

White Paper

## 2014 Usage-Based Insurance (UBI) Research Results for Consumer and Small Fleet Markets

UBI can help carriers attract more customers.

LexisNexis® found that 18 percent of consumers and 27 percent of small fleet managers are likely to sign up for UBI to receive a 10 percent discount.

August 2014

## Executive Summary

Many insurance carriers are conducting pilot programs for usage-based insurance (UBI). The potential benefits for carriers are many: more accurate rating and pricing, more potential touch-points for customer contact and better opportunities for customer retention. But what drives customer interest in UBI? What are the barriers to adoption that may prevent UBI programs from reaching the consumer mass market? Is there any appetite for commercial UBI programs, and in particular, among small fleet managers?

LexisNexis® commissioned an independent third party to investigate these and other relevant questions, and the study reveals significant demand for UBI in both consumer and small fleet markets. Notably, this is the most extensive study of its kind to focus on these areas.

In personal lines, approximately one-third (38 percent) of respondents are aware of UBI programs, and 18 percent are projected to adopt UBI for a 10 percent discount off their insurance premium. Offering deeper discounts did not result in a proportional increase in adoption. Notably, adoption rates for a 15 percent discount were comparable with those of a 10 percent discount bundled with value-added services, such as safety features. It follows that carriers can offer value-added services to enhance the perception of value while mitigating the need for excessive discounting.

Managers of small fleets have lower awareness but higher demand for UBI when compared to consumers. A quarter (25 percent) of small fleet managers are aware of UBI programs, yet 27 percent are projected to adopt UBI for a 10 percent discount. Fleet management services are not currently a factor for small fleet UBI program adoption, but if small fleet UBI growth is similar to the consumer UBI market, we would expect these services to become more prominent in the future.

This study provides actionable insight for carriers that seek to differentiate through UBI programs, and offers an alternative to simply discounting. First movers will be able to attract the best risks today and retain them in the future. The opposite is also true: laggards may find themselves at risk of adverse selection.



### About the author

David Lukens is director of vertical markets at LexisNexis, responsible for telematics and mobile solutions for the auto insurance market. Since joining LexisNexis in 2010, Lukens has also led several key data and analytics initiatives, including building out solutions for identity risk management, driver discovery and policyholder retention.

Prior to joining LexisNexis, Lukens was product development manager with AIG's personal lines auto group, where he was responsible for building and delivering new multivariate rating models for the agency and direct distribution channels. He has also managed claims operations in AIG's personal lines auto group, serving as process leader for both the physical damage and casualty areas. Lukens holds a bachelor's degree from Cornell University and a master's degree from the University of Delaware.

## Introduction

Insurance telematics—otherwise known as usage-based insurance (UBI)—currently accounts for just 2 percent of US personal lines auto insurance policies. However, within five years, UBI policies are projected to capture 20 to 30 percent of this market\*. When viewed along the product adoption curve (Figure 1), it is clear that consumer UBI is still on the far left of the curve, with the innovators and tech enthusiasts.

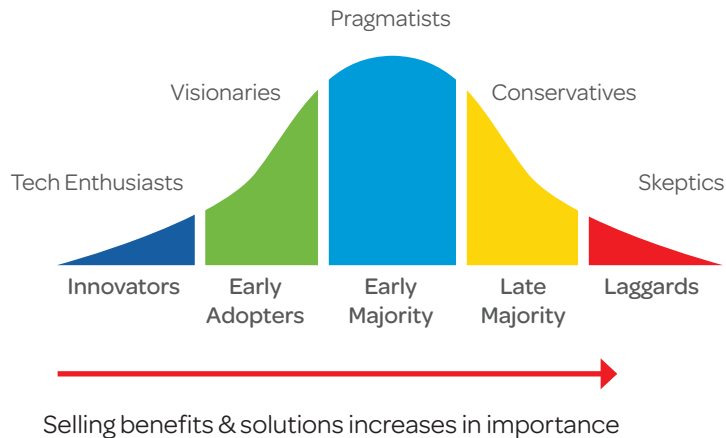


Figure 1. In the United States, UBI is still in the innovation stage of the product adoption curve.

While UBI is still establishing its foothold in the United States, it is further along the product adoption curve in the United Kingdom—one of the most competitive auto insurance markets in the world. Over the past three years, UK insurers have increasingly adopted UBI to enable, among other benefits, more accurate rating and pricing.

This study examines the awareness, perceptions and interest in UBI programs in personal and small fleet commercial lines in the United States. To our knowledge, this study is the first extensive look at the appetite for UBI programs within the small fleet commercial market and the longest-running recurring study in the consumer market.

## Key findings: Personal lines

### UBI continues to gain acceptance among drivers

While consumer awareness of UBI increased nearly four-fold between 2010 and 2013, it plateaued in 2014 with 38 percent of respondents aware of UBI programs—just one point higher than in 2013. Despite awareness leveling off in the broader sample, it increased significantly among respondents aged 21 to 25 years, with 45 percent of respondents saying they were aware of UBI programs in 2014, compared to 31 percent in 2013 (Figure 2).

