



UBI/Telematics : Opportunities and Challenges

Robin Harbage, FCAS, MAAA

October 22, 2015

TOWERS WATSON 

Telematics : Opportunities and Challenges

Part 1 : Usage-based Insurance for Personal Lines recent Trends and Evolutions.

Usage based insurance (UBI) in the personal insurance space is both growing and evolving rapidly. This session will look at recent trends in UBI with a particular focus on three areas:

- 1) The power of new telematics clearinghouses.**
- 2) The efficiency of mileage focused programs.**
- 3) The myriad telematics options - cell phones, OBD, hybrid devices, OEMs, etc.**

Part 2 : Usage-based Insurance for Commercial Lines. What can we learn from personal lines?

Making the business case for a telematics application in commercial lines is easier than personal lines. Surprisingly, the majority of successful product offerings in the insurance industry are in personal lines. In this presentation, we will contrast personal and commercial lines needs. We will discuss UBI strategies that worked for personal lines and why they do not work in commercial lines. Finally, we will focus on how to build a strategy for your commercial UBI offering that is aligned with your customer needs and your company's long term goals.

UBI Personal Lines Marketplace

Insurers Are Realizing the Benefits and Launching Rapidly



Notable Global Developments

Progressive wrote \$2.6B in Snapshot premiums in 2014

1	State Farm Mutual Automobile	35,588,209	
2	Berkshire Hathaway	20,520,188	
3	Allstate	19,000,663	Allstate exceeded 750,000 Drivewise vehicles
4	Progressive	16,566,932	
5	USAA Insurance	9,843,321	
6	Farmers Insurance	9,701,153	
7	Liberty Mutual	9,499,538	
8	Nationwide Mutual Group	7,337,880	
9	American Family Mutual	3,530,595	
10	Travelers Companies	3,153,507	
11	Hartford Financial Services	2,426,305	
12	Auto Club Exchange Group	2,423,836	
13	Erie Insurance Group	2,362,671	
14	MetLife Inc.	2,261,807	
15	Mercury General	2,221,574	
16	CSAA Insurance Exchange	2,178,621	
17	Auto-Owners Insurance	1,851,701	
18	Auto Club Insurance Assoc.	1,604,160	
19	MAPFRE	1,538,790	
20	Integon National	1,404,396	

Millennials are particularly interested in UBI

Would Buy a UBI Policy

(Interested or Maybe)

88%

Millennials



74%

All Others

Would Buy IF Premiums Didn't Increase

(Yes or Maybe)

