CAS ANNUAL MEETING: UBI REGULATION

November 2010

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Agenda

- Introduction: Robin Harbage
- Comments: Cara Blank
- Comments: Anne Kelly
- Q&A

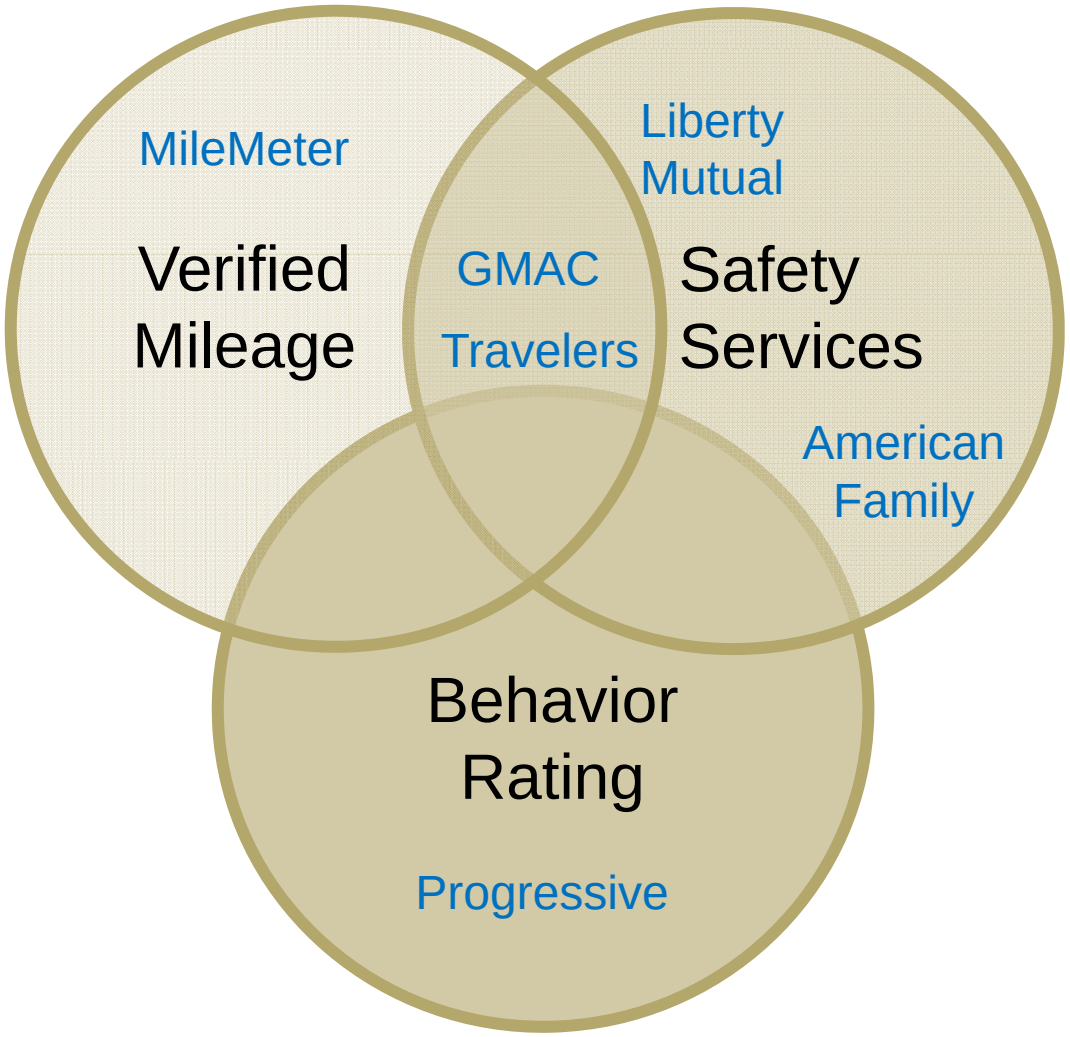
INTRODUCTION

What is usage-based insurance (UBI)?

