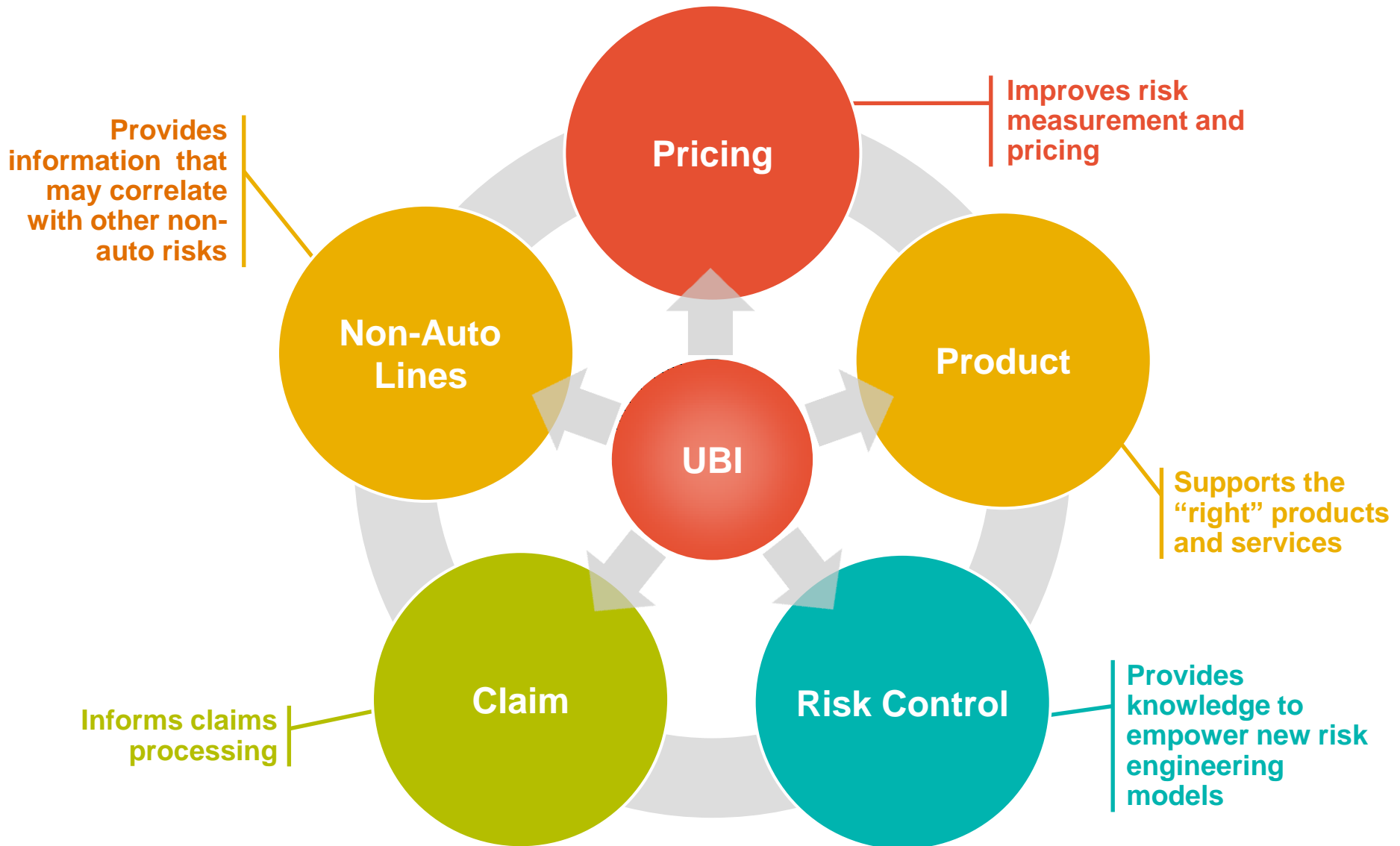# Usage-based Insurance for Commercial Lines

What can we learn from personal lines?