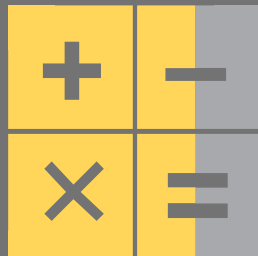
93%

Millennials



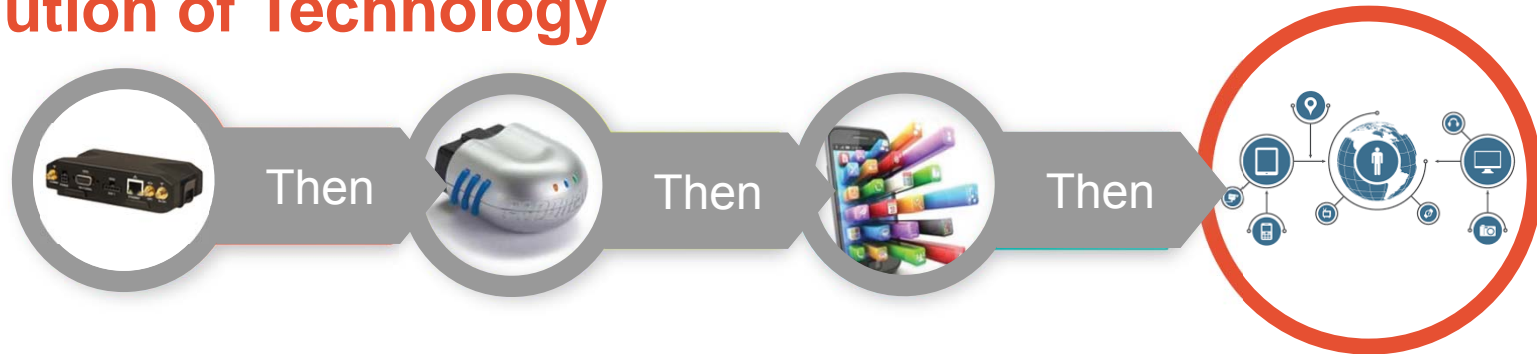
85%

All Others



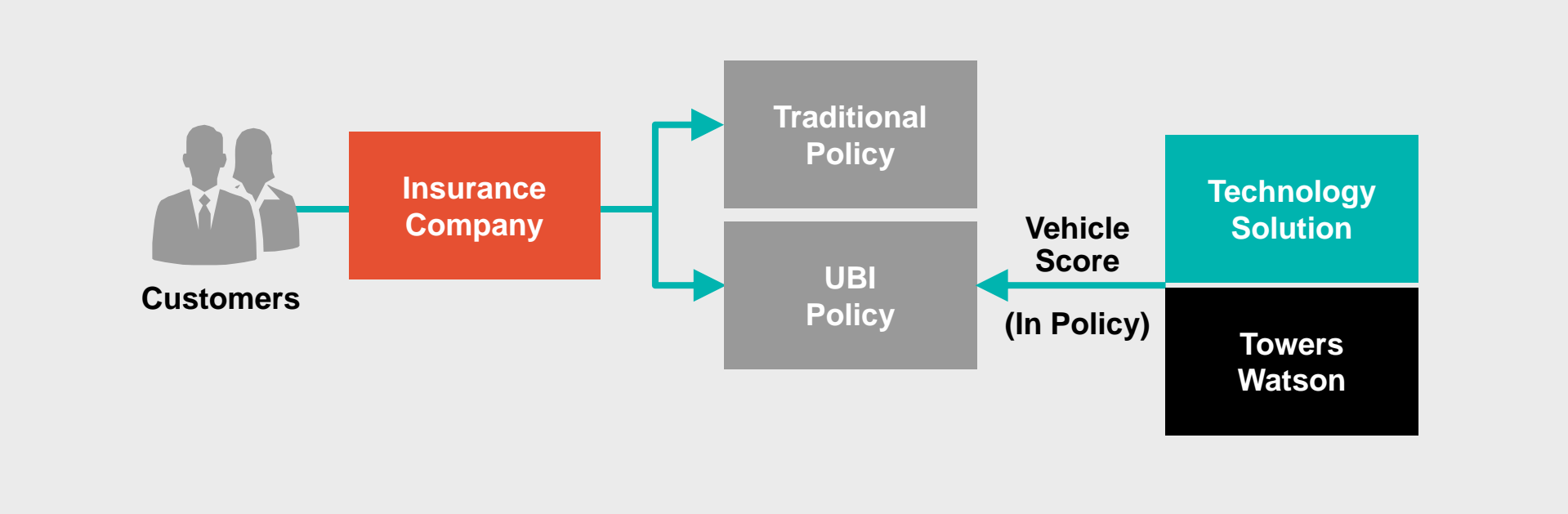
Millennials are enthusiastic because they're believers:
72% think UBI offers a better way to calculate premiums.

Evolution of Technology



Technology	Description	Status
Hard install device	After-market black-box device — requires professional installation. Installation varies from simple to invasive	Available, but expensive
On-board diagnostics (OBD) device	After-market device plugged into the vehicle's OBD port by the customer	Available
Smartphone app	A smartphone application that captures driving data. It is not connected to the vehicle	Available, consumer issues being addressed
Smartphone with tethering	A smartphone application connected to the vehicle via tether (often using Bluetooth)	Available, but complicated
Connected car	Technology for data connection is factory installed. Connection with smartphones and bespoke apps can be installed	Limited based on geography and manufacturer
Passive data/ Unaware monitoring	Data collected without a new device or action on the part of the customer, e.g., mobile phone operating system data, telecoms mast data or monitoring within apparently unrelated apps	Data available; however, application not in place

How Is Vehicle Data Used Today?



Impact of Issues on Uptake

Issue	Company	Consumer
Technology	<ul style="list-style-type: none"> • Cost of solutions • Constant change is confusing • Installation-related processes must be implemented 	<ul style="list-style-type: none"> • Active installation adds friction • Data privacy concerns
Data not known up front	<ul style="list-style-type: none"> • Must provide voluntary discounts before risk is understood 	<ul style="list-style-type: none"> • Uncertain premium impact • Score is not portable
Only applies to UBI policies	<ul style="list-style-type: none"> • Only a small subset of book 	<ul style="list-style-type: none"> • Good drivers do not benefit unless they agree to a UBI policy

Addressing these issues will greatly accelerate the application of vehicle-oriented data to a broader range of insureds.

