



CAS Annual Meeting

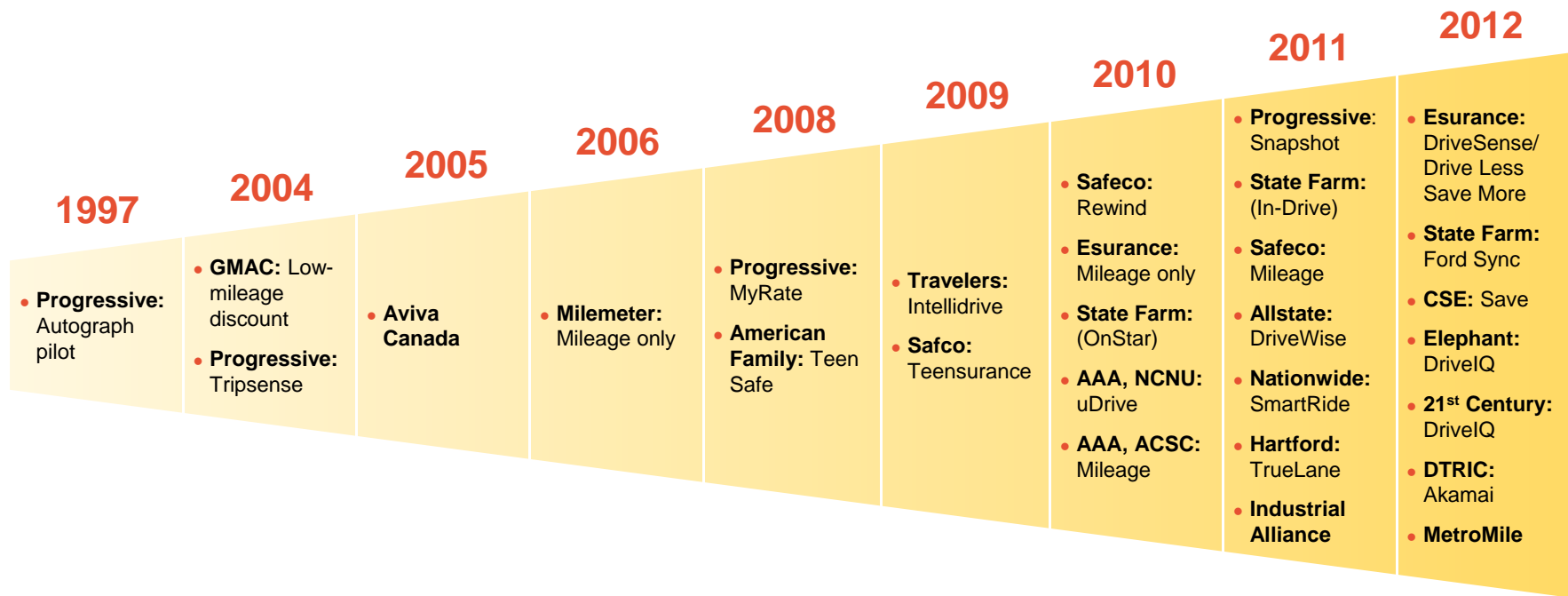
Is Your Usage-Based Insurance Program Succeeding?

Robin Harbage, FCAS, MAAA

November 5, 2013

TOWERS WATSON 

UBI programs have proliferated in North America



**Nine of top 10 US auto insurers have launched UBI
Canada will be a fast follower**

Four things

- 1 Benefits beyond a discount**
- 2 Avoid Widget Paralysis**
- 3 You need granular data**
- 4 Many moving parts need to come together**

Four things

1 Benefits beyond a discount

Insurers are staking out different positions for their UBI programs

ILLUSTRATIVE

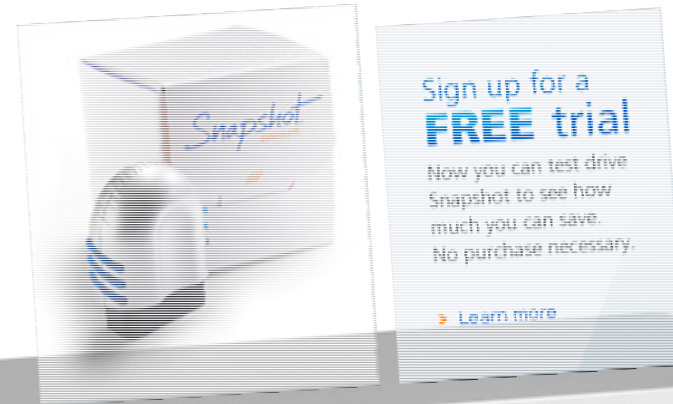
State Farm

Convenient Mobile Application

- ▶ Access to your savings and driving Report Card
- ▶ Real-time access to vehicle location on-the-go
- ▶ Detailed breakdown of miles per gallon and vehicle diagnostics



Progressive



Feature Focus

- Opportunity to de-commoditize the product
- Product/service focus, including driver coaching requires an understanding of driving behavior and the key influencing factors

Price Proposition

- Will price remain king with more powerful risk segmentation?
- Price focus will require strong analytic insight with more telematics data to create new risk factors

Question: “Isn’t this all just a race to the bottom?”



Remember, insurers are staking out different positions for their UBI programs

ILLUSTRATIVE

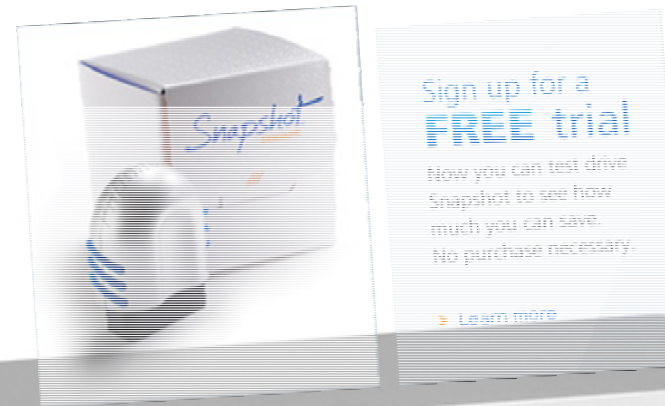
State Farm

Convenient Mobile Application

- ▶ Access to your savings and driving Report Card
- ▶ Real-time access to vehicle location on-the-go
- ▶ Detailed breakdown of miles per gallon and vehicle diagnostics



Progressive



Feature Focus

- Opportunity to de-commoditize the product
- Product driver **“ No ”** including an understanding of driving behavior and the key influencing factors

Price Proposition

- Will price remain king with more powerful analytics? **“ Yes ”**
- Price **“ Yes ”** strong analytics using telematics data to create new risk factors

But, what is the potential?



**Pricing Accuracy
Based On Risk**



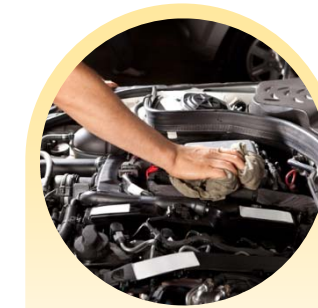
**Behavioral
Modification
Programs**

(teens, mature
market, etc.)