Mohamad Hindawi, PhD, FCAS

March 31, 2014

TOWERS WATSON

Significant value available from the right UBI program

Pricing

Improves risk measurement and pricing

Non-Auto Lines

Provides information that may correlate with other non-auto risks

UBI

Product

Supports the "right" products and services

Claim

Informs claims processing

Risk Control

Provides knowledge to empower new risk engineering models

Proliferation of UBI in personal insurance

2013 – 2014
- **MetLife** My Journey
- **Esurance** DriveSafe
- **American Family** MySafetyValet

2012
- **Esurance** DriveSense
- **State Farm** Forc Sync
- **CSE** SAVE
- **Farmers/Elephant** DriveIQ
- **21st Century** DriveIQ
- **AA** Drivesafe
- **DTRIC** Akamai Rater
- **MetroMile** MetroMile
- **Mapfre** DriveAdvisor

2011
- **Auto Club** OnBoard
- **Progressive** Snapshot
- **State Farm** Drive Safe and Save
- **Nationwide** SmartRide
- **The Hartford** TrueLane

2010
- **Allstate** DriveWise
- **CSAA** uDrive
- **Safeco** Rewind
- **State Farm** OnStar

2007 – 2009
- **National General** OnStar PAYG
- **Progressive** MyRate
- **American Family** Teen Safe
- **Safeco** Teensurance
- **Travelers** Intellidrive
- **MileMeter** MileMeter 2.0

2004 – 2006
- **GMAC** Low-mileage discount
- **Progressive** Tripsense

1997
Progressive
- Autograph

Limited UBI products in commercial insurance

2013
- **Cincinnati Financials**

2011
- **The Hartford** Fleet Ahead
- **Zurich** Fleet Intelligence

2010
- **Travelers**

2009
- **Liberty Mutual** On Board Advisor
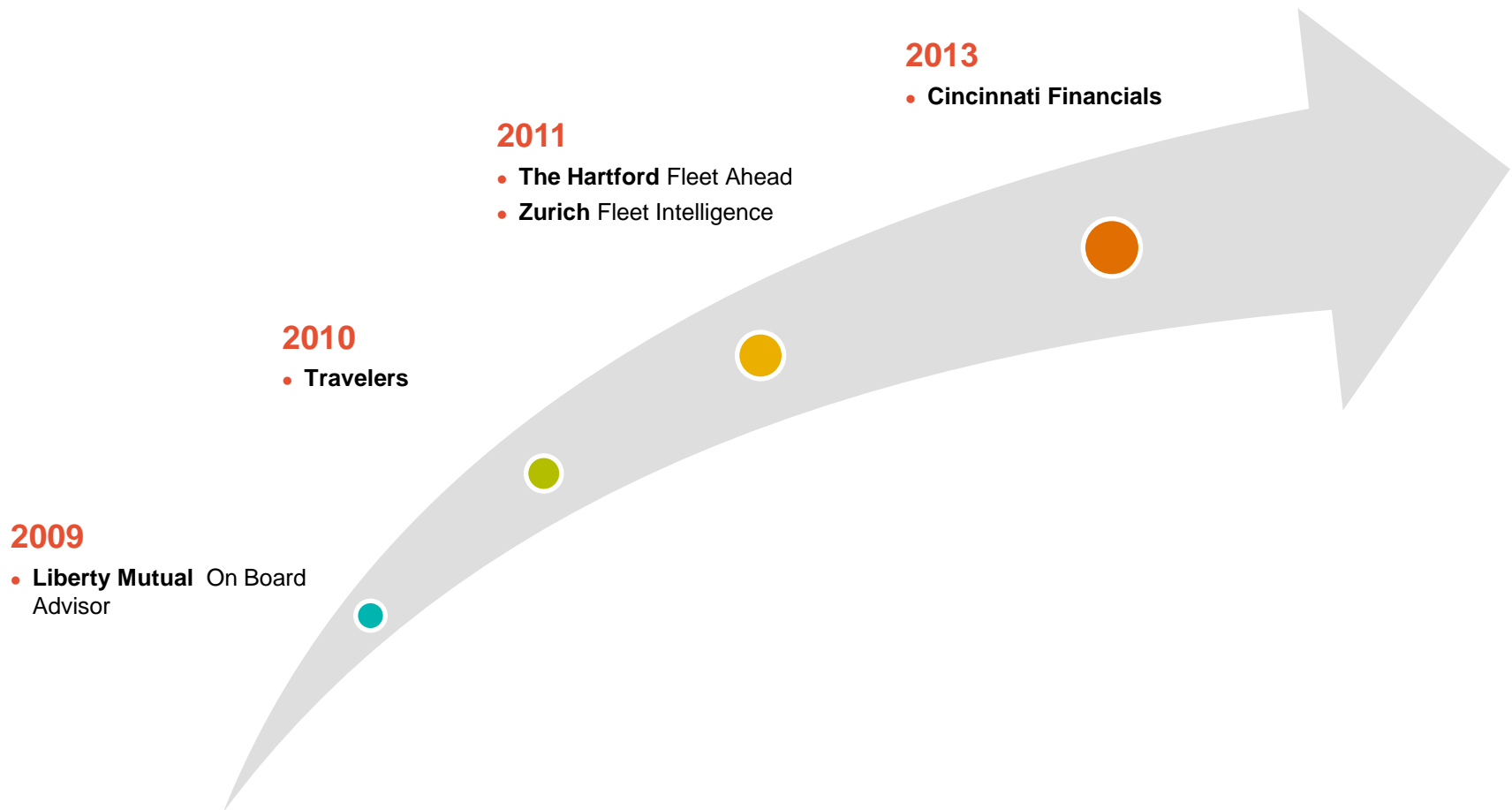
The commercial auto market