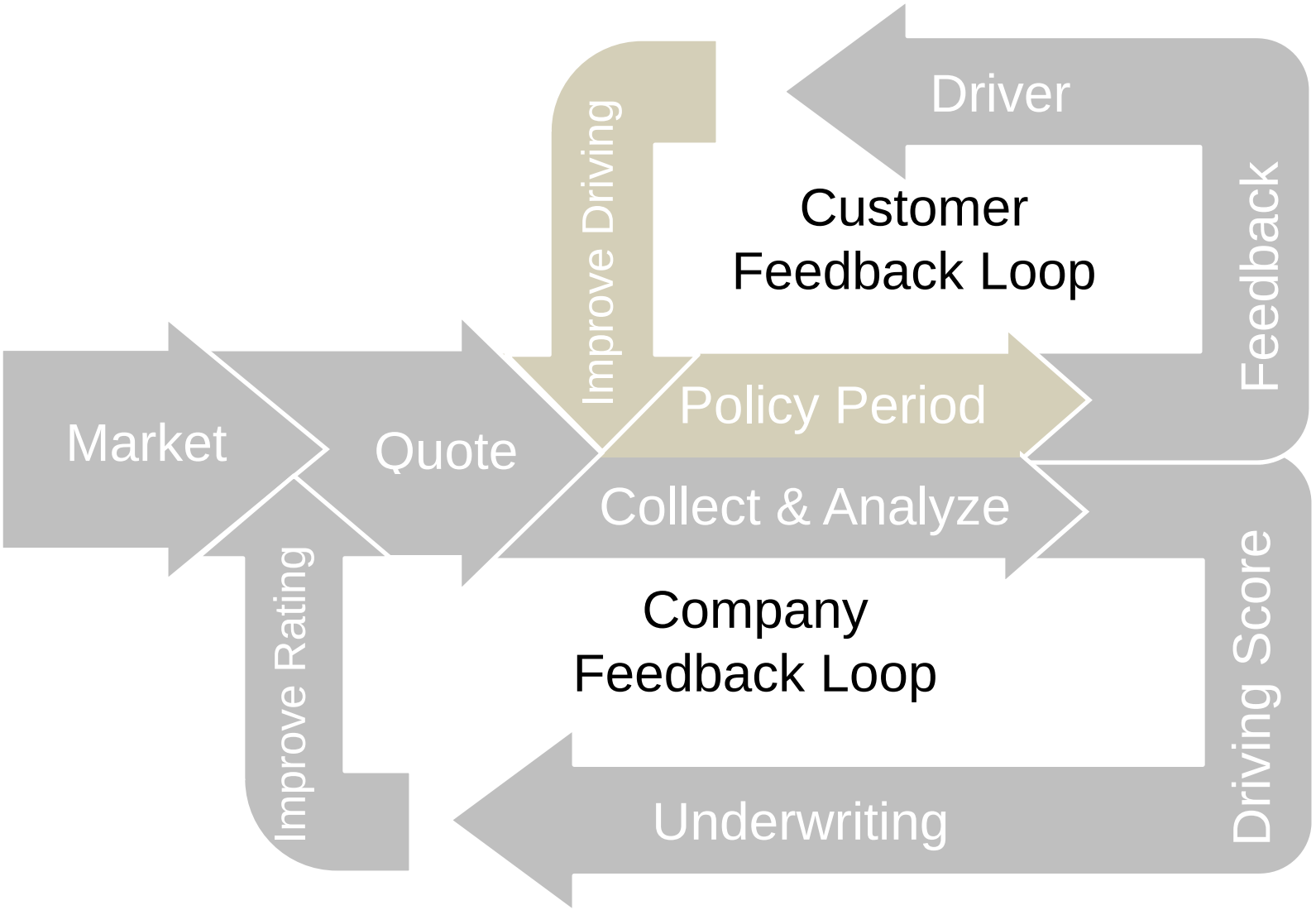
Use driving behavior from vehicles to modify insurance premiums or to provide useful feedback to policyholders, or both.

