
Usage-Based Insurance

Pinnacle Apex Discussion Series

December 16th, 2010

Contents

- What is Usage-Based Insurance
- Where is it currently being used
- Who are the key participants
- What are some key considerations/obstacles
- Where does it lead

From Mileage-Based Insurance...

- The entry into usage-based insurance are mileage based insurance products, where mileage serves as an exposure basis or generates a meaningful price differentiation.
- The main obstacle is validation

...to the Full Usage-Based Insurance

- In general, Usage Based Insurance refers to auto insurance products where the driving patterns of the policyholder is considered when setting rates
- Characteristics assessed reflect
 - When
 - Where
 - How
- Many more obstacles

Usage Based Insurance

- Driving Forces
 - Strong relationship to exposure
 - Safety
 - Environmental concerns
 - Public acceptability
 - Regulatory
- Data Elements Captured
 - Mileage driven
 - Time of day
 - Speed
 - Braking
 - Sharpness of turns
 - Where you drive

The Current U.S. Companies in the Usage-Based Insurance Arena

OnStar/GMAC Pay-As-You-Go Insurance

■ Discount

- For those who drive under 15,000 miles
- Discount of up to 54%

■ Validation Method

- Odometer reading from monthly OnStar Vehicle Diagnostics

OnStar/GMAC Pay-As-You-Go Insurance

States with Pay-As-You-Go

| | | | | |
|----------|-------------|---------------|----------------|---------------|
| Alabama | Indiana | Missouri | Ohio | Tennessee |
| Arizona | Kentucky | Montana | Oklahoma | Texas |
| Colorado | Louisiana | Nebraska | Oregon | Utah |
| Florida | Maryland | Nevada | Pennsylvania | Virginia |
| Georgia | Michigan | New Hampshire | Rhode Island | Washington |
| Idaho | Minnesota | New Mexico | South Carolina | West Virginia |
| Illinois | Mississippi | New York | South Dakota | Wisconsin |

MileMeter (TX)

■ Concept

- Pay-by-the mile auto insurance
- Insurance covers up to 6,000 miles at a time
 - Additional miles can be purchased on line
- With MileMeter 2.0, minimum premium set at rate for 1,000 miles

■ Classification

- Rates based on customer-supplied odometer photos, age, home location and vehicle type
- Does NOT use insurance scoring

Coming Soon to California

State Farm Drive Safe and Save Program

- California plan – Feb 28, 2011
- Discount
 - For those who drive under 19,000 miles
 - 5% discount for the policy term
 - Lower premium for the verified mileage program than those who estimate their annual miles
- Validation Method
 - Self-report mileage at start/end of policy period
 - Can opt to have mileage tracked through OnStar

Auto Club of Southern CA Pay-Drive Program

- California plan – Feb 1, 2011
- Discount
 - Up to 10.5%
- Validation Method
 - Self-report mileage at start/end of policy period
 - Can opt to install device in vehicle that will record the number of miles driven

Progressive Snapshot DiscountSM

■ Data

□ Data captured

■ Time of day and vehicle speed

□ Miles driven

□ Frequency of sudden stops

■ When the device is connected and disconnected from the vehicle

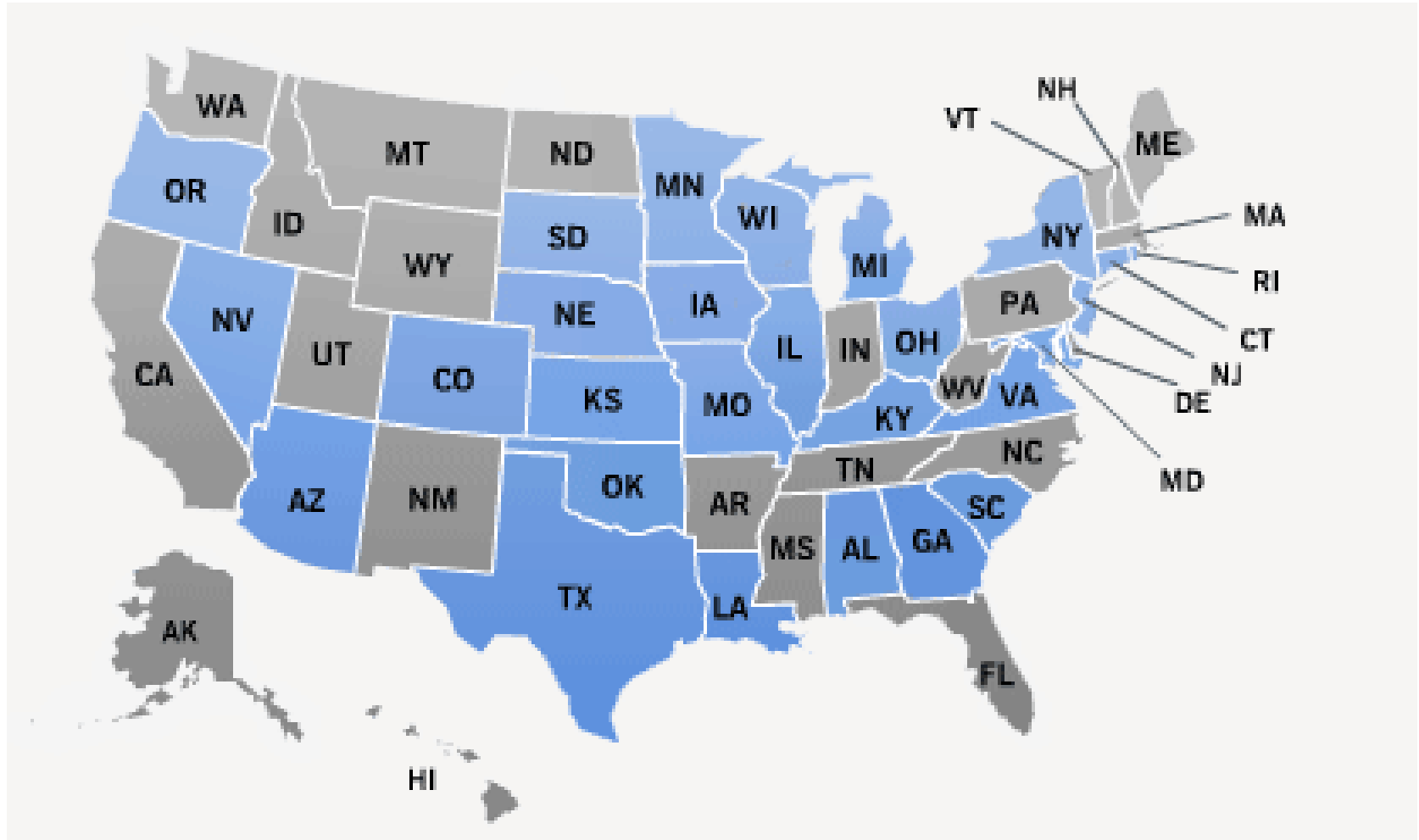
■ Vehicle Identification Number (VIN)