Customer Size (vertical axis)

Pricing — Risk control/Efficiency — Convenience (horizontal axis)

- Trucking fleets
- Rental fleets
- Sales fleets
- Micro-fleets
- Commercial fleets
- Public entities
- Owner Operators

Current ecosystem

Smartphone apps
Logistics

Others

Insurers

Personal /
commercial

Analytics

Customers

TSPs

Telematics
service providers

Analytics providers
Data aggregators

Fleet
Management

Devices

Device and
gateway providers

Fleet management
companies

Current ecosystem: National Accounts
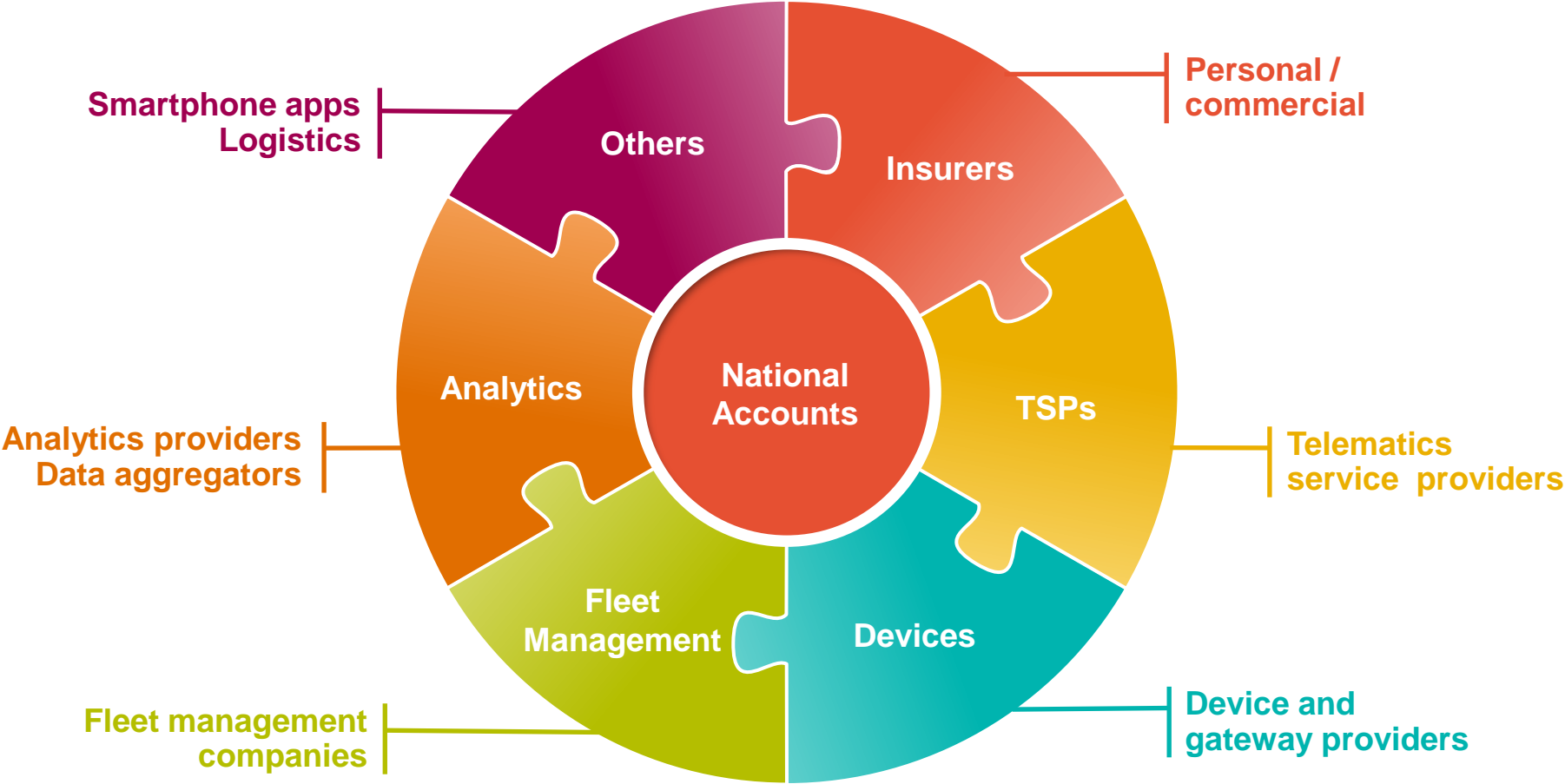
Current ecosystem: Middle Market

