/2010/release070-10.cfm>.

³ See <http://www.insurance.ca.gov/0400-news/0100-press-releases/2010/release092-10.cfm>.

⁴ See [http://interactive.web.insurance.ca.gov/webuser/ncdw_ranked_co_line\\$cprm_mc.actionquery?P_L_CODE_DESCRIPTION=Private+Passenger+Auto&P_UB_SORT=&P_LINECODE=&Z_ACTION=QUERY&Z_CHK=0&P_LI_NEPCODE=](http://interactive.web.insurance.ca.gov/webuser/ncdw_ranked_co_line$cprm_mc.actionquery?P_L_CODE_DESCRIPTION=Private+Passenger+Auto&P_UB_SORT=&P_LINECODE=&Z_ACTION=QUERY&Z_CHK=0&P_LI_NEPCODE=).

⁵ Chapter 317.122, Oregon Laws 2009.

No insurance company claimed the tax credit for tax years 2007 or 2008.⁶ The law requires companies claiming the credit to obtain a verified statement from the policyholder that the policy for which the credit is claimed covers all vehicles used by the policyholder's household.⁷ This documentation requirement may be a factor in companies not claiming the credit.

The Oregon Insurance Division lists three providers that offer pay-as-you-drive (PAYD) insurance or discounts based on mileage for private vehicles: GMAC Insurance, Progressive, and Travelers Home and Marine Insurance Company. These companies are profiled in this memo.

Texas

The Texas Legislature passed House Bill 45 in 2001, creating the Alternative Rating Plan Pilot Program. The program permitted insurers to offer customers a choice between a mile-based rating plan or a time-based rating plan and allowed insurers to require policyholders to insure all vehicles in the same rating plan. The program terminated September 1, 2005, but Texas law still allows for mileage-based insurance.⁸

The only mileage-based insurance provider offering policies in Texas is MileMeter.⁹

Details on Mileage-Based Insurance Policies

The companies discussed below sell insurance priced by the mile or offer low-mileage discounts. MileMeter is the only PAYD provider. The other companies listed give discounts based entirely or in part on the number of miles driven.

Two companies currently offer discounts to Montana drivers or plan to in the near future:

- GMAC Insurance offers a low-mileage discount to Montana residents who subscribe to OnStar.
- Progressive plans to provide its Snapshot Discount in Montana next year. The discount is based on braking patterns, the number of miles a customer drives, and the time of day the customer drives.

The other companies listed below – MileMeter, State Farm, and Travelers – either do not operate in Montana or do not offer a low-mileage discount in the state and have no immediate plans to do so. The main reason given by companies for not selling mileage-based products in Montana is the state's small market size.

MileMeter

MileMeter sells auto insurance based on the number of miles a policyholder drives. Customers purchase coverage in increments of 1,000 miles to 6,000 miles and can purchase additional

⁶ E-mail correspondence with Dennis Maurer, Oregon Department of Revenue, Policy Analyst.

⁷ Chapter 317.122, Oregon Laws 2009.

⁸ See <http://www.legis.state.tx.us/tlodocs/77R/billtext/html/HB00045F.htm>.

⁹ Phone conversation with Larry Dunbar, Texas Department of Insurance, Personal Lines Division.

miles as needed during the 6-month coverage period. If customers drive more than the number of miles purchased, they are still covered as long as they pay for the additional miles.¹⁰

MileMeter bases the per-mile rate on driver age, location of residence, and vehicle characteristics. The company does not use credit scores or set prices using driving records.¹¹

Policyholders provide mileage verification to MileMeter at the time of the initial purchase and at renewal by taking a photo of the odometer with their driver's license in view. The company reserves the right to ask for additional odometer photos at any time. MileMeter exempts customers over the age of 65 from the photo requirement because they may not have access to a digital camera or be familiar with the technology.¹²

MileMeter policies cost an average of \$200 per vehicle per year across all policies compared with \$600-\$700 for other Texas policies.¹³ The company suggests that customers who drive fewer than 12,000 miles a year may save money with a MileMeter policy.¹⁴ MileMeter policies are purchased by customers who live in urban or rural areas. The company is popular with households with more vehicles than drivers (suburban areas), urban professionals, small business owners, stay-at-home parents, students, retirees, and those who drive commercial vehicles.