**Safety
Features**

Emergency response,
roadside assistance,
stolen vehicle recovery



**Vehicle
Maintenance
Reporting**



**Green Driving and
Fuel Management**



**Concierge
Services**

Door unlock,
navigation, location
assistance



**Safer Roads
and Lives Saved**

The customer

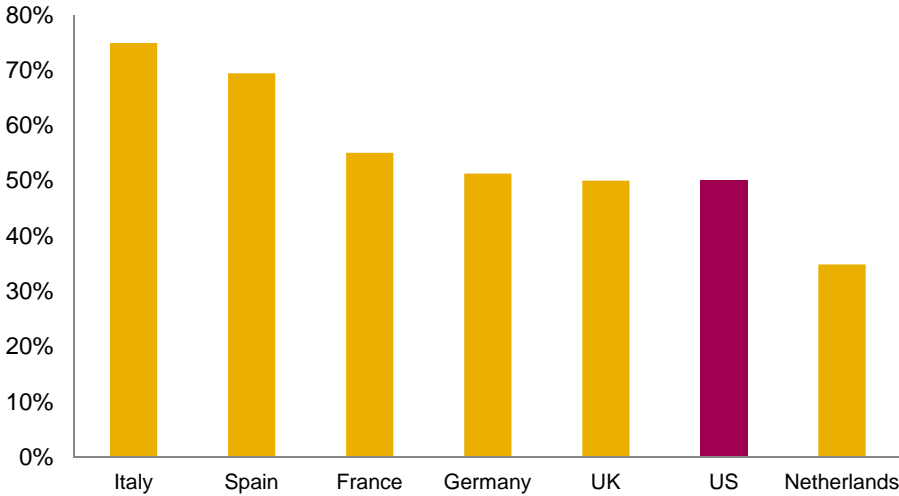
- When considering the customer, it is important to establish:
 - A customer proposition
 - A marketing strategy
 - A distribution strategy
- Some insights from Towers Watson's Consumer Survey

The marketplace is ready for widespread adoption of UBI

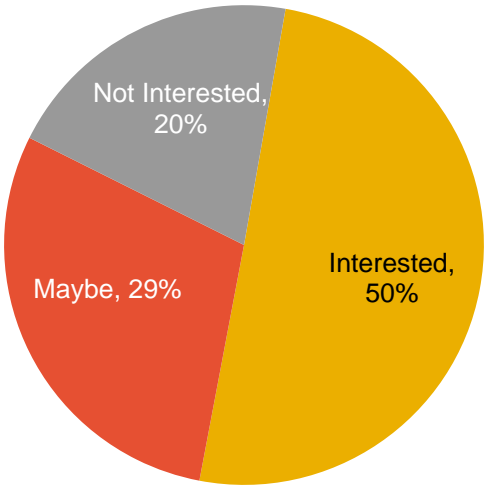
50%
Definitely or probably interested in U.S.

79%
Would be open to UBI in the U.S.

Percent interested in UBI, by Country



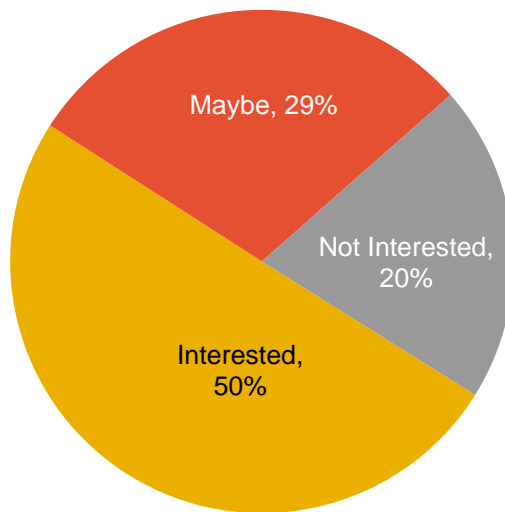
U.S. Interest in UBI



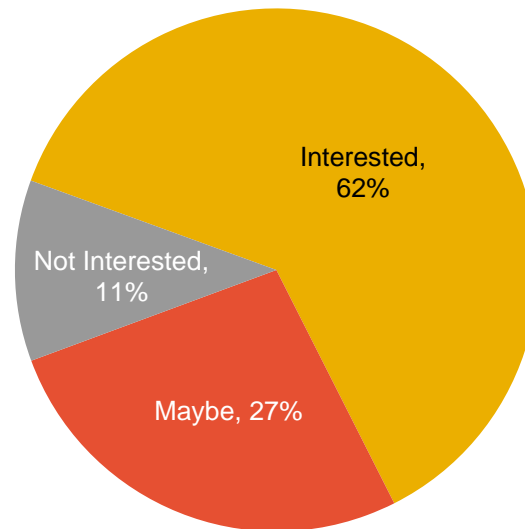
Concerns should be incorporated into product design

89%

would be open to UBI if no risk of surcharge;
mostly impacting those who are not interested



**Interest in UBI
With Risk of Surcharge**



**Interest in UBI
Without Risk of Surcharge**

The customer experience

A UBI proposition provides customers a **tangible product proposition**, including:

- **Control** of rating factors
- **Options** based on use of vehicle, driving activity, travel needs and lifestyle
- **Expansion** of service and support when needed
- **Engagement** beyond once a year

with

- **Flexibility** — to swap product, switch on/off, change or upgrade
- **Feedback** — designed to suit target audience interests
- **Features** — not previously available to the motor insurance customer



