

# Vehicle telematics and usage based insurance

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One of the most exciting recent trends in the global automobile insurance industry is the introduction of ‘usage based insurance’ (UBI). UBI, which is also known as ‘pay as you drive’ and ‘pay how you drive’ insurance, has been made possible with the advent of a technology called vehicle telematics. Not only is UBI being credited with improving driving, saving lives and saving money, some experts believe that it has the potential to turn the traditional method of insurance premium pricing on its head. Manitoba Public Insurance (MPI) has not adopted UBI in Manitoba, however there is the possibility that this new method of setting insurance premiums may one day be employed in the province. Whether or not the introduction of UBI in Manitoba would raise legal issues with respect to privacy will be discussed below.

## VEHICLE TELEMATICS

Vehicle telematics is the integrated use of telecommunications and informatics for application in road vehicles. The technology, which includes such things as GPS navigation, integrated hands-free cell phones and automatic driving assistance systems, has dramatically changed the driving experience. If you drive a vehicle with Bluetooth capabilities, for instance, you probably use vehicle telematics technology on a daily basis (and you might be wondering how you ever lived without it!). Other practical applications of this technology include vehicle tracking, fleet management and emergency warning systems. Vehicle telematics is also having a strong impact on the automobile insurance industry, with many insurance providers racing to adopt UBI programs of their own.

## HOW DOES IT WORK?

Under the UBI model, a driver’s behavior is recorded via a wireless device (known as a “dongle”) installed in the OBD2 diagnostic port of the insured’s car. While the car is in motion, the dongle gathers information about the insured’s driving habits, and transmits it to the insurance provider. Using the data collected, the provider assesses the risk of that driver having an accident, and charges insurance



premiums accordingly. Tracking such things as hard braking, speed and fast acceleration in real time using vehicle telematics technology gives insurance providers a more accurate measure of propensity of loss than the traditional proxies, such as driving record, residence and type of vehicle. By measuring how individuals actually drive, the UBI model allows for a far more equitable and accurate system of assessing premiums. No longer must the poor driving of some make car insurance more expensive for all. UBI programs also have the potential to reduce emissions, increase fuel efficiency and prevent fraudulent insurance claims. According to a report by KPMG, automobile insurance fraud in Ontario alone costs insurers upwards of \$1.6 billion per year. By providing insurers with a clearer picture of what is happening behind the wheel, UBI programs offer a new tool to combat bogus claims. Not surprisingly, some observers are hailing UBI as the future of auto insurance.

In recent years, many insurance providers in Europe and the United States have adopted this groundbreaking model. According to *Telematics Update* (08/07/14), Progressive, the prominent American insurance provider, currently controls the lion’s share of the American UBI market, with 1.6 million customers in their UBI program. In Canada, several providers have rolled out UBI programs. For instance, Desjardins has introduced a UBI program called Ajusto that offers drivers in Quebec and Ontario savings of up to 25% off their regular premiums. Like most UBI programs, Ajusto tracks driving behaviours using wireless dongles. Because current technology does not

allow the insurance provider to know who is driving the insured vehicle at any given time, only the vehicle’s registered owner stands to gain from (or lose) potential savings on premiums.

## UBI IN MANITOBA?

Though it is not in place today, an opt-in UBI program is a possibility in Manitoba. In fact, according to a June 2013 report, MPI is considering the use of vehicle telematics in its High School Driver Education Program. This technology would allow driving instructors and parents/guardians to monitor student progress in acquiring safe driving habits. Perhaps Manitoba will follow the lead of Saskatchewan, where SGI, the government-run auto insurance provider, has begun implementing a UBI program for motorcycles – the first of its kind in the world. According to *Telematics Update* (06/03/14), SGI hopes that the program will help to reduce its high number of motorcycle accidents. SGI plans on expanding the program to vehicles in the future, with taxi fleets as the next possible target.

## PRIVACY IMPLICATIONS

In recent years, privacy has become a hot-button issue, with data breaches featuring prominently in our modern-day news cycle. Not surprisingly, UBI has raised significant privacy concerns. Consumers are increasingly aware of – and concerned about – the ways in which their personal information is used by the companies that collect it. Because UBI programs naturally involve the collection of personal data, there is certainly cause for concern. Fortunately



for consumers, Canada has some of the strictest privacy laws in the world.

Here in Manitoba, there are several laws that govern how companies must handle personal information about identifiable individuals. MPI, as a public body, falls within the scope of Manitoba's *The Freedom of Information and Protection of Privacy Act (FIPPA)*, *The Personal Health Information Act (PHIA)* and *The Drivers and Vehicles Act (DVA)*. Among other things, *FIPPA* controls the manner in which public bodies may collect personal information from individuals, and protects individuals against unauthorized use or disclosure of such personal information. *PHIA*, on the other hand, establishes similar rules with respect to personal health information. Finally, *DVA* sets out further ground rules with respect to MPI's handling of personal information. Private-sector organizations in Manitoba, meanwhile, are subject to Canada's *Personal Information Protection and Electronic Documents Act (PIPEDA)*, which sets the rules for how non-public organizations, such as private insurance providers, collect, use and disclose personal information about individuals.

With limited exceptions, MPI cannot disclose an individual's personal information – including such things as name, address, contact information, age and gender – without that individual's consent. MPI, which is privy to a significant amount of personal information about Manitoba drivers, already has an extensive privacy policy in place, which helps MPI to be compliant with the above-mentioned privacy laws. UBI is essentially a tracking device, which, if implemented in Manitoba, would allow MPI to monitor drivers' behaviours – thus adding another layer to the type of information about drivers in MPI's control. Nonetheless, any such data collected would likely still fall within the *FIPPA* definition of personal information. Thus, MPI would be required to handle

such data in the same manner as all other personal information currently in its control. It is therefore unlikely that a UBI program in Manitoba would increase the likelihood that Manitoba's drivers would become victim to a breach of privacy.

So long as we can remain confident in MPI's ability to handle our personal information with care, the introduction of a UBI program here in Manitoba will likely be appealing to many drivers in the province - especially if it can help to increase safety on our roads and potentially reduce premiums for drivers. #



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