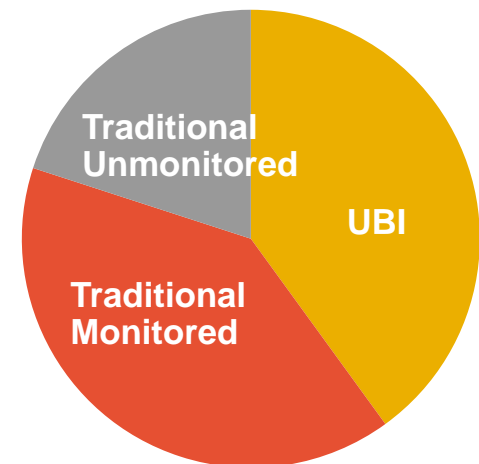
Potential Evolution — Ambient Data

- Most individuals are already tracked today
 - Vehicles with embedded services
 - Mobile phone operating systems
 - Apps that record location
 - Mobile phone handset mast location data
- These data have not been widely leveraged for auto insurance, but with appropriate permissions, they could be
 - Highly predictive
 - Powerful lead generation asset
- Would be applicable to UBI *and* traditional policies

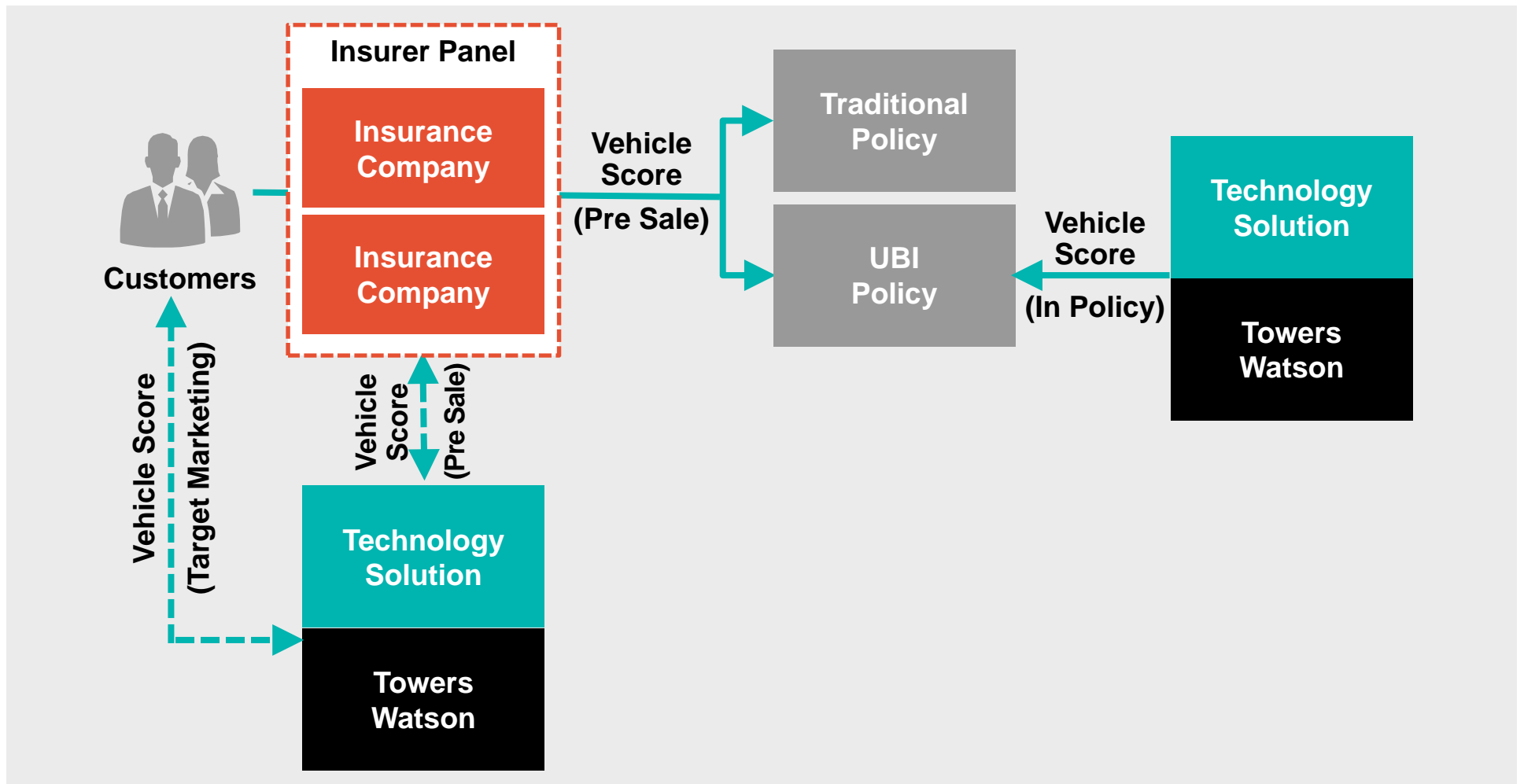
Driving Population — Now



Driving Population — Future



How Will Vehicle Data Be Used in the Future?



How Will Consumers Benefit?

- Consumers, especially younger ones, are comfortable providing information **in exchange for something of value:**
 - A broader range of insurance choices with clear price comparisons
 - Access to a portable driving score before agreeing to a policy
 - Charged “fairer” premium for UBI or traditional policies
- Likely more comfortable being tracked by telecoms, OEMs, etc., that give them side benefits



Population Statistics

25% Millennials

16% Digital Natives

24% Baby Boomers

How Will This Impact Companies?

Benefits

- Access to broader range of prospects
- Better info during the initial underwriting process
- Embedded technology makes on-boarding easier
- Greater potential to improve driving behaviors