- Companies have UBI programs around the globe
- Many other companies are moving toward implementation

Notable US Programs

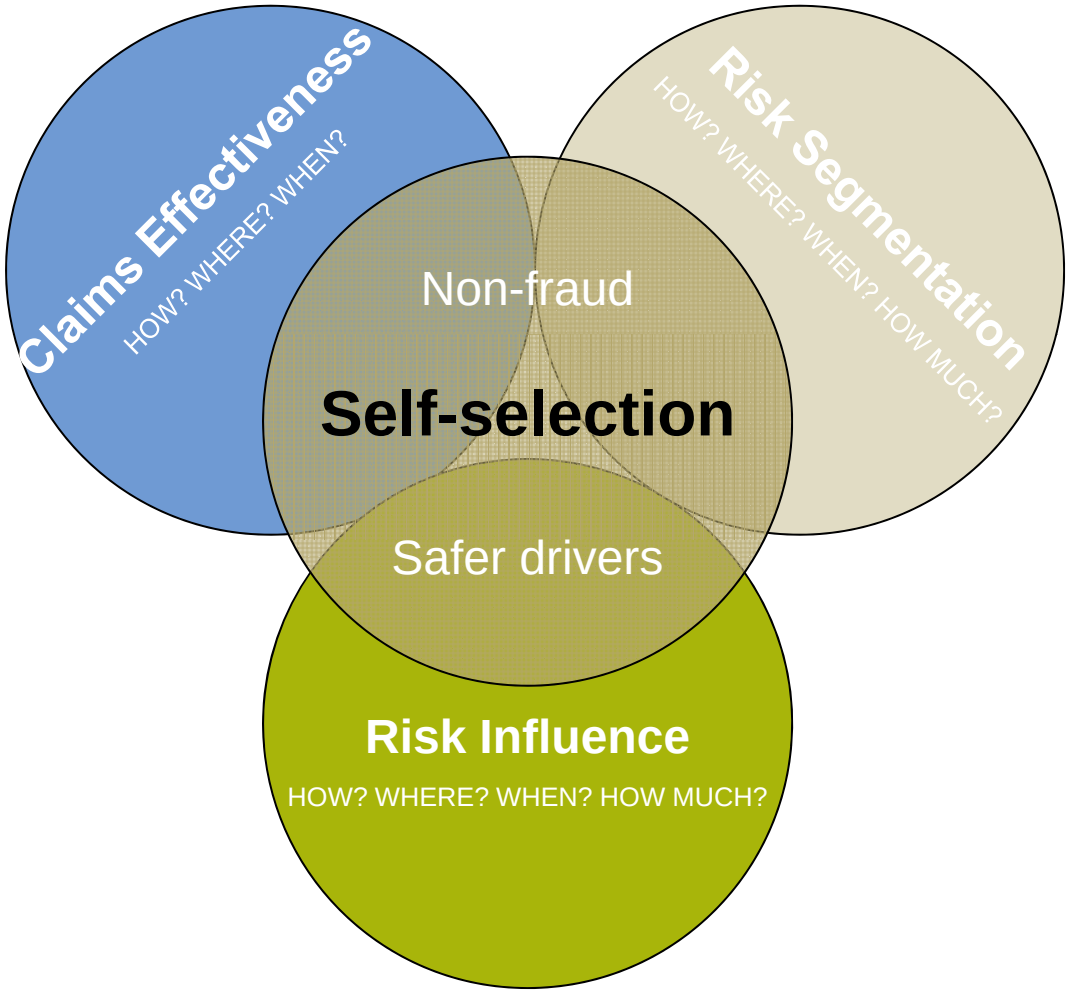


How does UBI work?