MileMeter is planning to expand beyond Texas but faces the challenge of complying with different regulatory systems in each state. As a startup company, MileMeter is focusing on large markets such as California. Expansion into Montana is not a priority because of the state's small population. Even though there is no legal barrier to pricing auto insurance by the mile in Montana, MileMeter would have to expend some effort to get regulatory approval. The company would need economic incentives to offer insurance in Montana, and the tax credits offered in Oregon are not attractive enough for MileMeter to focus expansion efforts there.¹⁵

MileMeter CEO Chris Gay also mentioned laws the company views as beneficial for motor vehicle insurance providers. These include revocation of coverage for policyholders who cheat the insurer, ability for the insurer to prosecute fraudulent customers, attorneys, and doctors, and requirements that the insured use damage payments to repair the vehicle. Montana law does not align exactly with these policies but addresses the first two:

- 33-1-1211, MCA, directs the Commissioner of Insurance to require a person who commits insurance fraud to make restitution to the insurer for all financial loss resulting from fraud; and
- 33-1-1203, MCA, allows the Commissioner to prosecute in cases of insurance fraud or assist a prosecuting authority.

Montana law does not require use of damage payments for vehicle repairs.

¹⁰ See <http://milemeter.com/faq/all>.

¹¹ E-mail correspondence with Chris Gay, MileMeter, Chief Executive Officer.

¹² See <http://milemeter.com/faq/all>.

¹³ E-mail correspondence with Chris Gay, MileMeter, Chief Executive Officer.

¹⁴ See <http://milemeter.com/milemeter2>.

¹⁵ E-mail correspondence with Chris Gay, MileMeter, Chief Executive Officer.

OnStar

OnStar subscribers are eligible for a low-mileage discount when they purchase motor vehicle insurance through GMAC Insurance. State Farm is also conducting a low-mileage discount pilot program in Ohio. OnStar is available only in General Motors (GM) vehicles, which include Buick, Cadillac, Chevrolet, GMC, Hummer, Pontiac, Saab, and Saturn. OnStar became standard in GM vehicles sold in the U.S. in 2007, but some models dating back to 2004 are also equipped with OnStar. The OnStar service provides subscribers with 24-hour access to advisors, connection to emergency assistance, and hands-free calling.¹⁶ The lowest priced OnStar plan costs \$18.95 per month.¹⁷ Part of the OnStar service requires collection of GPS data but OnStar provides the insurance company only with miles driven.¹⁸

GMAC Insurance

GMAC Insurance offers a low-mileage discount to OnStar subscribers in 35 states, including Montana. Customers who drive fewer than 15,000 miles a year may qualify for the low-mileage discount. Those who drive more than 15,000 miles a year still receive a discount for having an OnStar subscription.

The following example from the GMAC website shows a sample premium and discounts for different ranges of miles traveled.¹⁹

Miles Traveled Per Year	Annual Premium	Percentage Savings	Annual Savings	Annual Premium With Savings
0-2,500	\$800	54%	\$432	\$368
2,501-5,000	\$800	39%	\$314	\$486
5,001-7,500	\$800	34%	\$270	\$530
7,501-10,000	\$800	26%	\$211	\$589
10,001-12,500	\$800	18%	\$145	\$655
12,501-15,000	\$800	13%	\$101	\$699

State Farm

¹⁶ See <http://www.onstar.com/web/portal/onstarexplained>.

¹⁷ See <http://www.onstar.com/web/portal/Planspricing>.

¹⁸ See <http://www.onstar.com/en/web/portal/insbenefits>.

¹⁹ See <http://www.lowmileagediscount.com/saveoninsurance/?cpao=112&cpca=Chevrolet&cpag=Chevrolet+Dealer&kw=chevrolet+avalanche+dealers>.