Breaks the model — and the annual cycle

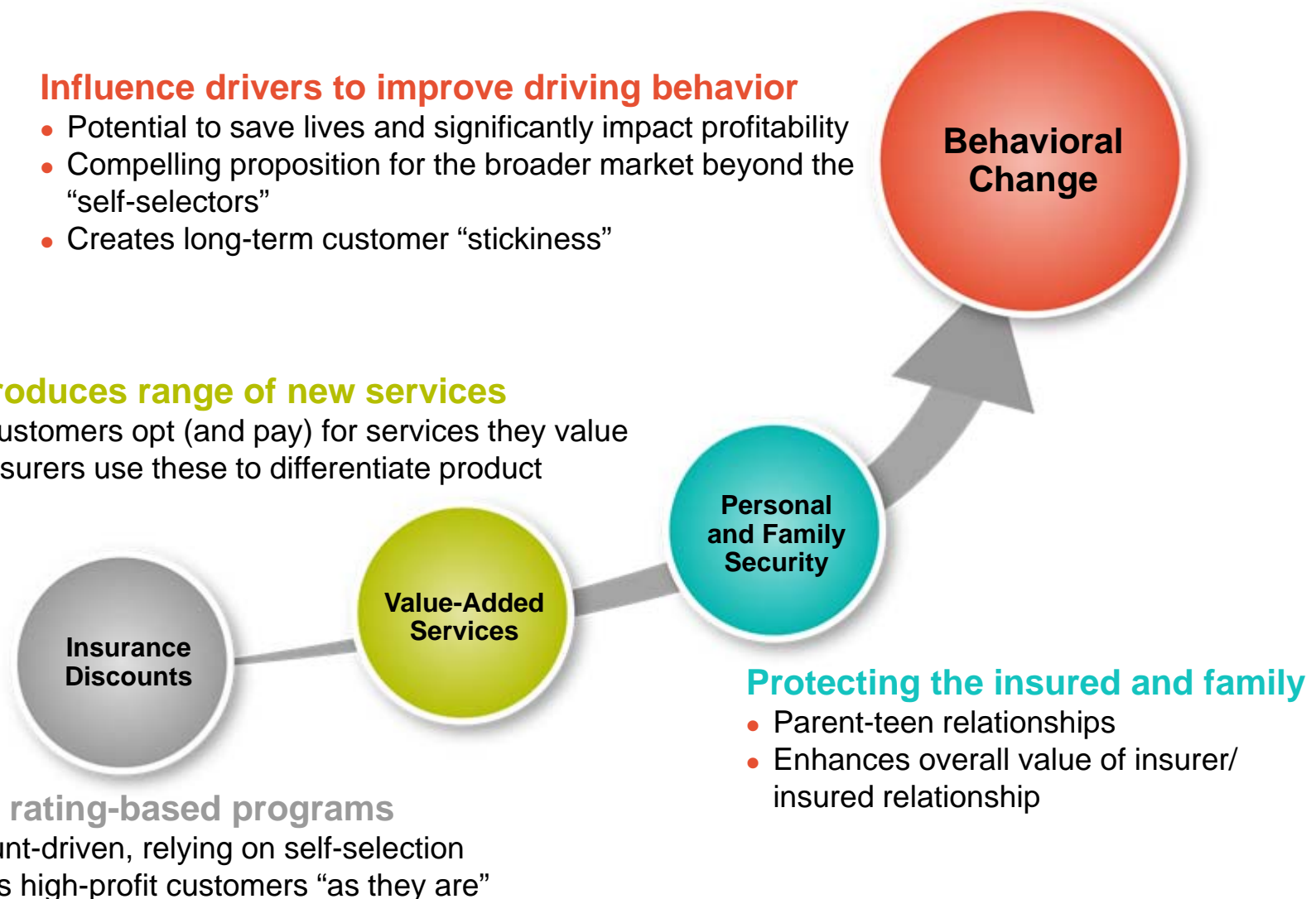
Evolution of value beyond discounts

Influence drivers to improve driving behavior

- Potential to save lives and significantly impact profitability
- Compelling proposition for the broader market beyond the “self-selectors”
- Creates long-term customer “stickiness”

Introduces range of new services

- Customers opt (and pay) for services they value
- Insurers use these to differentiate product



Four things

1 Benefits beyond a UBI discount

2 Avoid widget paralysis

Sideline risk

Perhaps the most important question for many of you in the room: **Whether and when to get in the game?**

The Case for Waiting



- Not sure it will really take hold
 - Or, rate of adoption will be slow
- Technology is expensive and not yet perfected — will be cheaper and better in the future
- Vendor landscape is evolving — over time the shakeout will leave the best potential partners
- If we wait long enough, will be able to buy the information off-the-shelf (cheaper and faster)
- It's hard: Requires time and resources already in short supply
 - The upfront investment is not trivial

Sideline risk

Perhaps the most important question for many of you in the room: Whether and when to get in the game?

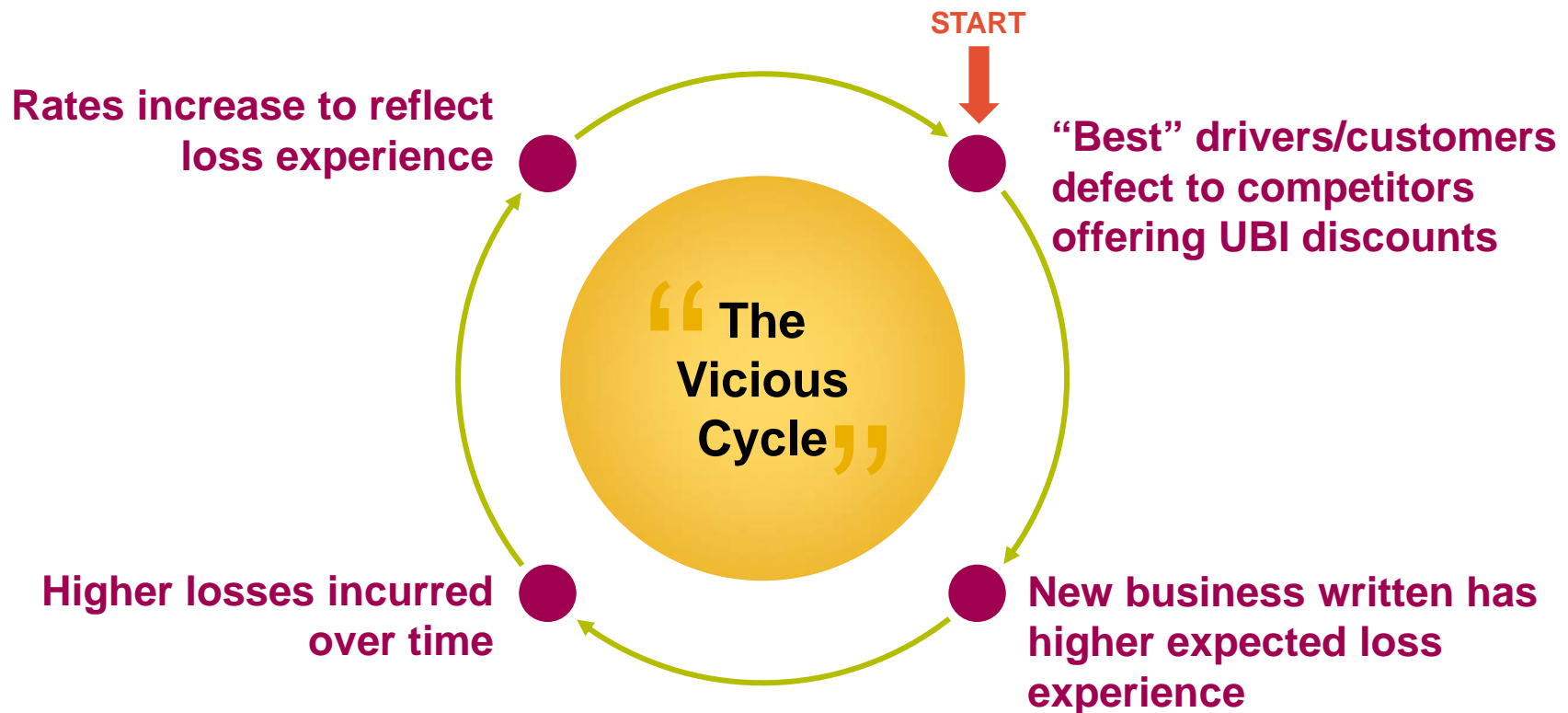
The Case for Acting



- The train has left the station
 - No longer a “leap of faith”
- It takes a long time...to start and once you start
- “Future-proofing” — play now *and* benefit from future enhancements
- What happens while you wait?
 - More UBI entrants
 - More of the best drivers locked up
 - Competitors are learning, honing their models and differentiating themselves (offering value)
 - How do you compete? What’s your strategy to counter? What about your sales force?

Meanwhile, what's happening to your business? “A blast from the past”

- UBI is different from credit-based insurance scoring in important ways, but insurers' experience with credit is instructive



Laggards suffered adverse selection — financial performance declined. The competitive landscape fundamentally changed.

