

Car tracking devices and the effect on car insurance premiums essay samples

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CAR TRACKING DEVICES AND THE EFFECT ON car insurance PREMIUMS

Introduction

Insurance is an agreement where the insurer (company) agrees to pay to the policyholder (individual or company) a certain amount to compensate for loss in the event of the occurrence of an uncertain event (Feldman and Brown, 2005). Insurance coverage transfers the risk of loss from an event occurring in exchange for the payment of a fixed amount of money called the insurance premium. Risk recognition is a factor in determining the amount of premiums that would be paid by the policyholder. Premium computation takes into account hazards or conditions that increase the likelihood of loss or its magnitude. An example would be smoking for life and health insurance and poor wiring in the case of fire insurance.

In the case of the automobile industry, insurance is often tied to the purchase of vehicles. Of late, car tracking devices have been adopted to demonstrate the technological advantage of wireless transport monitoring. In this article, we consider the argument for the adoption of car tracking devices as favorable to policyholders because their widespread use through an insurance product called telematic insurance will lead to lower insurance premiums.

Determinants of Car Premiums

Automobile insurance rates, or the premiums customers pay in exchange for insurance coverage on their vehicles, are typically determined by information gathered by insurers during their purchase of the insurance. These information for the most part put great weight on age, location, car type and the driving record (Cadet, 2013). According to the AT Kearney study (Reifel et al, 2010), insurance companies typically determine auto premium rates based on information such as age, sex, annual mileage and driving record. In general, risk or the predisposition to a likelihood for car accidents to happen influences the amount of car insurance premium a policyholder pays. The assignment of risk in a car insurance policy is taken into account in the calculation of insurance premiums to be paid. Teenaged drivers are charged higher premiums for comparable car insurance coverage than experienced drivers because the former represents a riskier group on the whole. In the same token, a driver's claims record with an insurer does have a bearing on the amount of premiums that will be paid. In some cases, drivers with a good safety record (zero claims) are given lower insurance premium quotations since they are able to avail of discounts that insurers offer. Prior to telematics, premiums on a granted policy could be reduced in practice based on a zero-claim history.

The Plus Side of Telematic Technology

Telematic technology, which is the integration of mobile communications, vehicle monitoring systems and location technology (Reifel et. al., 2010), proposes to enhance the business of insurance companies with a device that

monitors a car's operation second-by-second and records key information fed into data systems (Tanner, 2010). Telematic devices allow the tracking and monitoring of vehicles, their drivers and location. The information collected under this technology may be useful in various ways. With respect to the insurance industry, telematics insurance allows the collection and monitoring of driver information that will be helpful to ensure enhanced driver safety which represents a lower risk for both insurer and client. Telematics is seen to revolutionize the automobile insurance industry with its promise of providing personalized insurance premiums based on individual driving data, more immediate and active management of insurance claims, automated emergency services and entertainment-based add-ons (Reifel et. al., 2010). More importantly, aside from its promise of improving driving safety and reduced claim costs, telematic technology can provide the policyholder information on safe driving, as well as ensure immediate accident response, theft security and accident reconstruction. Plugged into the car dashboard or professionally-installed during the duration of the car insurance policy, the device is especially recommended for safe drivers who rarely drive at high speed or late at night. Installing such devices allows insurers to offer lower premiums (representing a lower risk) for adequate insurance coverage. Because of its novelty in the car insurance industry, telematic devices have been known to be installed on the vehicles of speed and risky drivers without added penalties for the latter yet (Tanner, 2013). In the case of the British insurer Insure the Box, its telematic device collects a number of data, including whether the space to the side of the vehicle is

occupied or the car has rotated suddenly (Tanner, 2013). With such a device, a good driver can save up to \$1, 500 in annual premiums.

The Minus Side of Car Tracking Devices

Conclusion

Incentives have certainly played a key role in convincing people to purchase telematic insurance for their vehicles. As insurance companies embrace the telematics technology, car premiums had been offered at a discount as a way to bring customers to use car tracking devices. There are arguments why telematic insurance can lead to lower premiums for policyholders, among which are:

- Insurers have good reason to adopt telematic technology because of its ability to lower the risk and extent of claims. In addition, telematics' promise of improving driving safety will come from the use of driving data that will also allow insurers to set customer-specific or usage-based premiums. This pricing arrangement will encourage customers to drive more safely because doing so will allow them to pay for their next insurance coverage at substantial discounts on their premium.
- Research shows that the in-car feedback and driving tips made possible by telematics actually help drivers make smart maneuvers on the road. This greatly lowers the the risk of claiming on the insurance.
- Greater demand for telematic insurance will result to enlarging the insurance pool so that risk is widely distributed and can yield to lower premium calculation on the whole for buyers of telematic insurance.

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