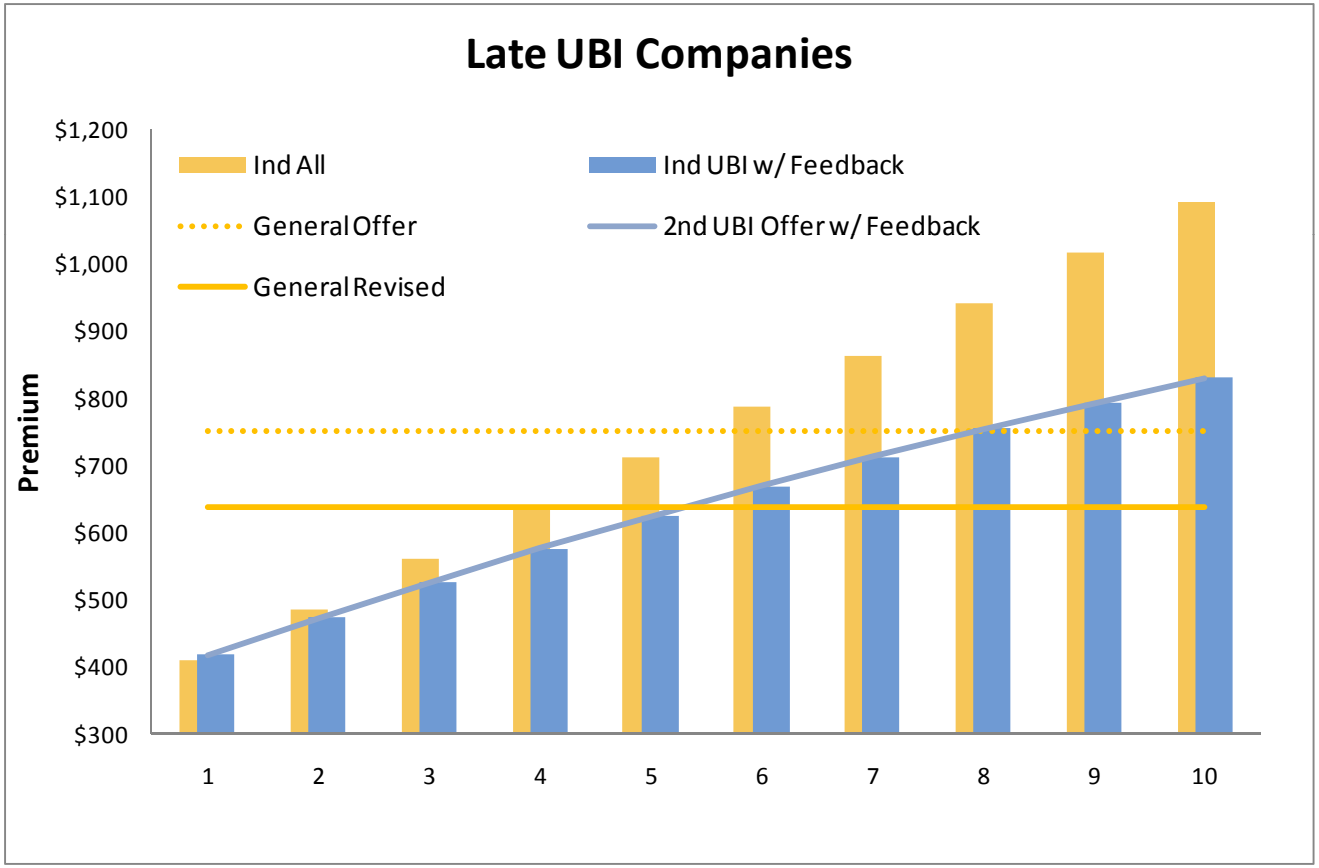
Reducing Risk Cost with Telematics

- **Risk Segmentation**
  - Deriving risk factors from the data, and applying loadings / discounts to customers to enhance selection
- **Risk Influence**
  - Customer feedback on behaviours to avoid
  - Reducing Vehicle usage overall, and especially higher risk miles
- **Claims Effectiveness**
  - Informing the claims process
  - Use of telematic data as evidence
- **Self Selection**
  - Reducing underwriting and claims fraud



UBI is a significant advantage for early adopters!

New UBI companies can try to compete by giving large blind discounts, but that is dangerous!



They will get the higher-risk drivers at a loss

Specific Regulation

- States have implemented regulation to encourage mileage rating
  - California – required rating variable, Revised 2009
  - Texas – specific regulation; HB 45, 2001
  - Oregon - tax rebate; HB 2043, 2003

Regulators largely support UBI

Unlike many innovations, regulators view positively

- “Fairly” discriminatory
- Saves lives
- Environmentally friendly
- Addresses affordability issues
- Easily understood

EMB has experienced very positive reactions when introducing usage-based programs to the US market.