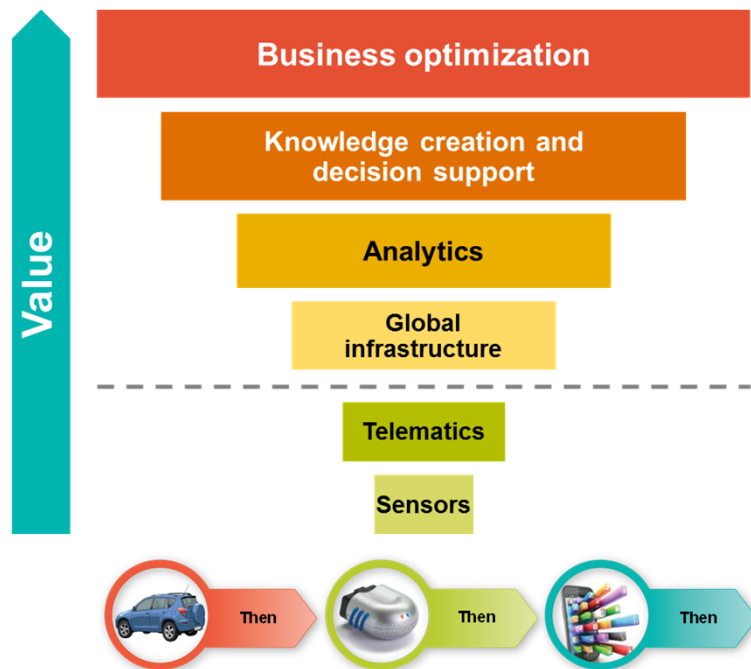
A question on many minds...

Q “Won’t this cannibalize my book?”



A “To some extent, yes... But if you don’t do it, someone else will.”

Strategy first



Key Questions

- What's our definition of success?
- What are our goals for the program?
- How will this program reinforce (or re-orient) our brand?
- What segment of the market will we target?
- What will be our value proposition to our customers?

First determine what you want to accomplish and how to position yourself in the market, THEN design the UBI program accordingly