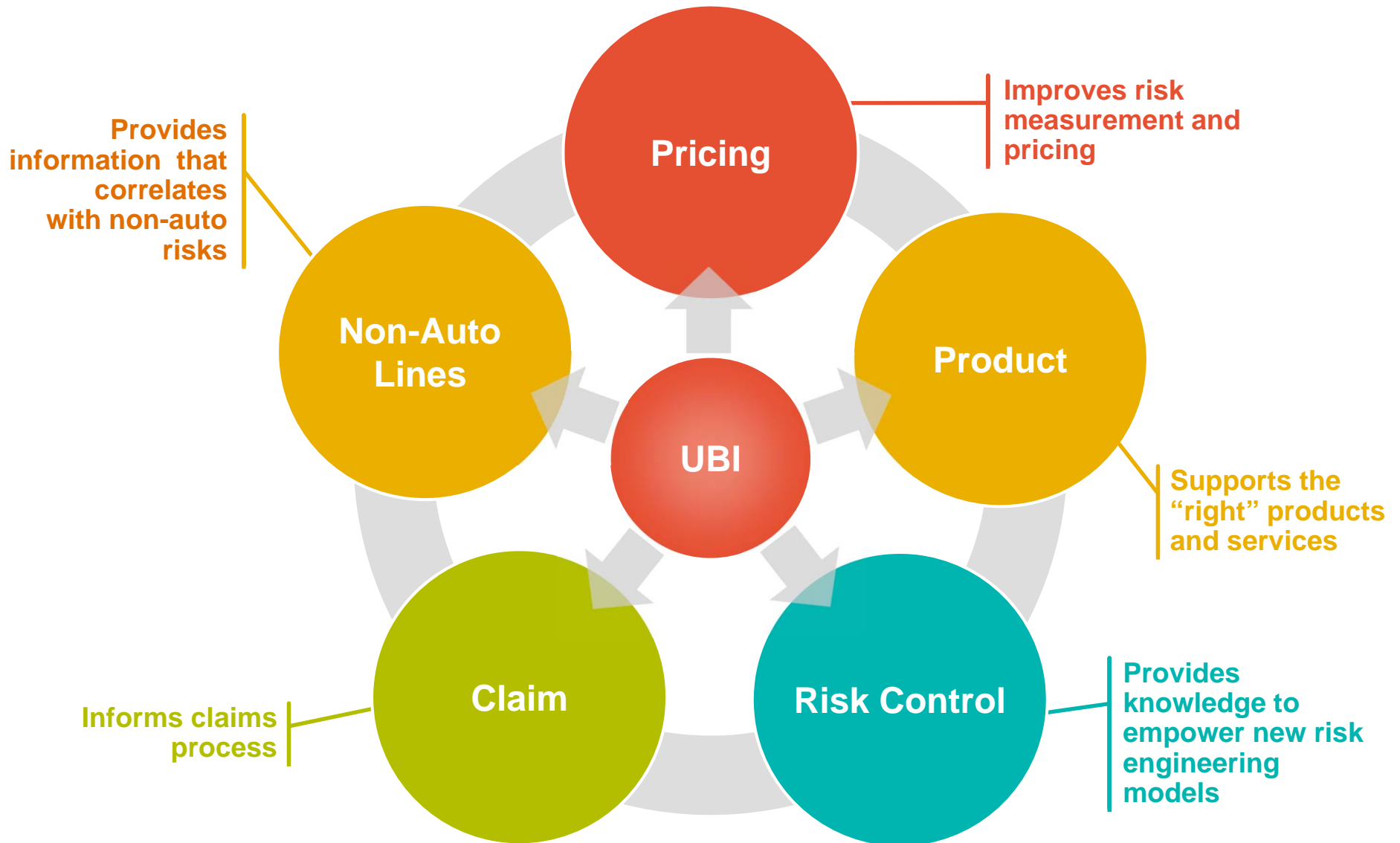
Challenges

- Aggregator model can create pricing pressure
- UBI policies less protected due to score portability
- Difficult to deal with nonuniform data sources
- All rating plans will need to be updated



What Commercial Lines Can Learn from Personal

Significant value available from the right UBI program



Proliferation of UBI in personal insurance

1997

- Progressive**
- Autograph

2004 – 2006

- **GMAC** Low-mileage discount
- **Progressive** Tripsense

2007 – 2009

- **National General** OnStar PAYG
- **Progressive** MyRate
- **American Family** Teen Safe
- **Safeco** Teensurance
- **Travelers** Intellidrive
- **MileMeter** MileMeter 2.0

2010

- **Allstate** DriveWise
- **CSAA** uDrive
- **Safeco** Rewind
- **State Farm** OnStar

2011

- **Auto Club** OnBoard
- **Progressive** Snapshot
- **State Farm** Drive Safe and Save
- **Nationwide** SmartRide
- **The Hartford** TrueLane