Smartphone apps
Logistics

Others

Personal /
commercial

Insurers

Analytics providers
Data aggregators

Analytics

Middle Market

TSPs

Telematics
service providers

Fleet management
companies

Fleet
Management

Devices

Device and
gateway providers
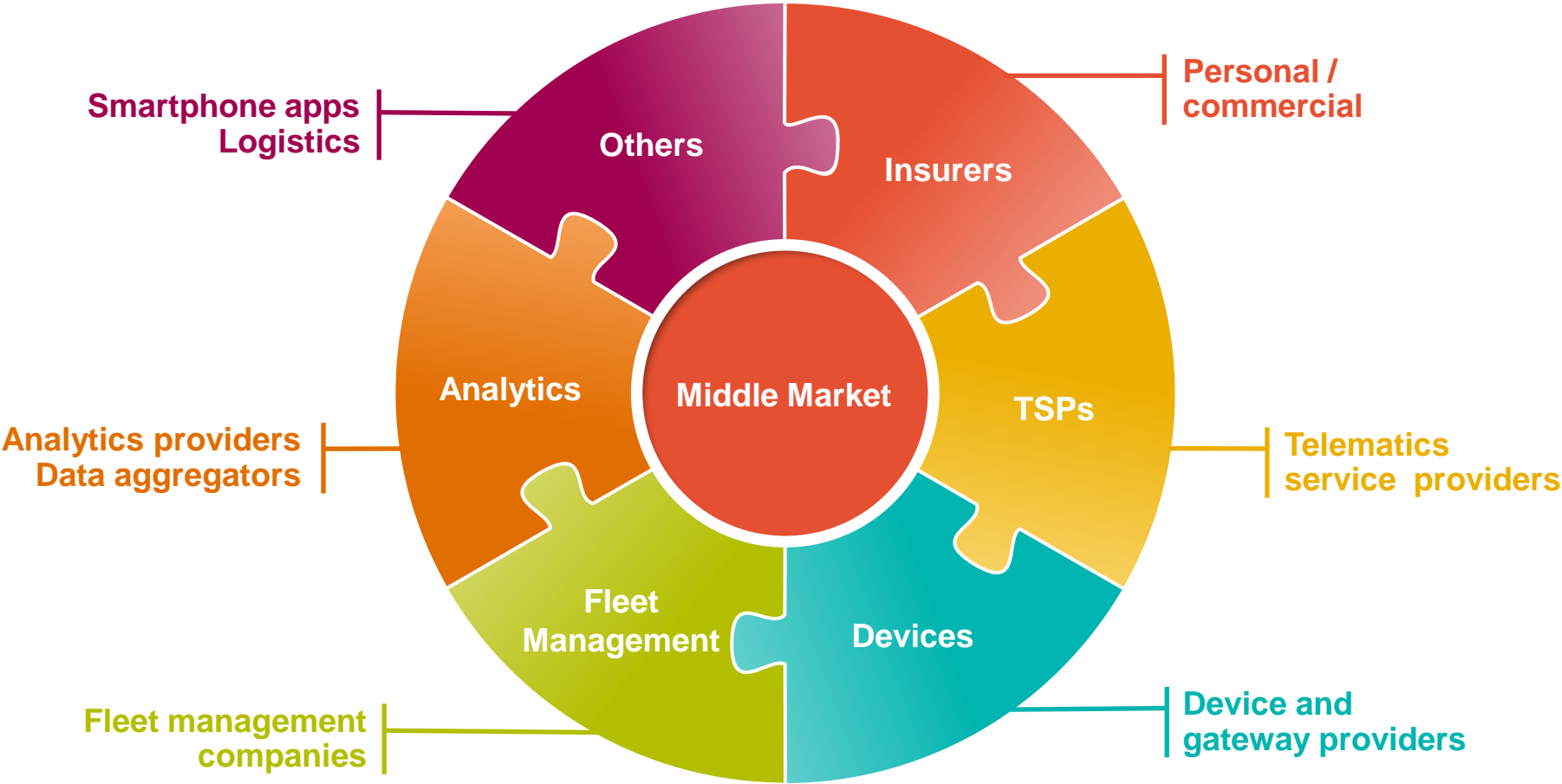
Current ecosystem: Small Accounts

Smartphone apps Logistics

Others

Insurers

Personal / commercial

Small Accounts

Analytics

TSPs

Analytics providers Data aggregators

Telematics service providers

Fleet Management

Devices

Fleet management companies

Device and gateway providers

Contrasting personal and commercial auto

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

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 meaningful 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 Financials
- 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 for multiple sources to use in underwriting and/or risk control