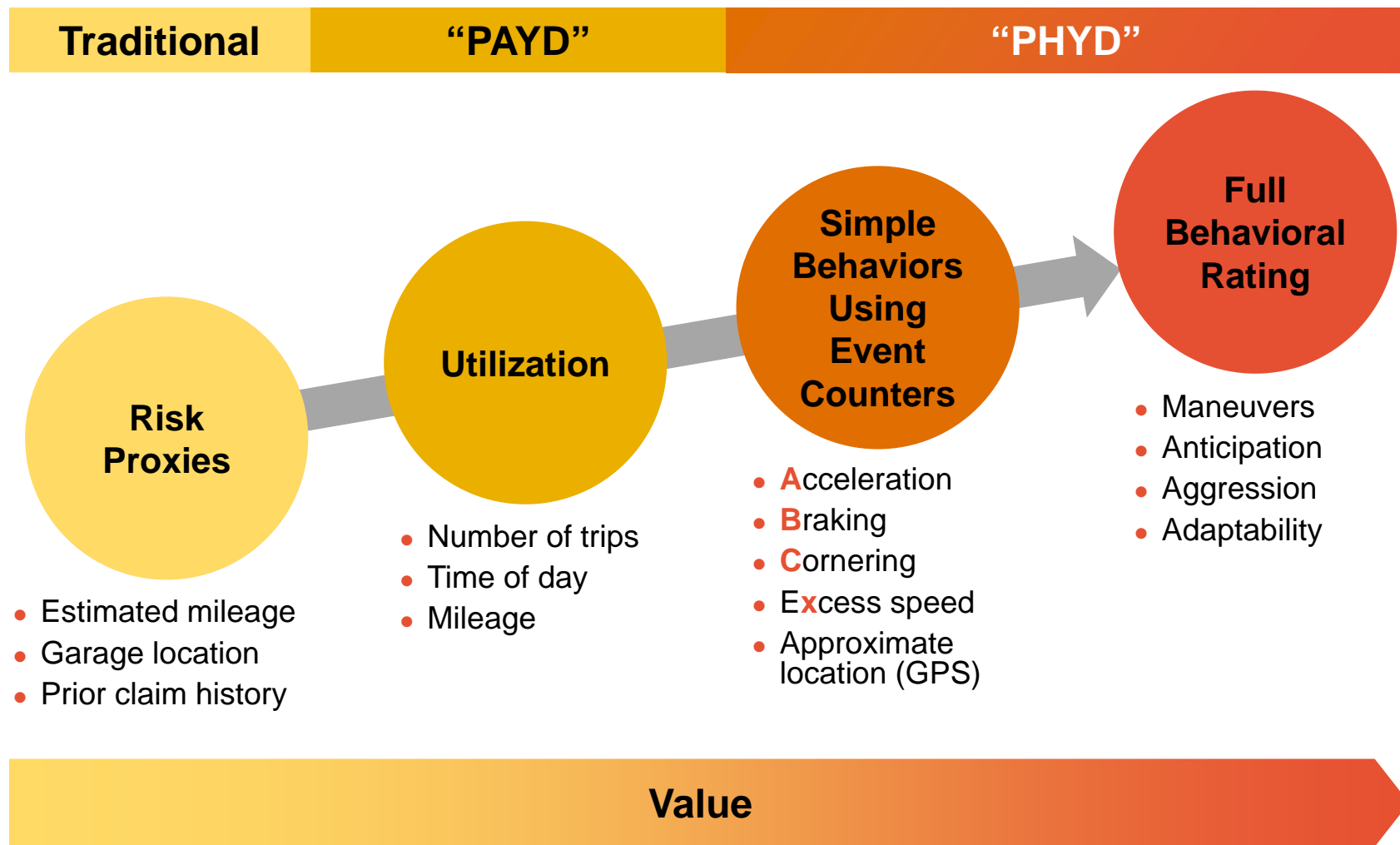
Four things

1 Benefits beyond a UBI discount

2 Avoid widget paralysis

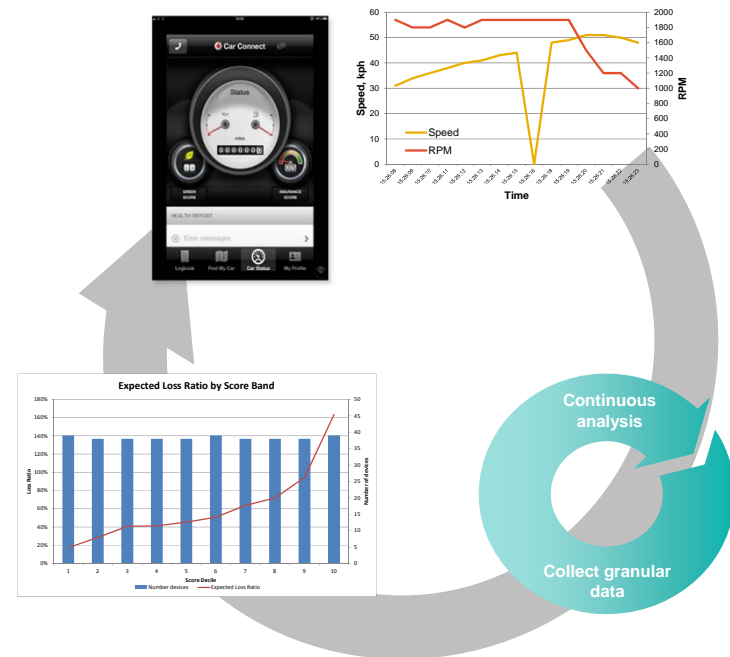
3 You need granular data

Data granularity and the consumer proposition

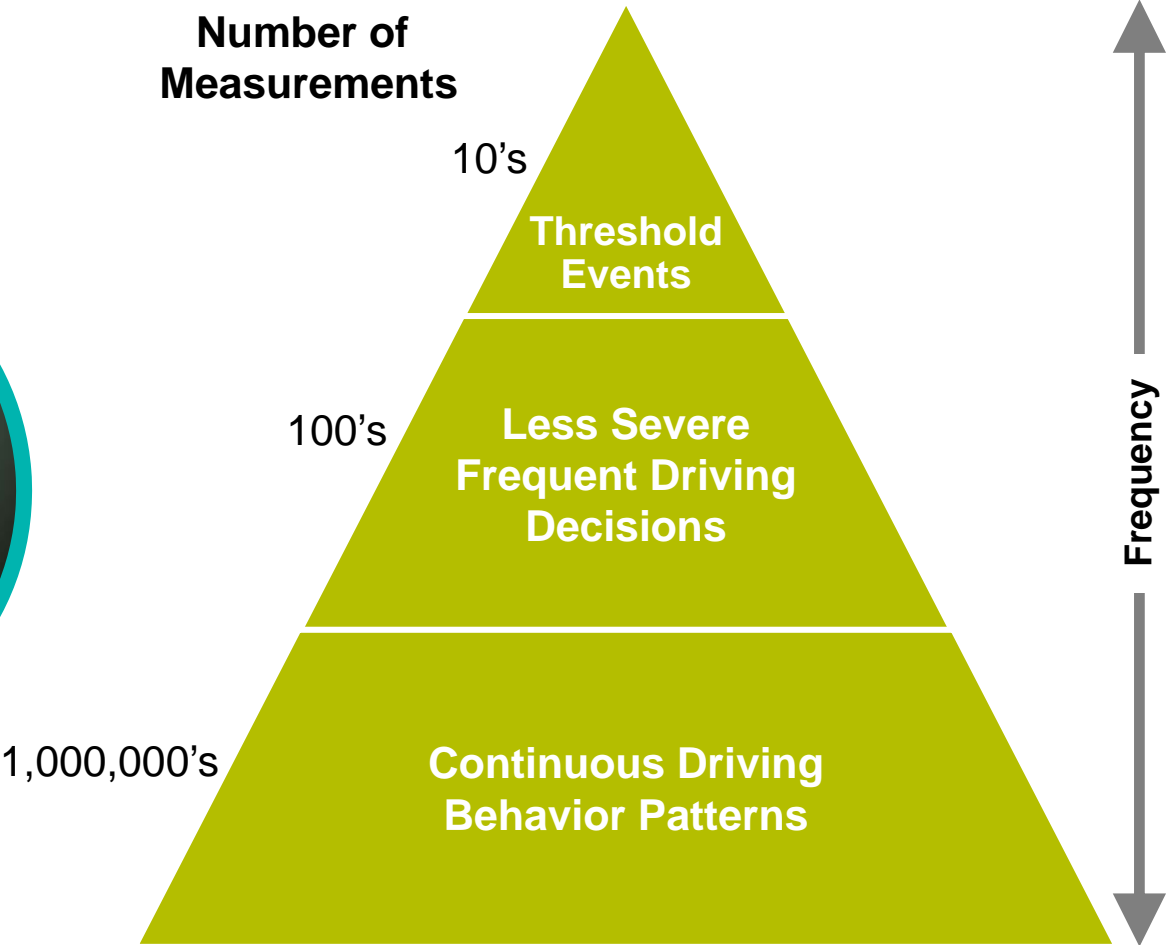


What is needed for proper score development?

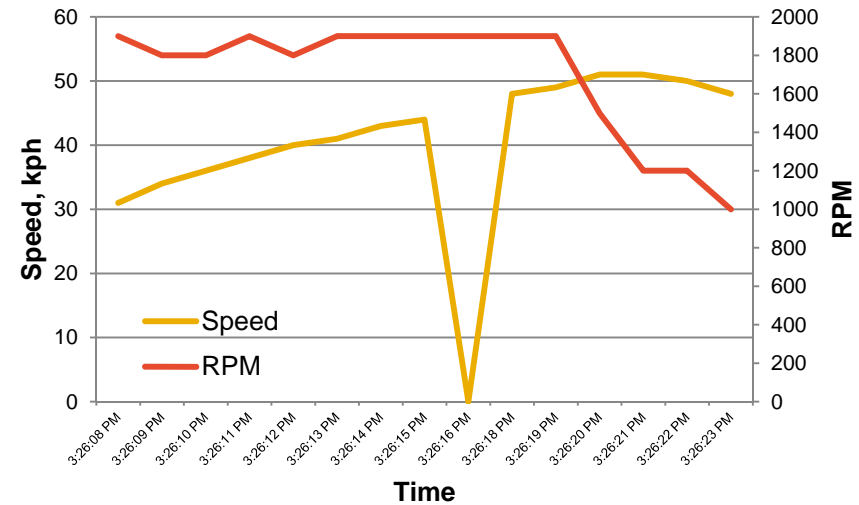
- Granular data to facilitate cleansing and thorough analysis
- External data to put driving behavior in the proper context
- Insurance policy and claim information to tailor score to insurance context
- Multivariate techniques to avoid “double-counting” and calibrate appropriately
- Lots of data!