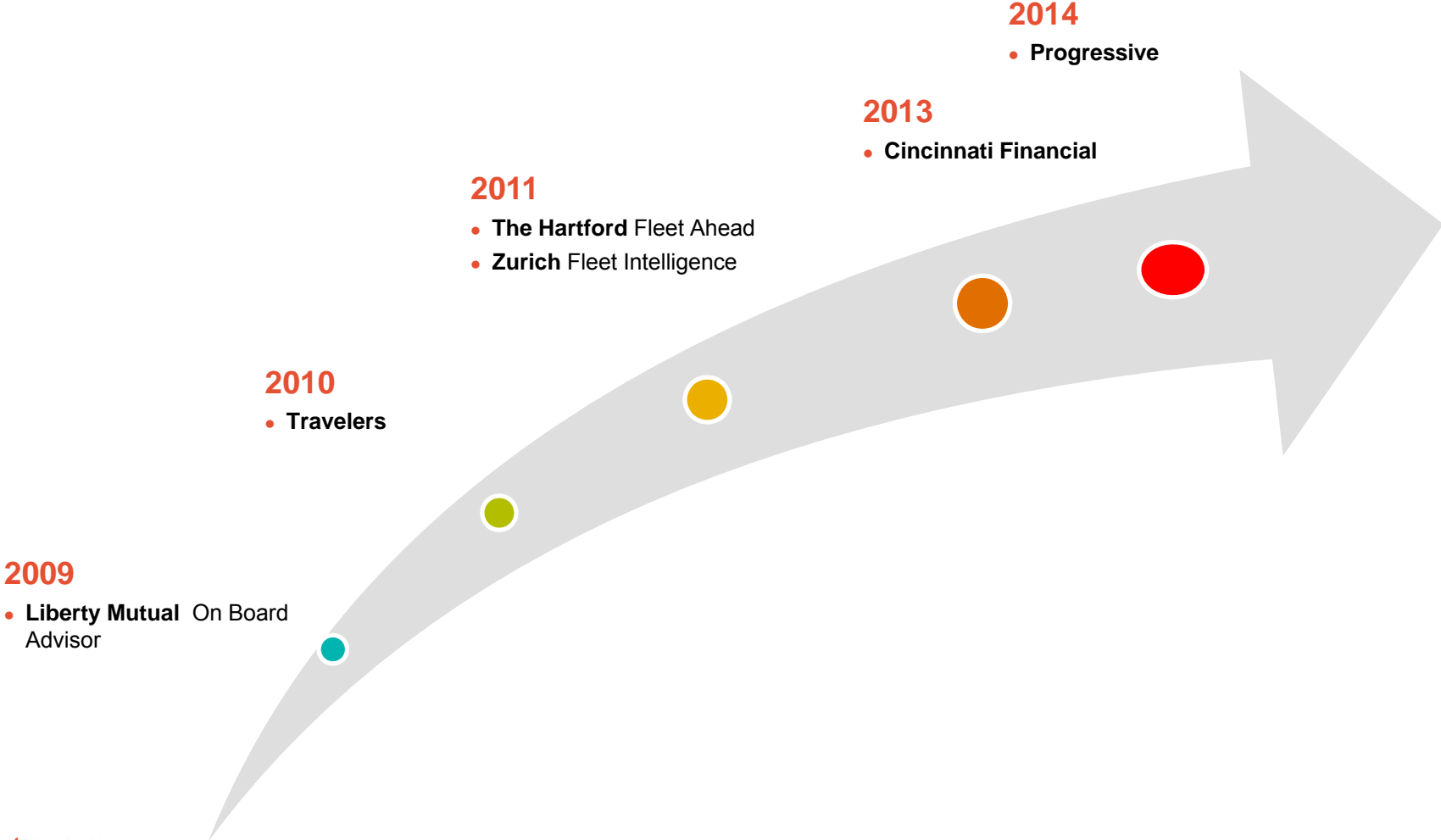
2012

- **Esurance** DriveSense
- **State Farm** Forc Sync
- **CSE** SAVE
- **Farmers/Elephant** DriveIQ
- **21st Century** DriveIQ
- **AA** Drivesafe
- **DTRIC** Akamai Rater
- **MetroMile** MetroMile
- **Mapfre** DriveAdvisor

2013 – 2014

- **MetLife** My Journey
- **Esurance** DriveSafe
- **American Family** MySafetyValet

Limited UBI products in commercial insurance



Contrasting personal and commercial auto

	Personal Auto	Commercial Auto
Controls technology deployment	✓	X
Self selection works	✓	X
Insurer is the TSP customer	✓	X
Inexpensive telematics products	✓	X

Commercial Fleets want to Reduce costs

- Telematics applications vary widely
 - few are likely to have a material impact on reducing crash costs
 - loss cost improvements accrue to large fleets in retro rating
- Commercial telematics applications focus on operational efficiency
 - benefits accrue primarily to the fleet in reduced operating cost

Current models in commercial lines

Panel of TSPs

How does it work?

- One or more TSPs offered through risk control
- Customer pays directly to TSP
- Certain data shared with the insurer and used by underwriting and/or risk control

Challenges?

- There are 300+ TSPs - no provider has majority market share
- Large number of telematics devices are already installed in larger fleets by a wide variety of telematics service providers
- Competes with Fleet Management companies (in their territory)

Who uses it?

- Cincinnati Financial
- The Hartford
- Zurich

Current models in commercial lines

Comprehensive Product

How does it work?

- Build comprehensive product with multiple components including:
 - Insurance
 - Fleet management
 - Driver management

Challenges?

- Complexity
- Not part of insurer's core business
- Adoption rate

Who uses it?

- Liberty Mutual

Current models in commercial lines

Leveraging Existing Data

How does it work?

- Contract with multiple TSPs to receive data on existing customers
- Normalize data received from multiple sources to use in underwriting and/or risk control

Challenges?

- Need to integrate with multiple TSP(s)
- Data/analytics from existing systems is not comparable between different TSPs or even between products from the same TSP
- Not practical except for the largest companies

Who uses it?

- None (at least publicly)

Primary model used in personal lines

Self Selection Model

How does it work?