State Climate Action Plans

- 14 states explicitly include PAYD insurance in their climate action plans

- AZ, CA, CO, MA, MD, ME, MN, NH, NM, NC, PA RI, VA, and VT

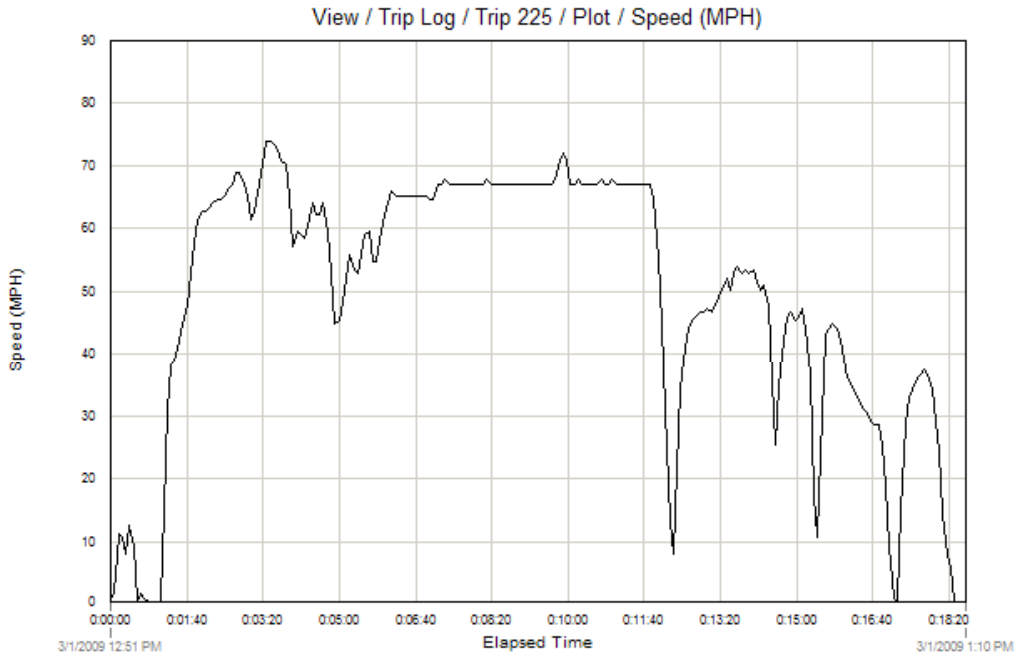
Appeals to participating consumers

Once educated, UBI appeals to consumers

- Makes sense
- Controllable
- Side benefits

As it is causal, reduces reliance on risk proxies

- Insurance credit scores
- Driver assignment
- Charges for relatively rare accidents, convictions



Consumer reaction positive

- UK survey found 63% of consumers declared strong interest in an insurance program to encourage safe driving
- Response is 90% positive for monitored safe driving discount when including “possible interest”
- Consumers overwhelmingly indicate an understanding and acceptance of the link between driving behavior and premium

Patents

- Some broad patents exist
  - U.S. patents 5797134, 6064970, 6868386 (Progressive Insurance)
  - European patents ES2108613, EP0700009 (Salvador Minguijon Perez)
  - WO patent application WO2005083605 (A1) (AIOI)
  - Japanese patent application JP2002259708 (A) (Toyota)
- Progressive sues Liberty Mutual for patent infringement (June2010)
- US Supreme Court affirms Bilski Decision regarding Business-Process patents (June2010)

Patent #5,797,134

- A method and system of determining a cost of automobile insurance based upon monitoring, recording and communicating data representative of operator and vehicle driving characteristics. The cost is adjustable retrospectively and can be prospectively set by relating the driving characteristics to predetermined safety standards. The method comprises steps of monitoring a plurality of raw data elements representative of an operating state of the vehicle or an action of the operator. Selected ones of the raw data elements are recorded when the ones are determined to have an identified relationship to safety standards. The selected ones are consolidated for processing against an insurer profile and for identifying a surcharge or discount to be applied to a base cost of automobile insurance. A final cost is produced from the base costs and the surcharges or discounts.

Filing date: Jan 29, 1996
Issue date: Aug 18, 1998
Assignee: Progressive Casualty Insurance Company

Patent #6,931,309

- A method and apparatus for collecting, uploading and evaluating motor vehicle operation utilizing on-board diagnostic components (OBDII) and ground positioning satellite (GPS) systems whereby operator identifiable behavior can be rated for driving safety and other characteristics.

  Filing date: Apr 27, 2004
  Issue date: Aug 16, 2005
  Assignees: Innosurance, Inc. (purchased by Allstate)

Patent #7,010,289

- The invention provides a method for vehicle data upload by activating at least one action trigger as a function of a vehicle communication unit, collecting at least one attribute data within a mobile vehicle, transmitting the attribute data from the vehicle communication unit to a mobile network intelligence, determining a second attribute data, producing a second action trigger, transmitting the second action trigger from the mobile network intelligence to the vehicle communication unit, and overwriting the action trigger as the second action trigger.