Telematics data

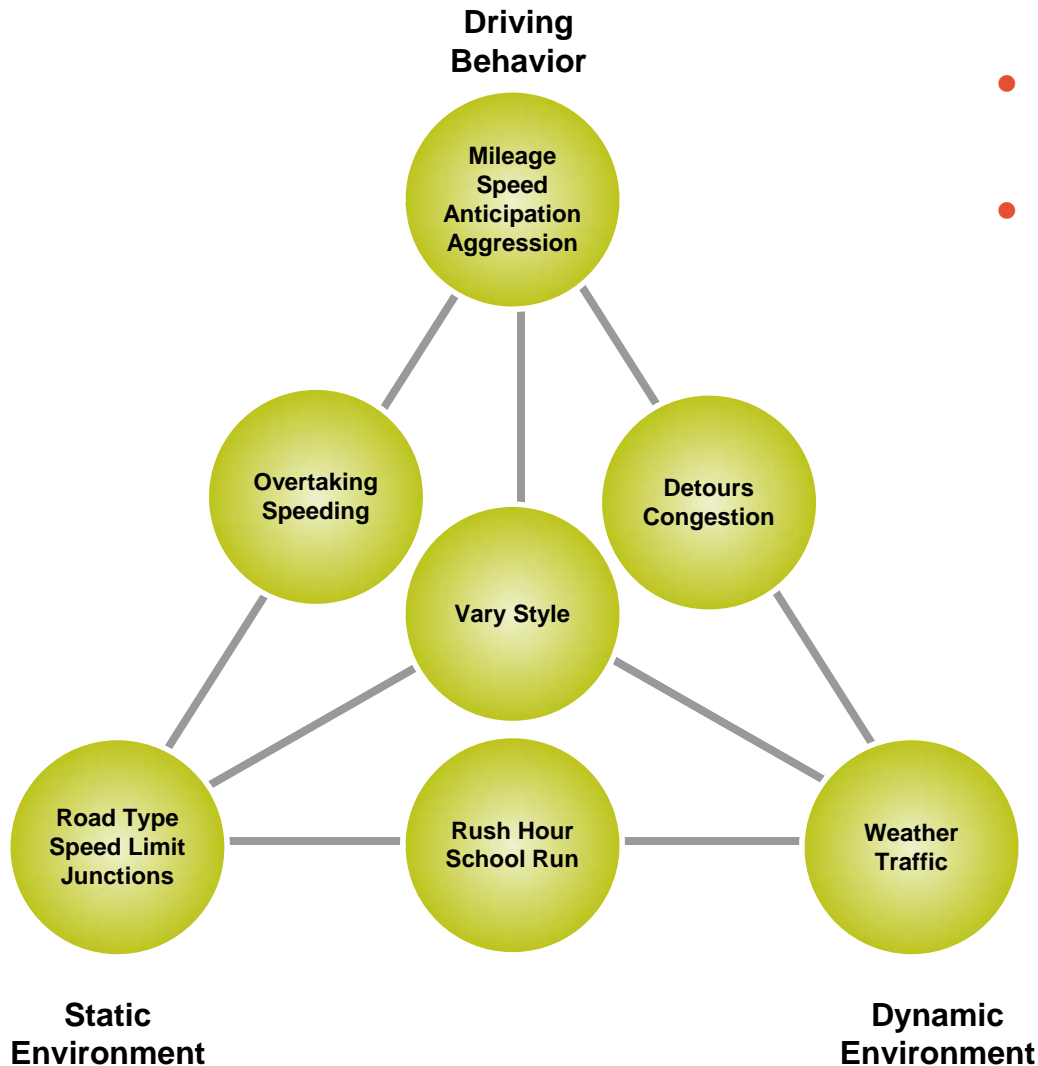


Granular data provides value before the analysis begins



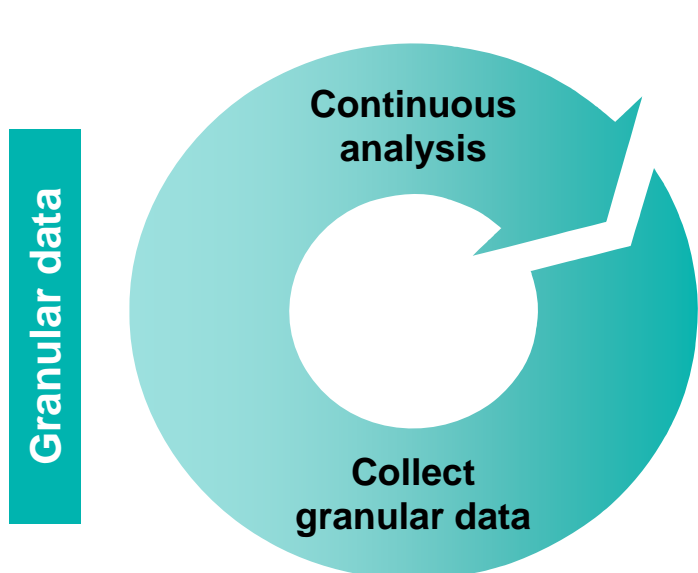
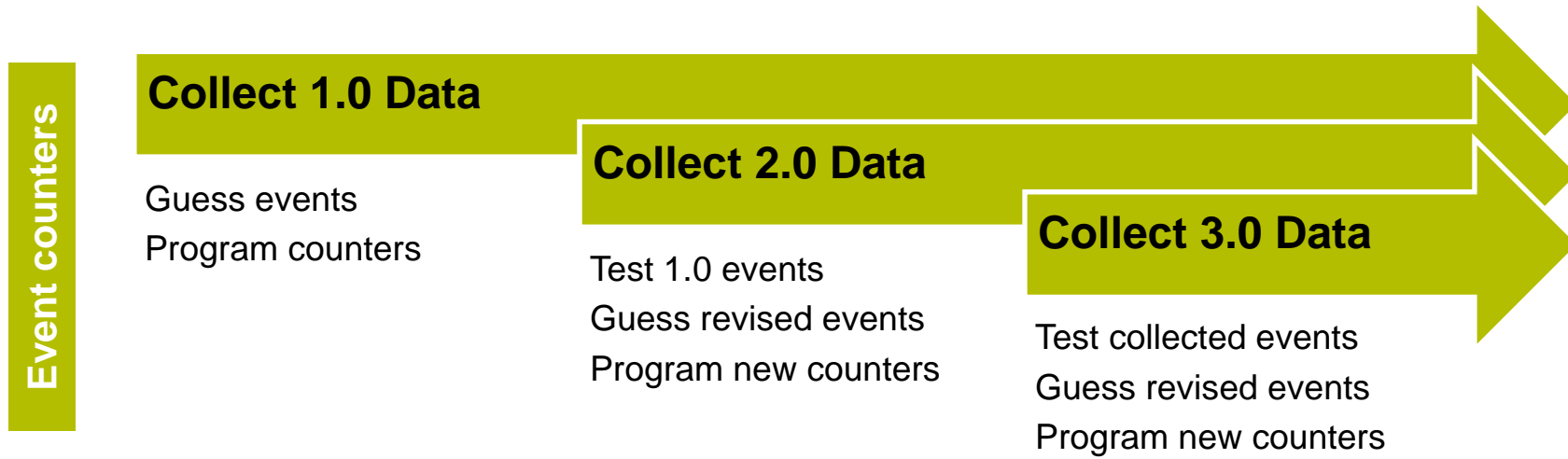
- Telematics data, like all data, must be scrubbed
 - Our experience is that telematics data — while okay for fleet management — typically has more errors than is acceptable for pricing purposes
 - Critical to clean the data prior to the analysis to eliminate “garbage in, garbage out”
 - With granular data, it’s possible to run scrubbing routines to minimize errors and ensure proper conclusions

Granular data enables powerful new contextual rating factors



- Effectiveness depends on granularity and timing of data
- Per-second data significantly increase effectiveness:
 - Driving behavior cannot be observed effectively in minute/hourly intervals
 - “Average” driving over policy quarter/year does not pinpoint risky behavior
 - Risk factors can be created from raw journey data in context

