MARKET SURVEY

Consumer demand for behavior-based telematics could save auto insurers from mounting losses

Survey shows vast majority of respondents want understandable prices based on driving quality

November 2017

Executive summary

The insurance industry has reached a critical juncture. More drivers are traveling more miles. Distracted driving is leading to a substantial increase in accidents and losses, with claims frequency and severity rising for several years in a row. This trend is troubling for both auto insurers and policy-holders:

- **Many auto insurers are becoming unprofitable:** Fitch Ratings predicts that the industry's statutory combined ratio will reach 108 this year (i.e., claim payouts and expenses plus operating expenses exceeds total premium intake by 8 points)[1]. S&P Global Market Intelligence reports that auto losses rose by 13 percent in 2016, and predicts that net incurred losses in private auto insurance will reach an all-time high of $154 billion this year[2].

- **Vehicle owners are unhappy with rising premiums:** To cope, insurers have been forced to raise premiums, straining customer relationships. But even with this increase, many insurers are still not able to cover claims.

Where do insurers go from here? Because the dominant part of the combined ratio is the claims payout, the best way to reduce liability is to decrease the number and severity of claims. The smartest way to accomplish this and avoid price increases across the entire customer base (which includes the safest drivers, an insurer's ideal customer) is to **accurately stratify driver risk**, and to provide **incentives to make drivers better**. However, achieving this goal has been difficult for insurers.

The advent of smartphone telematics programs and lessons from recent successes may provide the answer. It is now possible to use smartphone sensor data to accurately measure and analyze driving behavior, allowing auto insurers to stratify drivers by performance and to make smarter pricing decisions. Moreover, smartphone telematics helps drivers reduce risky behavior like smartphone distraction and excessive speeding, resulting in fewer accidents and claims.

Early adopters of smartphone telematics programs have reaped significant benefits, but some auto insurers have been hesitant to adopt such programs due to concerns

about customer adoption, user satisfaction, and ease of implementation. To gain more insight about consumer readiness, Cambridge Mobile Telematics (CMT) commissioned an independent survey of 718 adults to assess their readiness in adopting smartphone-centric behavior-based insurance (BBI) programs. The key findings are:

- 73 percent of respondents want rates based on how safely they drive, compared to credit score (4 percent), address (4 percent), or income (8 percent).
- 60 percent are familiar with telematics programs, but only 22 percent have ever been offered one.
- 85 percent expressed interest in signing up for a program, especially if assurances were made that rates won't increase (55 percent) and that information won't be misused (54 percent).
- 25 percent of millennials – an attractive customer base for long-term value – said that becoming a better driver would be a compelling reason to join such a program.

The rest of this report provides further data, commentary, and insights on the following topics:

- The impact of telematics on pricing policies and better transparency to consumers
- Consumer adoption and sentiment toward behavior-based telematics programs
- Using telematics to capture the lifetime customer value of millennials
- Driver hesitations and concerns around BBI programs
- How to leverage telematics to improve customer retention, reduce claims and spark growth
- The key takeaways every auto insurer needs to know about telematics

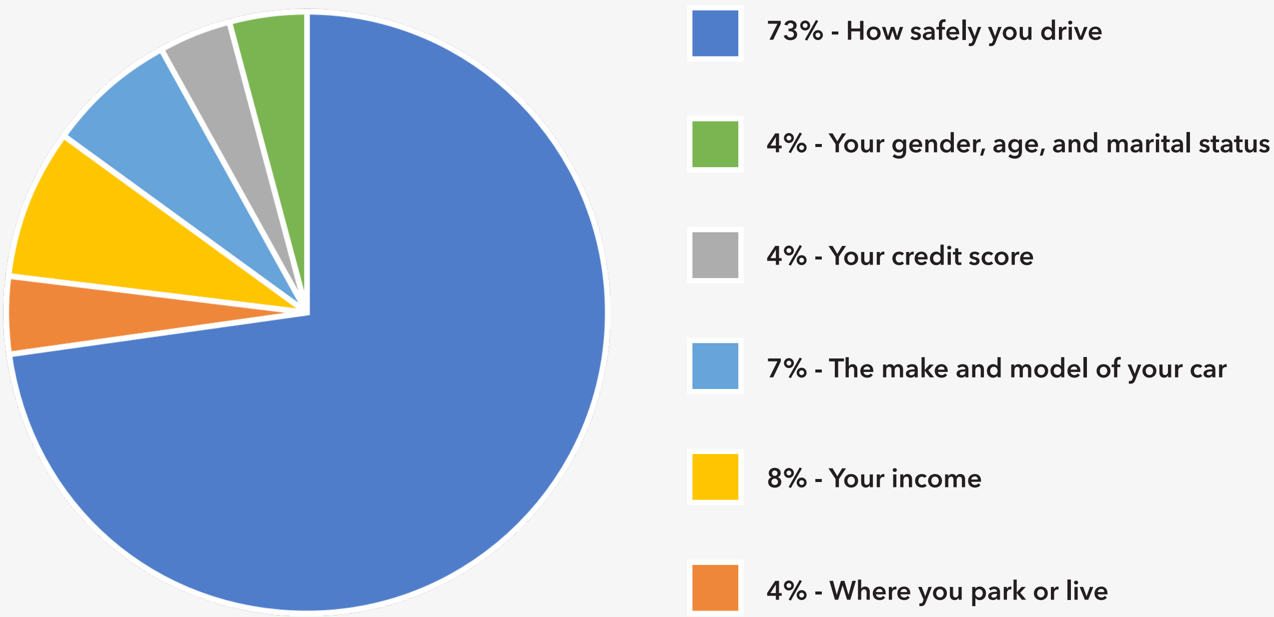
Policy pricing and creation: Time for a new approach?