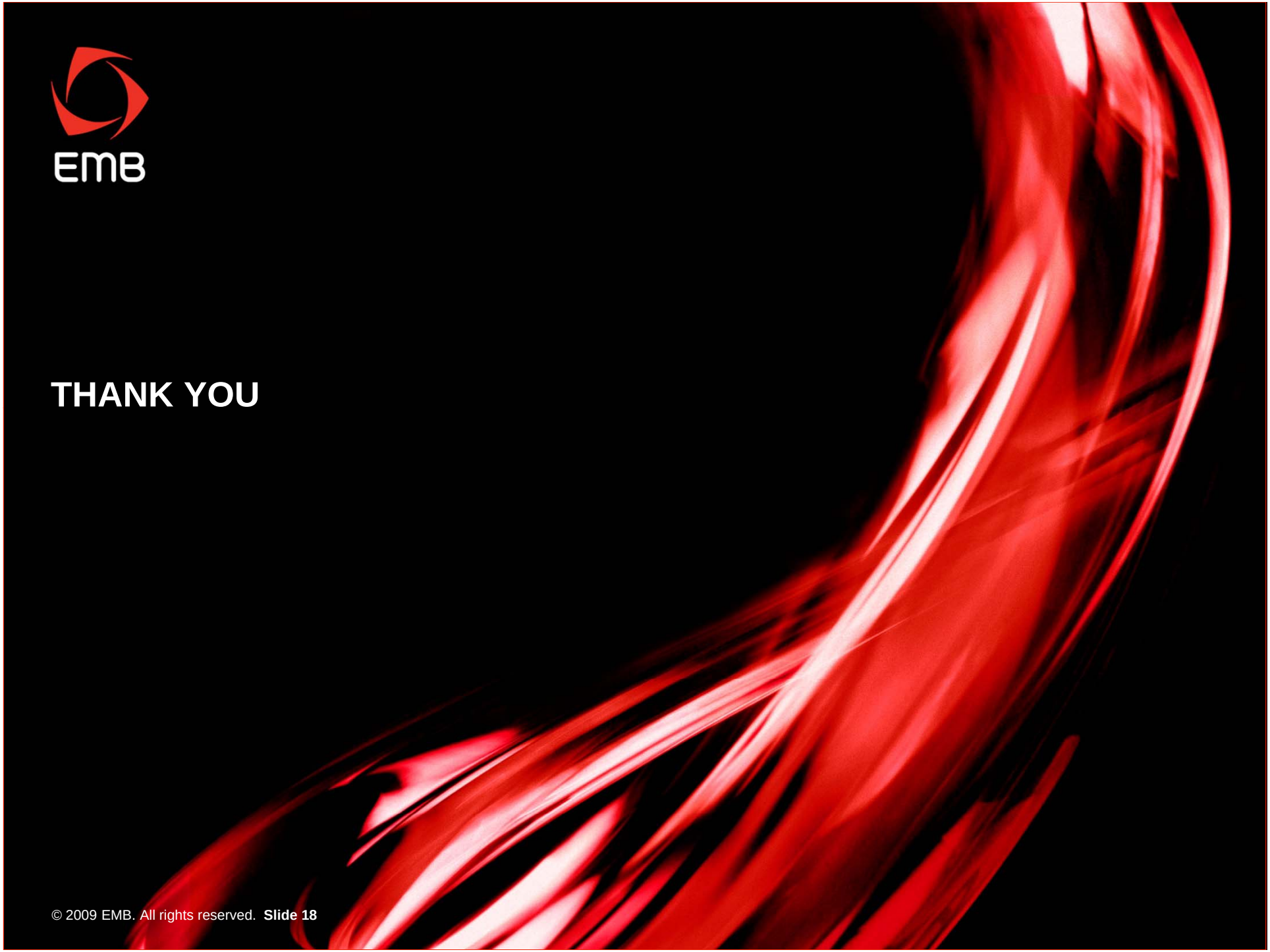
Filing date: May 24, 2002
Issue date: Mar 7, 2006
Assignee: General Motors Corporation

Then and Now

- Early pilots used professionally installed OEM or after-market devices
- Subsidized cost for learning
- Inconvenient for consumers and low adoption rate

- Multiple electronic makers offering devices
- Device costs are declining
- Reliable self-installed devices are available

- Obtaining data is the key step!



THANK YOU

Usage Based Insurance

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