Granular data results in a better score faster

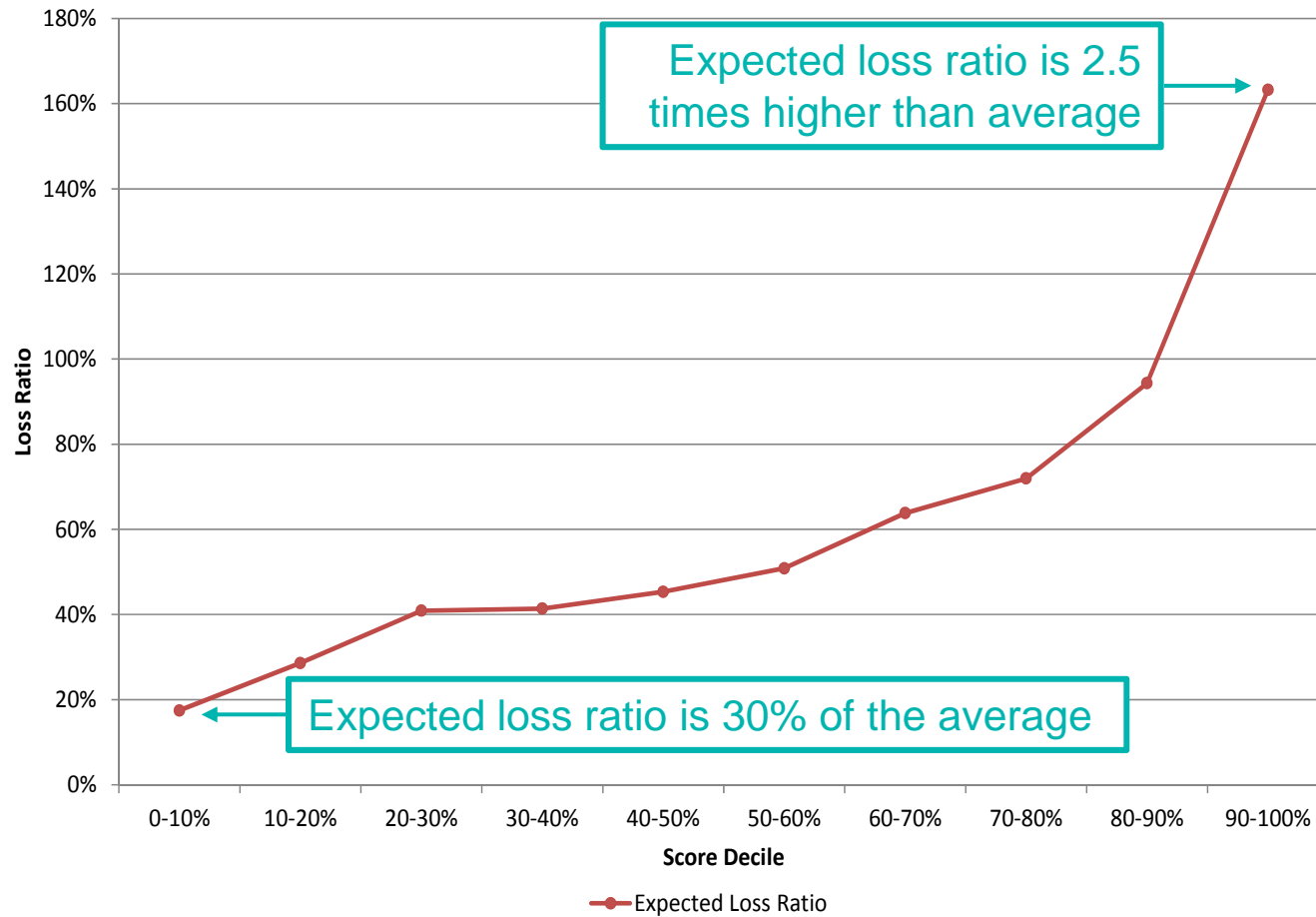


- Event-counter-based analysis is a linear process that can span years to “get it right”
- Granular data facilitates continuous trial and improvement cycle that significantly reduces time to effective scoring

