zensar

Decoding UBI
Auto Insurance

White Paper

An RPG Company

UBI: The topic of the times

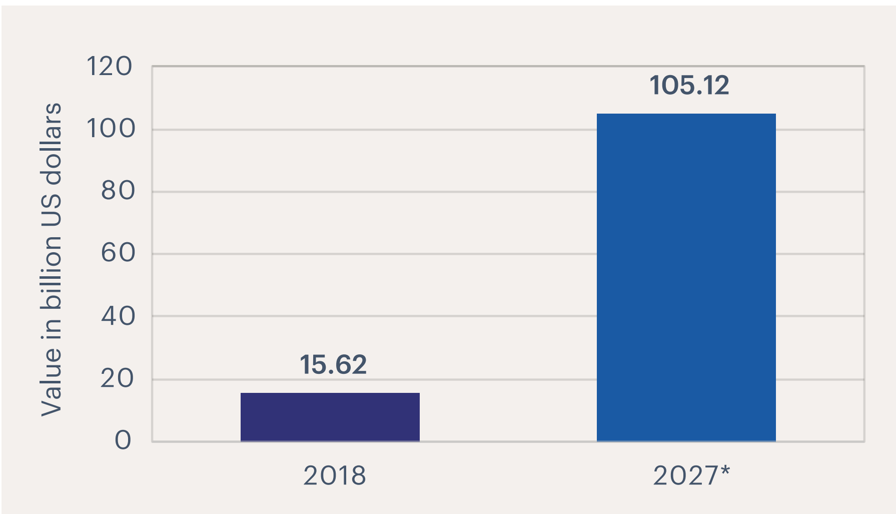
In the world of insurance, Usage-Based Insurance (UBI) is rapidly becoming a game-changer, particularly in the personal auto insurance sector. As IoT, AI/ML, big data analytics, and telematics technologies gain traction, data carriers are creating hyper-personalized insurance products or UBI to maintain their competitive edge. Moreover, COVID-19 has acted as a catalyst for the increased adoption of UBI. With their disposable income affected and driving habits evolving from routine to dynamic, more and more customers wanted access to flexible auto insurance premiums.

This dramatic behavioral shift is more commonly observed in Gen Z, millennials, and Gen Xers, who prefer to choose from multiple options for hyper-personalized insurance premiums. In addition, the proliferation of the gig economy has further contributed to an increased UBI usage, as drivers are insured only for the time-of-service delivery or operations. Insurance customers not only want to be charged based on their variable usage due to changing driving patterns but also due to increased usage of rideshare services. All these factors have invariably impacted how customers buy auto insurance today, creating a whole new customer segment.

While auto insurers commonly use traditional UBI to reward customers for good driving behavior, UBI products capture driver mileage and driving behaviors in real-time. These behaviors include speed, acceleration, hard braking, hard cornering, time of the day, and phone usage while driving. Based on these parameters, the driver receives a driving score that sets their premium amount. The snapshot program by Progressive and the Driveadvisor program by Mapfre in the US are examples.

UBI is slowly becoming a standard more than an incentive-based plan or value-add for all insurers. Telematics, the underlying technology for UBI, uses onboard diagnostics and GPS technology to track driver behavior. This data helps carriers to assess risks accurately and make analytical decisions to offer better plans in the highly competitive insurance market. Pay-as-you-go is a successful UBI implementation example by the Canadian Automobile Association.

As per the latest Statista report[1], this telematics-driven automotive UBI industry trend will have more than 6x growth between 2018 and 2027, with an estimated market size of almost $105 billion.



1. https://www.statista.com/statistics/1082127/market-size-ubi-market-worldwide/

Summarizing the above, we can safely say that crucial business drivers have made carriers jump on the UBI bandwagon today with a promising future, creating value for both customers and carriers.

Key business drivers

- Rise of IoT, 5G, telematics
- Consumer willingness (more than 77 percent of surveyed people) to switch to connected insurance products
- Demand for hyper-personalized products
- Competitive market with new innovative disruptors like Hugo Insurance, Geico, and Cuvva
- The advent of the shared and gig economy
- Advancements in the auto industry with self-driving cars and connected cars

Benefits for carriers

- Reward leads to loyalty and retention
- Improved underwriting efficiency (predictive model)
- Accurate risk assessment
- Better future product design

Benefits for carrier's customers

- Reduction in premium burden (~15 percent reduction)
- Improved road safety
- Faster claim settlement
- Rewards for good driving behavior

Even though customers have data privacy concerns around UBI, lower premiums, reduced disposable income, and changing driving behavior have catalyzed UBI adoption, creating a new insurance space for all carriers.

What is UBI in the context of auto insurance?