Progressive Snapshot DiscountSM

- Concept – Discount for people who
 - drive less
 - drive in safer ways
 - drive during safer times of day

- Discount
 - Applies after 30 days
 - Discount finalized at renewal
 - Based on six-month snapshot

Progressive Snapshot DiscountSM



SafeCo/Liberty Mutual Rewind(CO,OH)

- Concept – Remove surcharge for EXISTING
 - Speeding tickets
 - Minor violations
 - At-fault accidents
- Evaluation Period – Four Months
- Data Collected
 - Mileage
 - Speed and Acceleration
 - Time, Date, Location*

Programs in the Overseas Market

- Australia
- Canada
- Ireland, Israel, Italy
- Netherlands
- South Africa
- Spain
- United Kingdom
- ...

From overseas – insurethebox



- Initial insurance covers 6,000 miles
- Top-Up miles can be purchased in bundles of 250, 500 or 1,000 miles

- Installation of Clear Box
 - Reward Bonus Miles each month based on driving behavior
 - Lower renewal premium based on positive driving behavior

insurethebox

- Data collected
 - Distance traveled
 - Time of travel
 - Types of roads used
 - Speed
 - Levels of acceleration
 - Levels of braking
 - Accidents

Considerations

Technology Considerations

- For full UBI products, a telematic device is essential
 - Cost of device
 - Usability of device
 - Onboard Diagnostics systems port (OBD-II)
 - On all compliant cars 1996 and newer
 - Receptiveness of device
 - Perceived intrusiveness, especially if GPS enabled

Data Considerations

- Transmission, collection and storage of data
 - Volume of data is on a different scale than traditional rating elements
- Analysis of data

Pricing Considerations

- Indications from Intelligent Speed Adaptation studies
 - 10% – 36% reductions in injury accidents
 - accident rate reductions as high as 48.5%
- Indications from insurer rating plans
- Self-imposed segmentation

Social Considerations

- The public fears their privacy may be compromised
 - The device may contain GPS capabilities and double as a locator device
 - The monitoring of the driving behavior may create documentation of violations and faults otherwise unnoticed
 - Speed violations
 - Traffic Sign violations
 - Accident fault assignments

Market Considerations

- Consumer issues – Interest Levels
 - Norwich Union (British branch of Aviva)
 - PAYD Program began in 2006, discontinued in 2008
 - Cited reason: book of business reached only 10% of the target of 100,000 subscribers
 - MileMeter
 - Program launched 2008
 - Policyholder count in the thousands through 2010

Patent Considerations

- Progressive Casualty Insurance Co., Plaintiff,
Vs. Safeco Insurance Co., et al.
 - Case No. 1:10 CV 1370
 - U.S. Patent No. 6,064,970
 - 11/12/10
 - Motion to Dismiss for Failure to State a Claim Upon Which Relief May Be Granted is Denied
 - Motion to Stay Litigation Pending *Ex Parte* Reexamination of the Patent-In-Suit by the United States PTO is Granted

Parting Thoughts

- The next great thing for auto insurance?
 - The technology and the analytical tools are in place
 - There is public acceptance that UBI makes intuitive sense
 - Need to allay fears of invasion of privacy

Questions?

Challenges

- Implementation issues
 - Premium collection
 - Effects on retention
 - Patents