

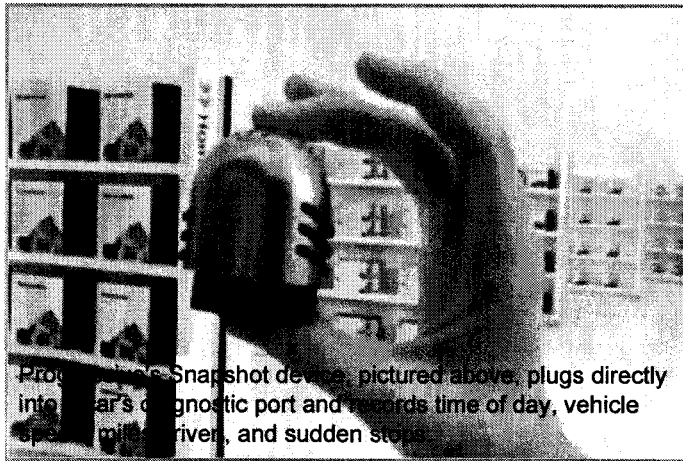
# Property Casualty 360

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## Usage-Based Insurance Next Wave for Personal Auto

BY ROBERT REGIS HYLE, PROPERTYCASUALTY360.COM

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Personal auto insurance is already the most commoditized line of property & casualty insurance and is likely to becoming the most exact of the lines in terms of underwriting as insurers spread the movement known as usage-based insurance.

The number of insurers is continuing to grow, according to Robin Harbage, director, Towers Watson, and co-author of a report on the subject, "The Brink of a Revolution.

"We are seeing the U.S. market become almost a hotbed [for usage-based insurance]," he said.

Progressive has been one of the early leaders and continues in that direction, having introduced its usage-based product in 37 states and the District of Columbia thus far, according to Harbage.

Progressive is not alone, though. Harbage reports the list of insurers offering some type of UBI at this point is "kind of a who's who of insurance."

Among the names bandied about are State Farm, Allstate, Nationwide, The Hartford, and Travelers, as well as many smaller insurers on the list.

Towers Watson estimates that auto insurers representing 60 percent of the passenger auto market, have launched a product in at least one state.

"It's not just an experiment anymore; it's a mainstream product for some of these companies and they are pushing forward on a rapid basis," says Harbage.

At this point in time, all the major insurers are operating it as a voluntary program to consumers so they can take this or buy the normal process as their auto insurance segment, points out Harbage.

Progressive Exhibit 2002

Liberty Mutual v. Progressive

CBM2012-00003

Harbage explains the devices used to track driving habits vary. Some new cars offer original equipment devices, such as OnStar for GM vehicles and Sync from Ford.

“Those devices track the mileage and behavior of the drivers as they operate the vehicle,” he says. “That’s used to create discounts for the insureds on their better than average driving or less than average mileage.”

There also is an after-market device the insurers can supply to the insured that is simply plugged in to the vehicle. All devices wirelessly transmit the information back to the insurer.

The common standard, explains Harbage, is the device plugs into the onboard data port, which was mandated for all vehicles beginning in 1996 by the EPA. The port—which also is used for doing emission checks—is linked directly to the onboard computer so anything drivers can see on their dashboard—RPMs, mileage, speed as well as changes in speed—can be recorded.

In addition, most of the devices are coming out with GPS units on them, according to Harbage.

“They get quite a bit of information about the way the vehicle is operated,” he says.

The information received from the cars is both valuable and very predictive.

“Most of what insurers rated on for years were things like a driver’s age, gender, marital status or something more intrusive like credit scores,” says Harbage.

Insureds often wondered how that information related to driving habits, according to Harbage.

“The newer information is not just related to your driving; it is your driving,” he says.

“It’s a quantum leap forward in predicting behavior,” says Harbage. “It’s taking information, such as where you are taking the vehicle, how fast you are driving, rapid accelerations, decelerations, aggressive maneuvers, and things like that. Insurers are saying there is a certain population of drivers that want to prove they are safe drivers and they are getting substantial discounts. Most insurers are offering up to 30 percent discounts just based on the information provided from the devices.”

Towers Watson is a global professional services company and one of its strengths is risk management. It is helping insurers figure the best way to collect and use information such as what onboard computers are offering.

“Most of the smaller insurers are saying [all the data] is a bit daunting,” says Harbage. “They don’t quite know what to do with it all. It’s not like any data they’ve ever seen before. Luckily, we employ a number of people who have worked with this kind of data before.”

Harbage, for one, worked for Progressive and was involved in the launch of the first three states.

Insurers are unsure what the discounts should be and looking for a score of some kind.

“Much like a credit score, there’s a score based on the operation of the vehicle: where it’s driven, when it’s driven, how it’s driven, how long it’s driven,” says Harbage. “They provide [the data] to us so we can map a discount that we can provide to the insurers.”

As programs expand among insurance carriers, Harbage believes the good drivers will want to step forward and volunteer to be a part of it.

“What will happen is the other insureds will remain with the insurers not offering these programs and they will begin to see the rate creep up as drivers that don’t volunteer for these programs become the bulk of the residual pool,” he says.

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