Accurately assessing risk and pricing policies are critical to an insurer's profitability. For years, insurers have used factors like credit score, age, gender, and location to set rates. Most drivers do not view these factors favorably. Only 20 percent of respondents said they had full clarity on how their insurance providers set prices – a shockingly low number given today's demands for pricing transparency. When asked how drivers believe auto insurance rates should be determined, 73 percent said rates should be based on how safely they drive. By contrast, only 4 percent chose "gender, age, and marital status" and only 4 percent chose "your credit score."

The credit score, an established predictor of insurance claims in the industry, is surpassed by the predictability of driving scores based on smartphone telematics. When credit is used to segment an insurer's population by risk, drivers classified in the riskiest decile (10 percent) cost two times more to insure than those in the lowest risk decile (10 percent). Meanwhile, smartphone telematics data has shown more than four times the lift from low to high, indicating that telematics is at least 50 percent more powerful in predicting losses than credit score. The reason is that factors like phone distraction and excessive speeding – measurable with smartphone telematics – are greater predictors of crash risk.

The bottom line: by combining newer technologies rooted in mobile telematics, machine learning, and behavioral modeling with traditional factors like the credit score, auto insurers can set more accurate rates, while also satisfying their customers' desire for understandable rates based on driving quality.

How would you prefer your auto insurance rates were determined?



Measuring consumer adoption of behavior-based programs

In the past, there have been a number of obstacles that have held insurers back from deploying telematics programs, including challenges associated with installing black boxes and dongles in vehicles, the significant operational costs to deploy a program, and uncertainty around customer adoption and readiness.

Smartphone-centric telematics immediately addresses the first two issues – there's no installation, and everyone uses their own smartphone.

But in terms of customer adoption, are drivers willing to enroll in a mobile telematics program? The survey found that:

- 60 percent are familiar with auto insurance programs that track real-time driving performance and safety through a mobile smartphone app and/or a vehicle plug-in device.
- Only 22 percent have ever been offered a telematics program by their insurer.
- Yet, 73 percent of drivers want their premium to depend on how well they drive.

Drivers aren't just amenable to the idea of telematics, they want it. But too few are being offered a suitable program.

There are several ways to make smartphone-centric behavior-based insurance programs attractive to consumers. The survey asked what would make a driver likely to sign up for a program. An impressive 85 percent of all drivers indicated at least one of these factors as a reason to sign up:

- Assurances that rates won't increase: 55 percent
- Assurances that personal information wouldn't be misused: 54 percent
- The potential for the program to make them safer drivers: 18 percent
- The ability to monitor the safe driving habits of family and friends: 14 percent

The millennial opportunity: Capturing customer lifetime value

Customer lifetime value, a key metric in most markets, is especially important in auto insurance, where insurers support both safe and risky drivers and where it is easy for the best (safest) customers to switch providers. When insurers can identify and retain their best customers at an early age – and pass along the risky, high-cost drivers to their competitors – they set their business up for long-term success and growth.

