Tesla takes on insurtechs with usage-based insurance rollout in Texas

Article

The news: This marks the electric carmaker's first usage-based insurance (UBI) product after launching a traditional insurance program in California two years ago.

Here's how it works: In Texas, **Tesla's** premiums will be based on its proprietary safety score.

- The scoring system was first used to determine whether a driver could access their car's "**Full Self-Driving**" option, and it will now be used to underwrite Tesla drivers who buy its insurance in the state.

- The score is calculated by analyzing the customers' real-time driving behavior based on five criteria: instances of forward collision warnings, hard braking, turning corners aggressively, unsafe following, and forced Autopilot disengagement.

- The price will be revised every month, with those deemed "average" drivers said to save **20% to 40%** on their premiums compared with other providers.
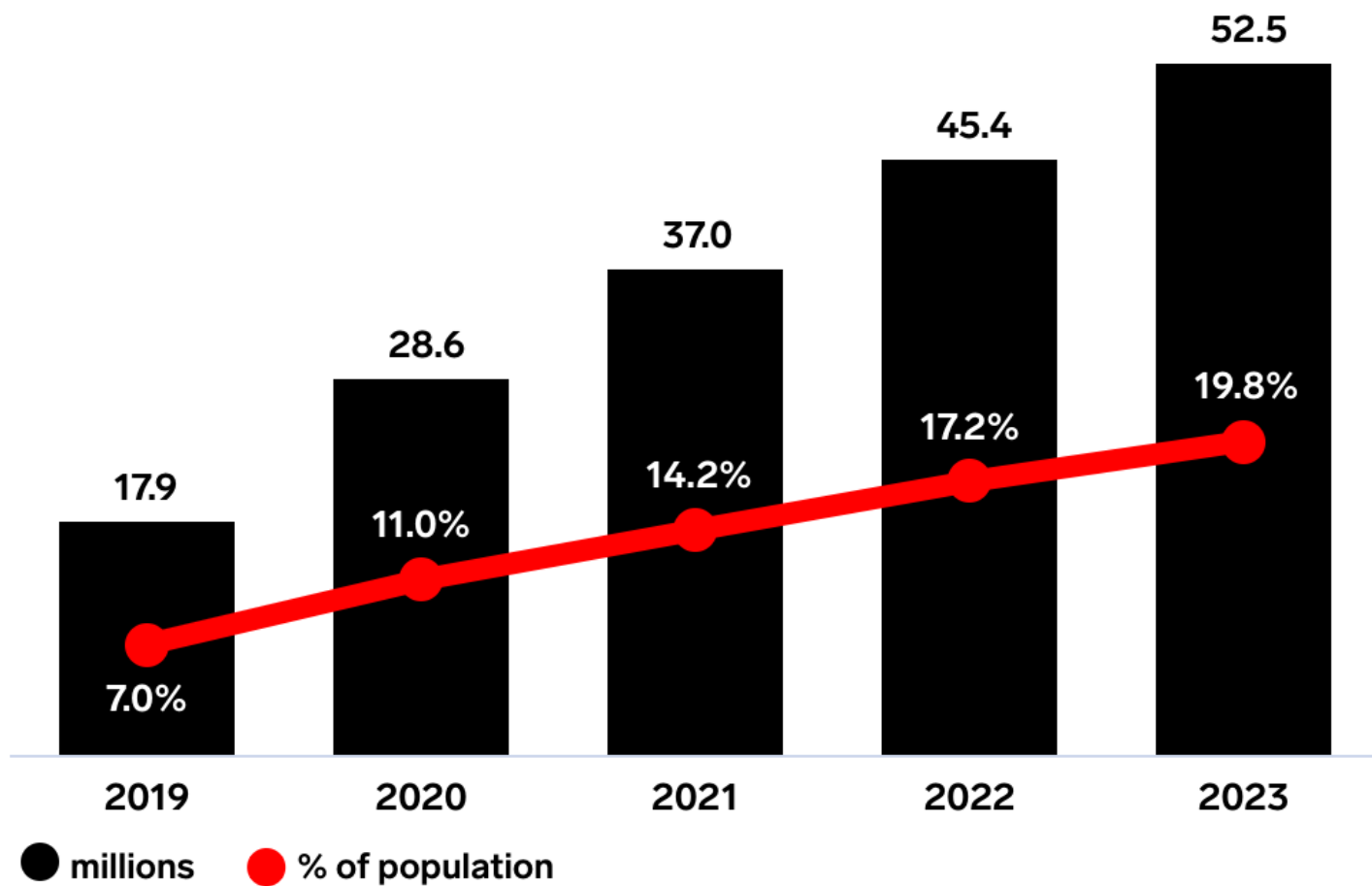
How will it fare against competing UBI offerings? Tesla could potentially offer cheaper and more flexible coverage than insurtechs, but there may be concerns over the scoring system still being in beta.

- Tesla could be cheaper than UBI insurtech **Metromile**, which charges not only a rate based on driving distance and behavior but also a base rate that takes into account traditional factors like claim history, age, and gender. By contrast, Tesla says it will solely focus on driving behavior and will only charge one rate.

- And monthly renewals make it more flexible than **Root**, which only uses driver data to change its prices every six months.

- Tesla's offering is also seamlessly embedded in its cars, whereas competing UBI offerings tend to require either installing a physical device or downloading an app.

- But Tesla says the safety score is still a beta feature that should improve over time. This calls into question whether it rolled out its UBI too early—the firm has a history of rolling out products before they're fully considered safe. It's possible the software in its current form may not properly assess driver risk or price premiums.

Bottom Line: Irrespective of these concerns, Tesla drivers in Texas will flock to its coverage amid growing demand for such solutions: Our forecast expects **52.5 million US drivers to buy UBI coverage** by 2023, up from 37 million this year.

Usage-Based Insurance Drivers
US, 2019-2023

	2019	2020	2021	2022	2023
millions	17.9	28.6	37.0	45.4	52.5
% of population	7.0%	11.0%	14.2%	17.2%	19.8%

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