State Farm is operating a pilot program in Ohio that gives OnStar subscribers a discounted premium based on the number of miles driven. Most participants get an initial discount of 5 percent, and that rate is adjusted after State Farm has “sufficient” mileage readings.

The following example provided by State Farm shows possible savings for an adult aged 30-49 with estimated annual mileage before enrollment in the discount program of more than 7,500 miles.²⁰

Miles Traveled Per Year	Annual Premium	Percentage Savings	Annual Savings	Annual Premium With Savings
500	\$600	45%	\$270	\$330
3,500	\$600	32%	\$192	\$408
6,000	\$600	23%	\$138	\$462
8,500	\$600	18%	\$108	\$492
11,000	\$600	13%	\$78	\$522
13,000	\$600	9%	\$54	\$546
16,000	\$600	3%	\$18	\$582
17,000 or more	\$600	1%	\$6	\$594

Progressive

Progressive offers a Snapshot Discount that the company plans to roll out in Montana in early 2011.²¹ The program already operates in 24 states with more than 100,000 enrolled customers. The discount is based on three factors: how a customer drives - measured by braking patterns, the number of miles a customer drives, and the time of day the customer drives. Using a Snapshot device, Progressive collects time of day, vehicle speed, when the device is connected and disconnected from the vehicle, and the vehicle identification number (VIN). The Snapshot device operates using an onboard diagnostic port that is generally standard in model year 1996 vehicles and newer.²² The device does not track whether a customer is speeding and is not equipped with GPS technology to track location.²³

Participants in the Snapshot Discount program use the device for 30 days, after which Progressive adjusts the premium by a discount of up to 30 percent. The device remains in the vehicle through the end of the 6-month insurance term, and Progressive adjusts the premium again based on the data collected. After one 6-month term, Progressive removes the device but reserves the right to monitor driving at any time as long as a driver remains in the program.

²⁰See http://www.statefarm.com/insurance/auto_insurance/drive_save_safe.asp.

²¹Phone conversation with Sharon Butts, Progressive Product Analyst.

²²E-mail correspondence with Sharon Butts, Progressive Program Analyst.

²³See <http://www.progressive.com/snapshot/common-questions.aspx>.

Snapshot Discount program participants could see premium increases based on data collected but have the ability to track projected renewal rates online and can cancel participation.²⁴ If a participant opts out of the program, Progressive does not use data collected from the Snapshot device to alter the premium charged before participation.²⁵

Progressive does not share information on customer demographics.

Travelers Home and Marine Insurance Company

Travelers offers a premium discount to Oregon customers of 3 percent to 20 percent based on miles driven per week. Customers who drive fewer than 6 miles per week or 312 miles annually receive the largest discount of 20 percent. Drivers traveling more than 196 miles a week or 10,000 miles annually do not receive a discount.²⁶

According to a Travelers representative, the Oregon discount is a test program and the company is unlikely to offer a similar discount program in Montana for the following reasons:

- Population: Nearly four times as many Oregon residents than Montana residents means a larger potential pool of customers. Oregon's population is more than 3.8 million compared with Montana's population of 974,989 .²⁷
- State size/vehicle use patterns: Montana drivers may travel more miles than Oregon drivers due to a larger land area and lack of alternatives to driving such as public transportation, biking, or walking.
- Privacy concerns: There was some resistance to the tracking device in Oregon and concern that privacy would also be a hurdle in Montana.

The representative described Travelers as a preferred insurance carrier that is unlikely to attract drivers who are currently uninsured, even if the company offers a low-mileage discount.²⁸

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²⁴ Phone conversation with Sharon Butts, Progressive Product Analyst.

²⁵ E-mail correspondence with Sharon Butts, Progressive Program Analyst.

²⁶ See <http://www.insurance.oregon.gov/consumer/auto-insurance/pay-as-you-go.html>.

²⁷ 2009 population estimates from the U.S. Census Bureau. Retrieved from <http://www.census.gov>.

²⁸ Phone conversation with Katie Hensel, Travelers Insurance Marketing Representative based in Montana.