The good news regarding young drivers is that they perceive key benefits from smartphone telematics programs. In the survey, 25 percent of millennials indicated that becoming a better driver was a key motivator. The survey also found that, compared to all drivers, millennials are more interested in monitoring the safe driving habits of friends and family, and more concerned about the potential for rate increases. When you consider that millennials make up roughly 30 percent of all drivers today, acquiring the best drivers of that group – and retaining them – becomes a strategic priority for insurers.

> Telematics provides a gateway to customer lifetime value – enabling carriers to identify, attract and retain the safest drivers at an early age.

Scoping out driver hesitation

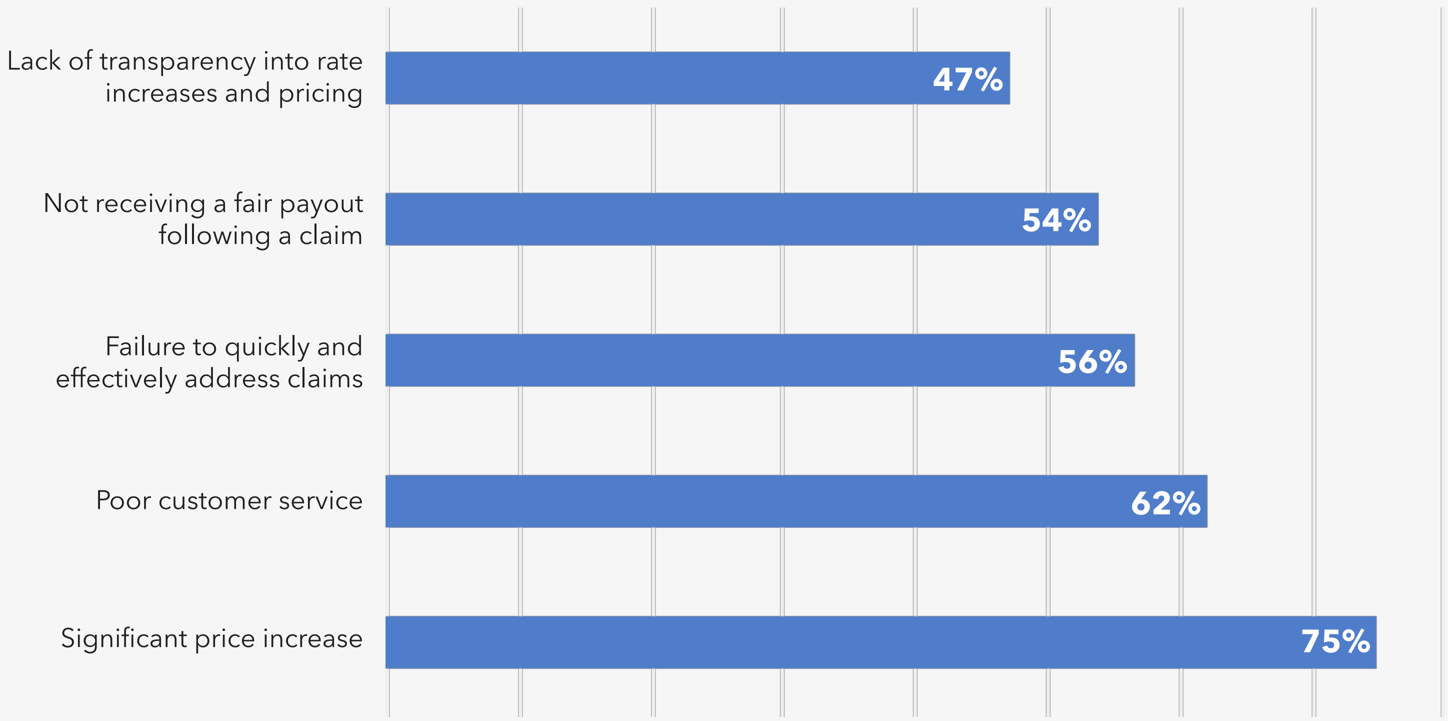
The biggest concern potential customers have is around how insurance companies will use telematics data. About one-half of all respondents selected security/privacy concerns and concerns about the use of personal data as factors that would hold them back from telematics-based insurance policies. Early adopters of telematics programs are less concerned about these issues: of the respondents who have already participated in a telematics program, only a third voiced concerns.

Today, every consumer has concerns over protecting their personal information – it's not unique to telematics. However, once the user understands and sees how the data will be used, and the benefits – to provide feedback, gauge driving behavior, and increase safety – the concerns abate. It is therefore critical for insurers to specify clear, succinct, and customer-friendly data-use policies to grow their telematics user base and reap the actuarial benefits of these programs.