- Primarily focused on measurement of risk with subsequent pricing adjustments
- Insurers fully fund programs to collect data
- Use self-selection to fund early UBI programs
- Control consumer's first experience with telematics

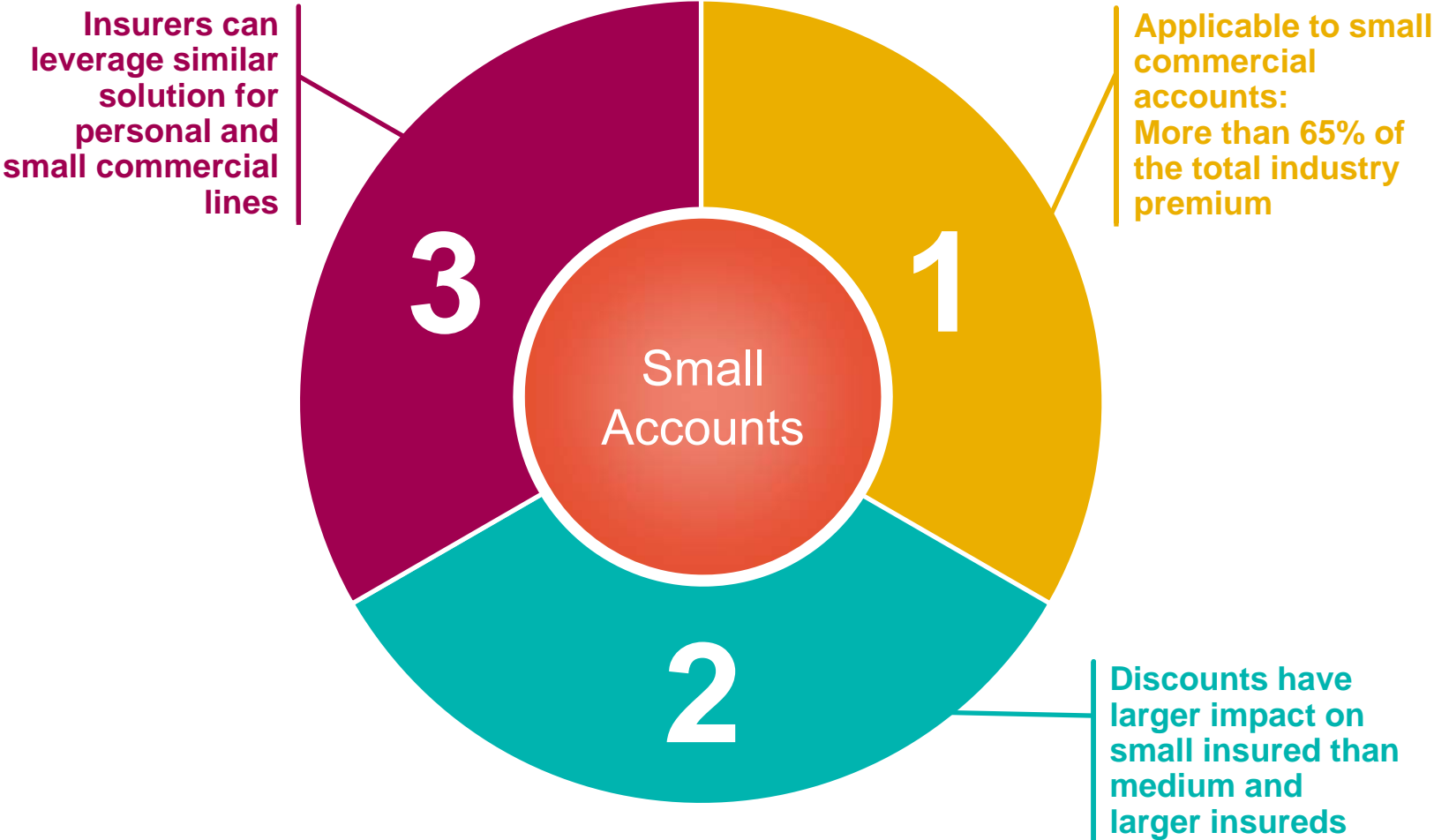
Challenges?

- Managing operations efficiently
- Integrating with existing product strategy

Who uses it?

- Progressive

Why should CL consider the PL model?



Contact details

Robin Harbage, FCAS, MAAA

Towers Watson

(440) 725-6204

Robin.Harbage@towerswatson.com