Challenges?
- Need to integrate with multiple TSPs
- 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
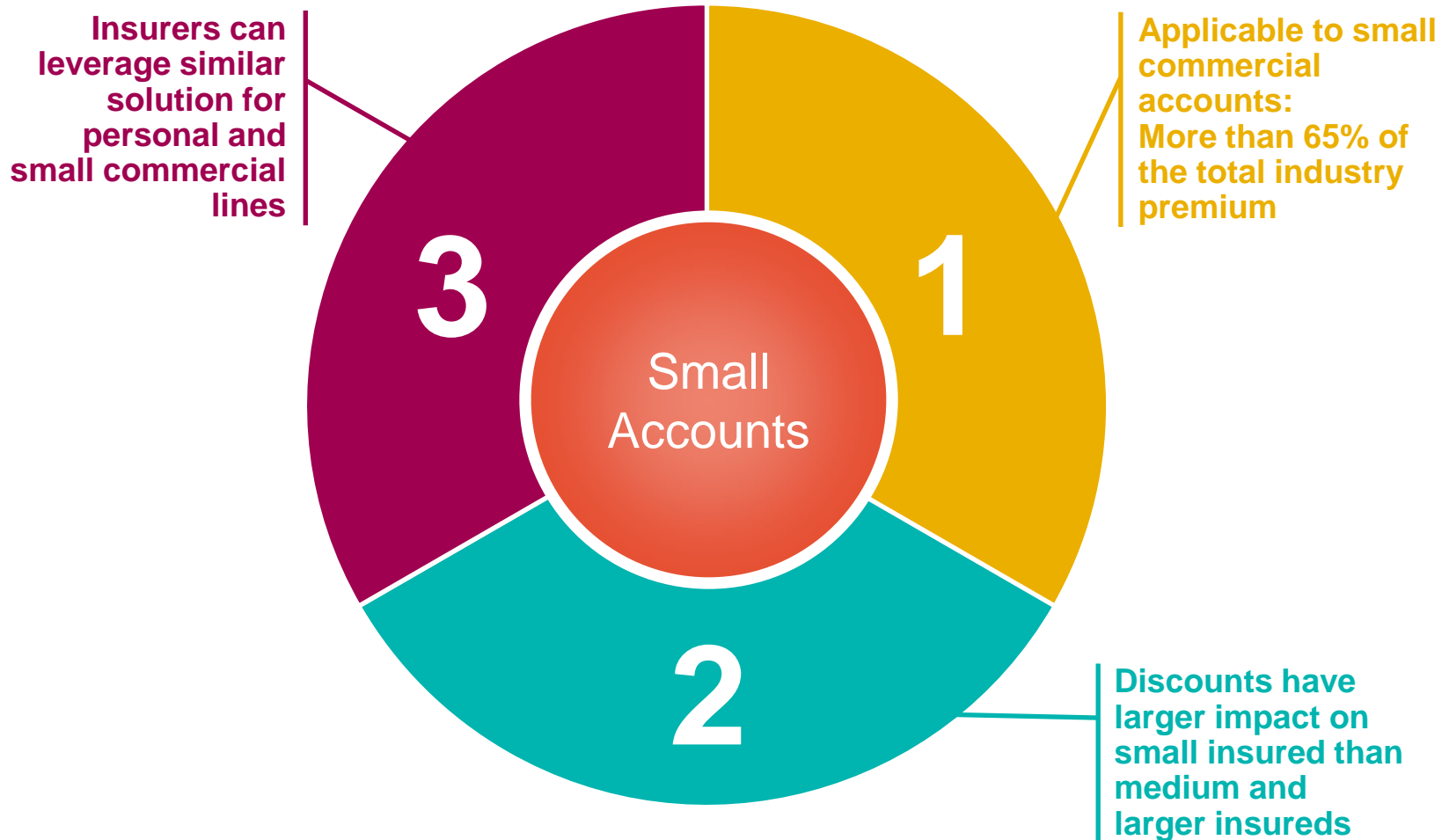- Control consumer's first experience with telematics

Challenges?
- Managing operation efficiently
- Integrating with existing product strategy

Who uses it?
- Everyone

Why should CL consider the PL model?

Insurers can leverage similar solution for personal and small commercial lines

3

Small Accounts

1

Applicable to small commercial accounts: More than 65% of the total industry premium

2

Discounts have larger impact on small insured than medium and larger insureds

Final thoughts

- Test, learn, and adapt — **5**
- Simplify your offering — **1**
- Clearly define your business model — **2**
- Don't wait for the perfect solution — **3**
- Don't overspend on initial infrastructure — **4**

Success

Contact details

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