Use results, collect data, continually refine

Expected loss ratio

Loss Ratio for Decile Ranges of DriveAbility Score



Four things

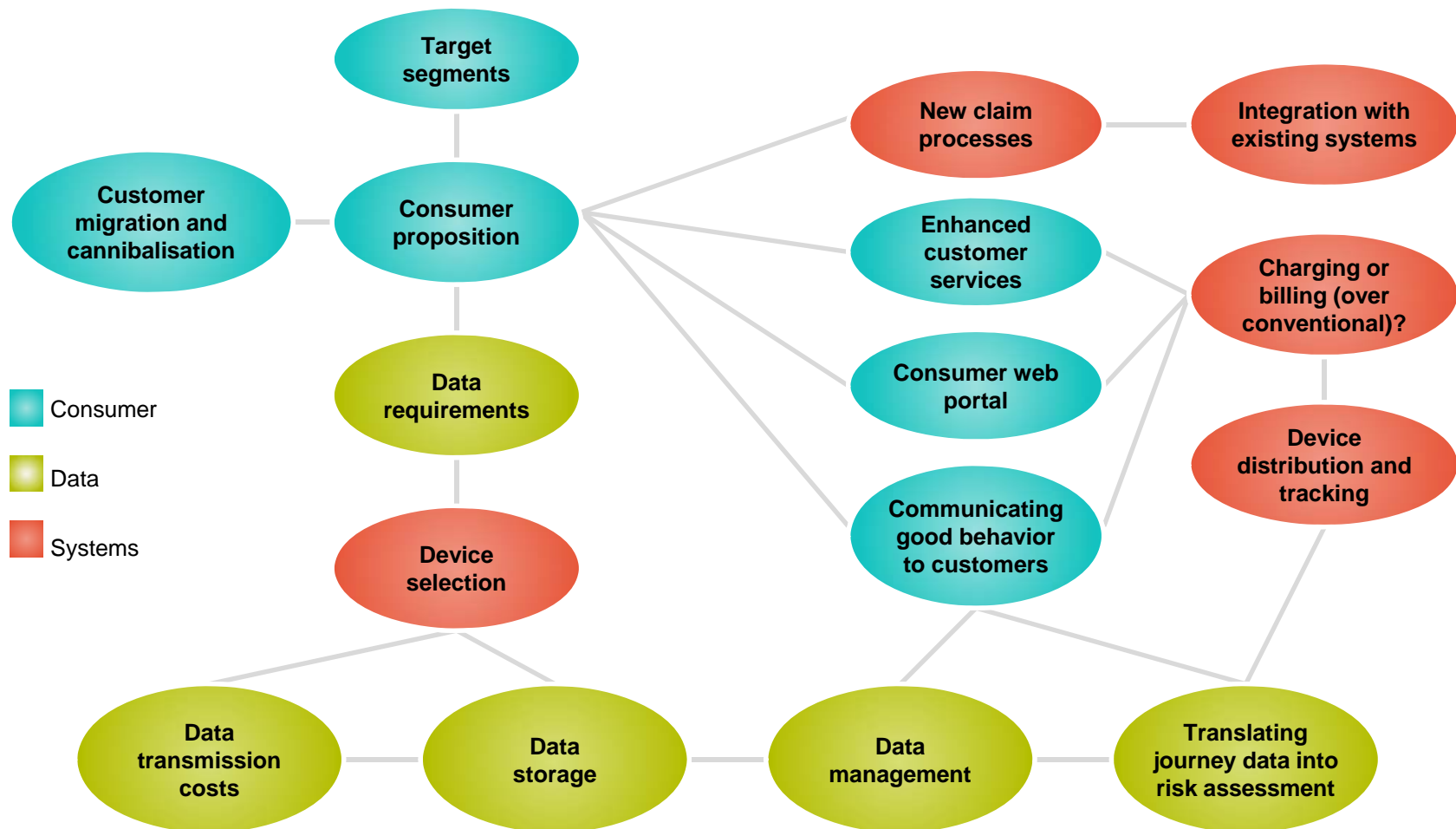
1 Benefits beyond a UBI discount

2 Avoid widget paralysis

3 You need granular data

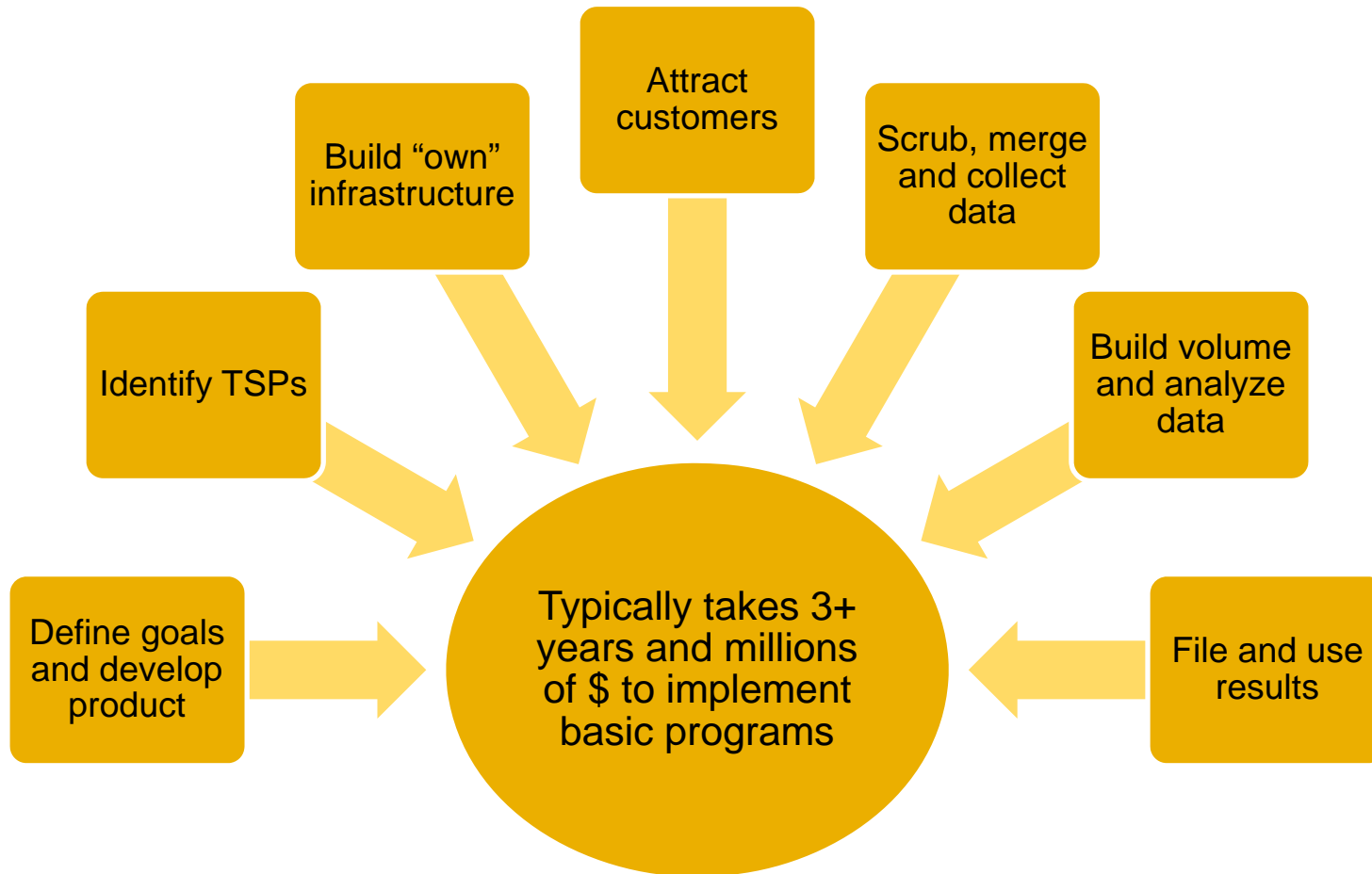
4 Many moving parts need to come together

Many moving parts need to come together



Company Implementation Challenges

It is not “just a device”

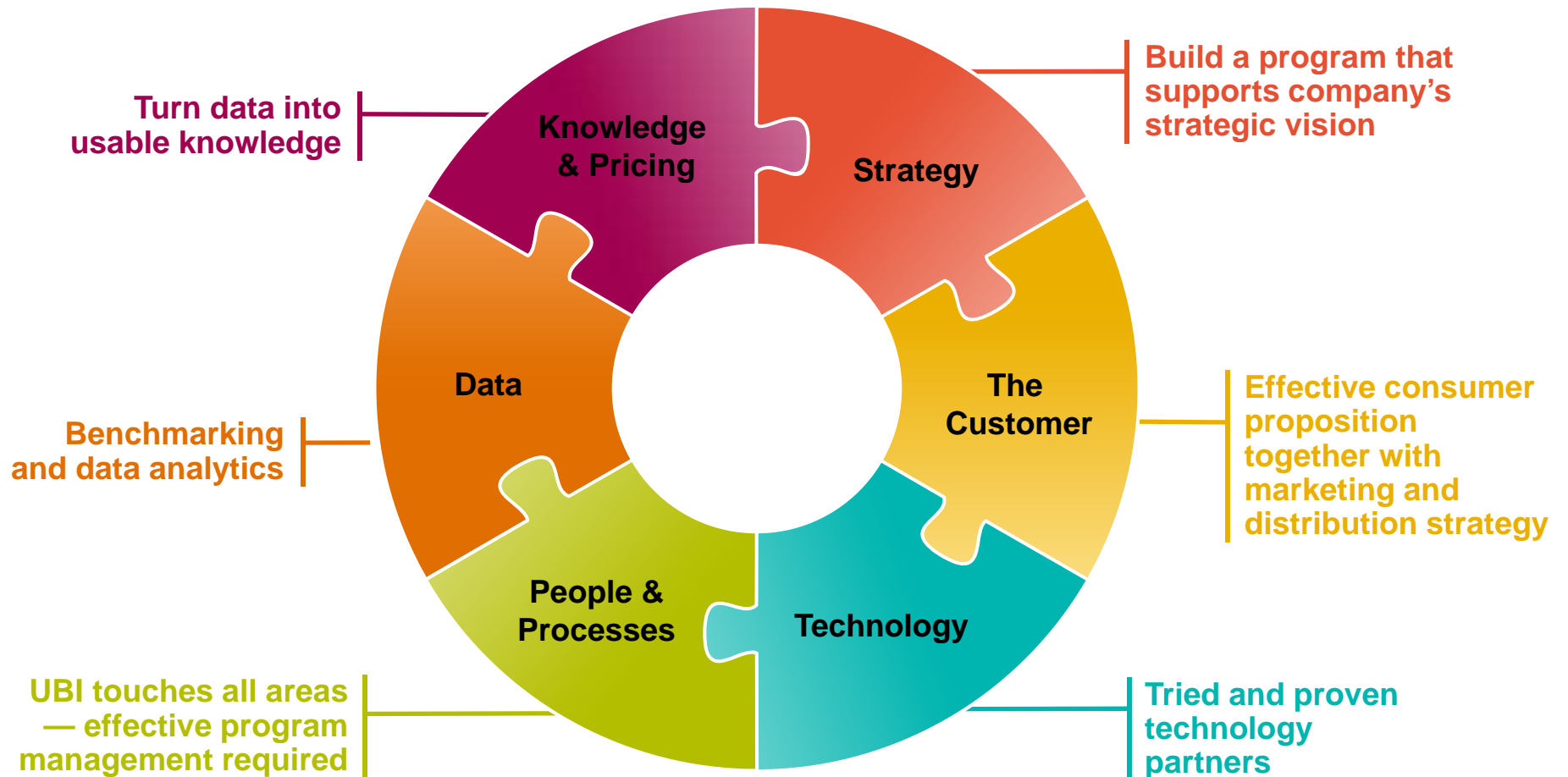


Program Management

UBI is a big project that touches all areas of the company



What does success look like...



Key takeaways:

1. The early adopters are gaining significant advantage while latecomers will be adversely selected
2. Long lead time to market. Some insurers are already investing now to be leaders soon
3. Getting it right
 - Start with strategy
 - This is a big implementation project that touches all parts of the company
 - Avoid widget paralysis. Choose the right technology partner that can scale and adapt
 - Using vehicle driving data for rating is complex, but critical to the long-term value which will include behavior change

Contact Details



Robin Harbage

Towers Watson

DriveAbility Sales and Product Delivery Leader

T +1 (440) 725-6204

E robin.harbage@towerswatson.com