

[How will usage-based insurance change the Indian insurance sector?](#)



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Quite a few of us have experienced driving to the office just a few times a week in this era of hybrid working. When the frequency of the usage of the car dips from daily outings to bi-weekly outings, an immediate fallout is the thinking process that the insurance ought to be on usage rather than duration. And that is precisely where the concept of “pay as you go” fits the bill.

In this context, the advent of technology has created tremendous opportunities for the insurance fraternity to rise to such exciting yet challenging demands of consumers. The regulators too have aided this via the introduction of modules in this regard. In India, IRDA has recently introduced two modules for motor insurance – “Pay as You Drive” and “Pay How You Drive.” This is Usage-based insurance (UBI).

As per Allied Market Research, the global usage-based insurance market was valued at \$28.7 billion in 2019. UBI is projected to reach \$149.2 billion by 2027, growing at a whopping CAGR of 25.1% from 2020 to 2027.

Usage based insurance (UBI) is a type of policy wherein the policy premium is linked with vehicle usage. The telematics device—a system installed in the vehicle — monitors the vehicle’s speed, time, and distance, which are later transmitted to the insurance company, enabling them to charge insurance premiums accordingly. Furthermore, insurers utilize UBI plans to align the driving behaviour of individuals with the premium charged by them.

The objective of such covers is that motor insurance becomes further affordable, especially for those guests who primarily opt for only third-party covers and overlook the benefits of own damage covers. This will help in discarding the ‘standard premium for all’ and enable guests to opt for a premium as per their consumption. Pay as You Drive or Pay How You Drive can be beneficial for those customers who have low vehicle usage, take care of their vehicles, follow business rules, and maintain safe driving patterns/behaviour.

UBI gives benefits to users as well as insurers. The advantages of UBI for users are as follows:

### **Rewarding safe drivers**

If the driver meets the insurer's expectations, he is likely to be rewarded as the driver can have access to customized rates based on driving patterns. Also, safe drivers can enjoy a lesser premium as compared with risky ones!

### **Geofencing**

Telematics tools/software come with a tracking mechanism utilizing geofencing that can benefit companies that want to track their fleet of vehicles or owners who want to know where their young drivers/family members are heading to.

### **Accident investigations**

In accident scenario, those who are safe drivers can benefit from the GPS data leading up to the spot of incident. The insurance providers can use the telematics data to settle the claim accurately.

The benefits for insurers are as follows:

### **Attracting low-risk drivers**

Since low-risk drivers can benefit from safe driving, more low-risk drivers can get attracted to the insurer.

### **Reduced claim costs**

Insurance companies will be flexible as regards the premium charged, which can help reduce claim costs. In other words, if the pricing is proportionate to the risk involved, it helps consumers and firms alike!

### **Fraud reduction**

Telematics, sensors, and cameras can help reduce the potential for fraud in the claim process.

### **Automated claims management**

With all the technology, claim settlement can be far more automated.

As they say, the best strategy in business is a satisfied customer. Towards that end, if customers can truly exercise a choice in terms of paying as per usage, and the exercise of that choice leads to a spike in customer satisfaction, a significant step in terms of meeting the firm's objectives has been taken.