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The Future of Automobile Insurance



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National Insurance Producer Registry

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Agenda

- Confusing telematics terminology
- Current & future risk classifications
- Reasons for adopting UBI
- Obstacles to UBI adoption
- State laws and regulations
- Concluding remarks





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Confusing Telematics Terminology

- Usage-Based Insurance (UBI)
- Pay-At-The-Pump
- Pay-As-You-Drive (PAYD)
- Pay-How-You-Drive (PHYD)
- Pay-As-You-Go
- Mileage-Based Insurance
- Distance-Based Insurance



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Traditional Risk Classifications

- Age
- Gender
- Marital Status
- Territory
- Mileage (Annual and Commuting)
- Vehicle Characteristics
- Driver Characteristics



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Credit-Based Insurance Scores

- One of the most important developments to automobile insurance underwriting and rating has been the increased use of credit-based insurance scores
- During the past 20 years, many consumer groups and regulators have questioned two things:
 - The reliability and predictability of the scores
 - Possible disproportionate or disparate impact on minority or low-income populations

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Credit-Based Insurance Scores

- Credit-based insurance scores are derived through sophisticated mathematical models using credit-related variables in an attempt to determine an insured's propensity for risk
- Insurers argue that the use of credit-based insurance scores is necessary to properly evaluate risk and charge individual policyholders rates that most closely align with their true risk

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Credit-Based Insurance Scores

- Credit-based insurance scores were initially used by insurers for underwriting – to decide whether to offer or limit coverage
- Only within the last decade have insurers decided to also use the scores for pricing

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Credit-Based Insurance Scores

- States have reacted to the use of credit-based insurance scores in a number of ways
 - 4 states have banned its use
 - 29 states have adopted the NCOIL Model or provisions from it
 - Most states have adopted laws, regulations or bulletins guiding insurer's use of credit-based insurance scores



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UBI Risk Classifications

- How much you drive
- When you drive
- Where you drive
- How fast you drive
- How hard you brake
- How fast you turn
- How quickly you accelerate
- Lane tracking





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Reasons for Adopting UBI

- Insurance-Related Benefits:
 - Stolen vehicle tracking
 - Enhanced information to determine fault
 - Quicker access to first responders
 - Reduced accident frequency & severity yielding reduced loss costs
 - Opportunity for greater consumer acceptance

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Reasons for Adopting UBI

- Other Potential Benefits:
 - Fewer miles driven
 - Reduced traffic congestion
 - Less pollution
 - Reduced energy consumption
 - Opportunity to coach the accident-prone
 - Parental tracking of teenage drivers

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Obstacles to Adopting UBI

- Privacy....privacy....privacy
- Cost
- Consumer acceptance
- Inadvertent regulatory obstacles
 - Itemization of risk classifications
 - Advisory organization issue



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State Laws and Regulations

- Most state laws are silent
- States rely on current rate filing laws
 - Cancellation & nonrenewal laws
 - Public access laws
 - Laws limiting risk classification factors
- Towers-Watson advisory organization request



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Washington HB 2361

- Sec. 1 The legislature finds that among the choices of automobile insurance policies that are available to drivers in this state should be policies whose premiums are priced based upon the demonstration of safe driving behavior. Having such usage-based policies available will provide people an opportunity to save money in the costs of insuring their vehicles, and would provide an incentive for reduced and safer driving that will reduce costs for fuel and vehicle maintenance, reduce accidents, and decrease driving-related pollution and congestion. Therefore, it is the purpose of this legislation to encourage the offering of these policies in Washington by eliminating existing regulatory barriers to offering usage-based automobile insurance policies, expressly authorizing the insurance commissioner to approve the offering of such policies, ensuring the privacy of drivers is protected, and allowing trade secret protection for proprietary usage-based insurance models.



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Washington HB 2361

- (5)(a) A filing made pursuant to this chapter shall be exempt from the provisions of RCW 48.02.120(3). However, the filing and all supporting information accompanying it shall be open to public inspection only after the filing becomes effective *unless such information is specifically exempt from public inspection.*
- *(b) Information associated with an auto insurance filing for a usage or mileage-based insurance product that constitutes a trade secret as defined in RCW 19.108.010 is exempt from public inspection.*



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Concluding Remarks





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