Usage-Based Insurance or UBI is a type of auto insurance where carriers conduct risk assessments based on usage and other parameters that insurers deem necessary. Telematics, based on IoT, refers to the proliferation of physical objects such as gadgets, cars, houses, and wearables that contain sensors, software, and the ability to communicate, leading to the creation of UBI.

Simply put, UBI is an insurance product that considers a combination of factors such as pay-as-you-drive and pay-how-you-drive auto insurance and charges customers based on that data. The two major components include:

Pay-as-you-drive:

The number of miles driven during the given policy period is considered the critical factor in deciding the policy premium. With pay-as-you-drive, the customer is charged by the kilometer. So, they save money on insurance if they are not driving a lot.

Pay-how-you-drive:

This involves assessing the driving behavior (i.e., how safe the driving is) during the given policy period and considering it as the primary factor in deciding the policy premium.

UBI has been around commercial auto space since the early 2000s. It is now slowly gaining popularity in the personal auto industry as well. Many insurers, including Allstate, State Farm Automobile Mutual Insurance, and Liberty Mutual, offer such products in North American geographies.

The global UBI market is primarily driven by the integration of smartphones with automobiles that improve the driver and passenger in-vehicle experience. Carriers can power UBI through in-vehicle devices (self-installed plug-in devices or integrated by car manufacturers) or customized mobile apps to monitor and capture driver data to align driving behaviors more closely with premium rates. Today's market is fragmented, with many telematics vendors, such as Cambridge Mobile Telematics and Zendrive, collaborating with top carriers for seamless UBI implementation.

How can insurers implement UBI efficiently?

Some essential questions that insurers must consider for implementing UBI include:

- How do insurers execute risk assessments for a UBI policy?
- How do they change their proration calculation based on days to distance traveled?
- How to charge the premiums for these policies such that paid-through date/earned premiums are in alignment with their overall risk profiles?

Risk assessment, proration, and invoicing

Risk assessment is the fundamental question that leads to the definition of the product offering. This includes answering questions like:

- What coverages can be offered as part of the UBI policy?
- Will all coverages be prorated on distance traveled instead of days?

Let's observe what is typically done in Personal Auto lines:
The coverages offered as part of these policies cannot go beyond regulated approvals.
The Personal Auto line coverages are generally divided into two parts—some prorated based on distance and others on days.

The liability coverages that are part of any personal auto offering are usually prorated on days. In contrast, all other coverages that are part of the UBI policy are prorated on the distance covered.

Invoicing is also done similarly, divided into fixed and variable parts. The fixed part invoices can be paid according to an insured's payment plan, and the variable invoices are collected from non-responsive payment instruments based on their driving distances.

Needless to say, UBI implementations must be integrated with a telematics vendor, who will collect, consolidate, and share this data with the insurers for further decision-making.

Implementation of UBI is no longer a challenge with a well-architected implementation plan and compatible vendor selection for any insurance carrier. Before selecting vendors, carriers must thoroughly analyze the following essential parameters to chart the best possible roll-out plan.

IT and infrastructure criteria

- Meaningful data collection
- Telematics vendor selection
- Project implementation roadmap
- Implementation of the pilot project
- Data collection and reusability

Business compatibility

- Minimal impact on current business
- Easy integration with existing stakeholders
- Revenue growth
- The lowest possible time horizon for ROI
- Breakeven analysis

How can insurers implement UBI efficiently?

The future of UBI products is bright. More and more insurers are embracing UBI and claims-related insurance telematics in partnership with experienced service providers for smooth implementation before they lose out on an increasing client base of even more experienced, senior, and high-end vehicle drivers.

The UBI auto insurance industry is already coming up with unique trends such as UBI + live zip code-based premium, where a change in zip code leads to a change in driving risk profile. Carriers track live drivers' areas to charge the correct premium area-wise, along with traditional UBI incentives. Legislative changes and state regulators' support are further helping carriers advance the growth of UBI programs. UBI programs of the future have the potential to provide multi-model profiling, a continuous mobility coverage by studying when customers drive, cycle, or use an e-scooter, and introduce a pay-how-you-move plan. UBI will not be limited to auto insurers, health telematics with increasing wearables popularity, and the pay-by-stay concept from Airbnb but will expand to health and property insurance, with insurers leveraging customer behavior data to provide flexible rate insurance.

At Zensar, through our robust partner-driven ecosystem, deep insurance domain knowledge, and Guidewire practice with strong technological expertise, we can address the core challenge of UBI implementation and improve the underwriting model and agent enablement on the multi-variant product. We have helped existing clients chart the UBI implementation roadmap and established them in market leadership positions through product differentiation.

To learn how we can help elevate your business, write to us at velocity@zensar.com.

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