Customer growth and retention

The urgency for auto insurers to offer new, innovative programs like telematics is high – the industry is suffering financially and customer satisfaction levels are low.

The survey asked when a consumer would consider switching insurance providers. Significant price increases are the dominant reason, as shown in the chart below. When rates increase, only 18 percent of all drivers – and just 13 percent of millennials – say that their insurance provider clearly explains why.



Mobile telematics programs provide a natural answer to many of these customer frustrations. For example, detailed score reports showing how a driver has improved, or worsened, over time can provide users with a clear picture of why their rate is changing.

Clarity also helps insurers more accurately price both good and risky drivers, and justify rate increases and discounts. This approach ensures that the best customers aren't affected – and don't switch to a competitor – because of across-the-board rate increases forced by the riskiest drivers.

In addition to retention, telematics also plays a vital role reducing the number and severity of claims by improving driver behavior. Based on analysis of CMT's DriveWell program, within only 30 days of use, phone distraction reduces by 35 percent (40 percent by day 60), while risky speeding and hard braking reduce by 20 percent, on average across all users.

Drivers care deeply about these improvements. When asked about the biggest concern about other drivers on the road, 55 percent chose phone use by other drivers, 28 percent chose reckless driving, and 16 percent chose drunk drivers.

The bottom line: Key takeaways for auto insurers

Telematics represents a massive opportunity for auto insurers, both today and in the future. Here's what you need to know:

1. Many insurers are suffering losses and under immense financial pressure, operating at a combined ratio well above 100. Mobile telematics represents a compelling recent advance that offers a way for an insurer to not only rebound but also thrive. Telematics has been used to improve pricing decisions, facilitate claim processes, increase customer retention, and most importantly, reduce the number and severity of claims, increasing profitability.

2. Traditional pricing and predictive measures – like age, gender, location and marital status – are not strong enough predictors of performance and loss on their own. Insurers should complement these measures with telematics data, which offers significantly better predictive insight and the opportunity for directed feedback to drivers. Relying solely on demographics is an outdated model that hurts insurers financially, and causes a rift with their best customers.

3. Smartphone-centric telematics programs provide a gateway to customer lifetime value – enabling carriers to identify and attract the safest drivers at an early age, and retain them for life.

4. Telematics programs are a win for both insurers and drivers – they foster safer driving practices, improve pricing transparency, enable pricing efficiencies, make discounts or rewards available to the drivers that truly deserve them, and help insurers improve customer satisfaction.

5. Concerns around lacking consumer interest in telematics programs are inaccurate and unfounded. Nearly three out of every four drivers surveyed want their premium to depend on how well they drive.

6. With the advent of mobile safe-driving apps, backed with advances in smartphone sensing, machine learning, and behavioral science, deploying a successful telematics program has become straightforward and affordable. Some of the most respected auto insurers in the market are already onboard and experiencing strong results.

Take the next step

To learn more about implementing mobile telematics or to better understand how a telematics program could impact your customer experience and pricing methodologies, visit Cambridge Mobile Telematics' [online resources] or [contact us].

Survey methodology

Cambridge Mobile Telematics surveyed 718 consumers in August of 2017. The demographics:

- Driving frequency: 77 percent of surveyed consumers drive every day, 16 percent drive several times a week and 7 percent drive a few times each week.
- Gender: 52 percent of respondents are female, 48 are percent male.
- Age: 31 percent of respondents are between the ages of 18 – 34, 23 percent between 35 – 45, 38 percent between 46 – 59, and 8 percent 60 and over.

About Cambridge Mobile Telematics

Cambridge Mobile Telematics (CMT) makes roads and drivers safer around the world. Founded in 2010 by two MIT professors and experienced entrepreneurs, CMT pioneered telematics for behavior-based insurance (BBI) and deployed the first solution to provide both traditional vehicle-centric UBI and BBI. With over 20 customers in 14 countries, CMT has a proven record of changing driver behavior: an average reduction of 35 percent in phone distraction, 20 percent in hard braking, and 20 percent in at-risk speeding all within less than 30 days of using the program.

Connect with CMT:

- Sales and company inquiries
- Media and press
- www.cmtelematics.com
- Twitter

[1]Between 2014 and 2016, GAAP data shows that the average combined ratio for a collection auto insurers rose by 3.3 points.
[2]S&P Global Market Intelligence 2016 U.S. Property & Casualty Insurance Market Report

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