\* LexisNexis privately commissioned third-party analysis, 2014.

## Study methodology

In March 2014, LexisNexis commissioned an independent third-party research provider to investigate the viewpoints of auto insurance customers.

- In personal lines, 2,000 consumers were surveyed. Respondents were insured drivers between the ages of 25 and 74.
- In commercial lines, 409 small fleet managers were surveyed. Respondents were managers of fleets comprising 2 to 20 vehicles that are owned or leased by the business and covered by a commercial auto policy.
- All respondents were policy decision makers.
- Personal lines respondents were provided with definitions for standalone and mobile UBI programs; commercial lines respondents were provided with a definition for small fleet UBI programs.
- LexisNexis was not identified as the study sponsor.
- The 2014 study builds upon the results of two similar studies, conducted in 2010 and 2013.

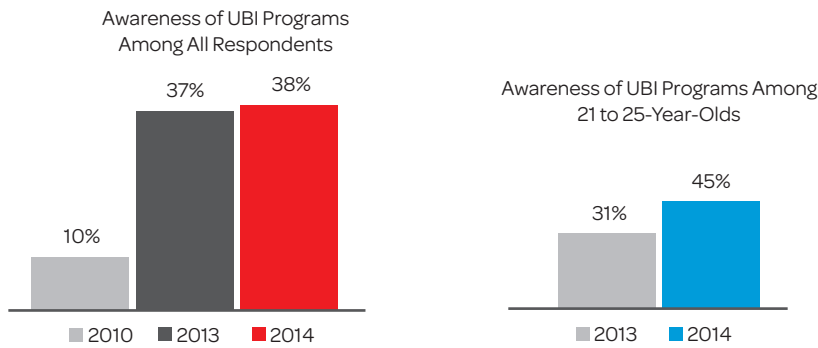


Figure 2. Overall consumer awareness has plateaued for the time being, but has grown among younger drivers.

As consumers become more familiar with UBI, they are increasingly likely to perceive UBI programs as appealing and relevant, and it appears that some barriers are beginning to subside. In particular, there was a statistically significant decline in the percentage of respondents concerned about the perceived difficulty associated with using UBI, and with their reluctance to share too much information with insurance providers (Figure 3). We also noted a decrease in consumers' need for flexibility in UBI programs, such as the ability to opt out without penalty, to choose what information they provide to carriers and the ability to save driver data for only a short time.

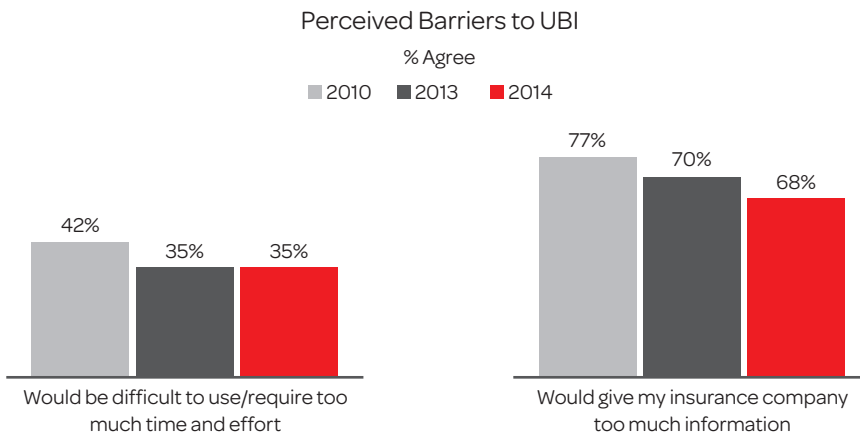


Figure 3. Consumer concerns about difficulty of use and sharing too much information with providers are beginning to ease.

In order to better understand consumer comfort with sharing UBI data, it is important to compare their comfort levels with using other services that may create similar privacy concerns. For example, online banking is generally viewed as an acceptable compromise where users provide their personal and confidential information in exchange for convenience. It is notable, then, that consumers are as comfortable with sharing UBI data as they are with using online banking services (Figure 4). Further, in

## Definition of usage-based auto insurance shared with consumers

Usage Based Insurance (UBI) is an insurance program that allows you to share information about when, how much, and how your car is driven. This information is automatically collected and stored and is available for your insurance company to review in order to determine if you are eligible for discounts on your premiums.

Driving data is transmitted to the insurance company using an in-vehicle telematic device. To participate in UBI, you plug this collection device in your car. This device will monitor driving behavior such as speed, time of day, and number of miles the car is driven and then transmit this information to the insurance company.

Insurance discounts are based on this transmitted information. You can also access your driving information through an easy-to-use web site that allows you to monitor your driving patterns and make needed adjustments in your driving behavior to improve your eligibility for discounted rates.

event of an accident, they are even more comfortable with sharing UBI data. Finally, it is worth noting that consumer comfort with UBI data is on par with using social media or online search. While many people cite privacy concerns with using social media or online search, just as many (if not more) use them on a regular basis.

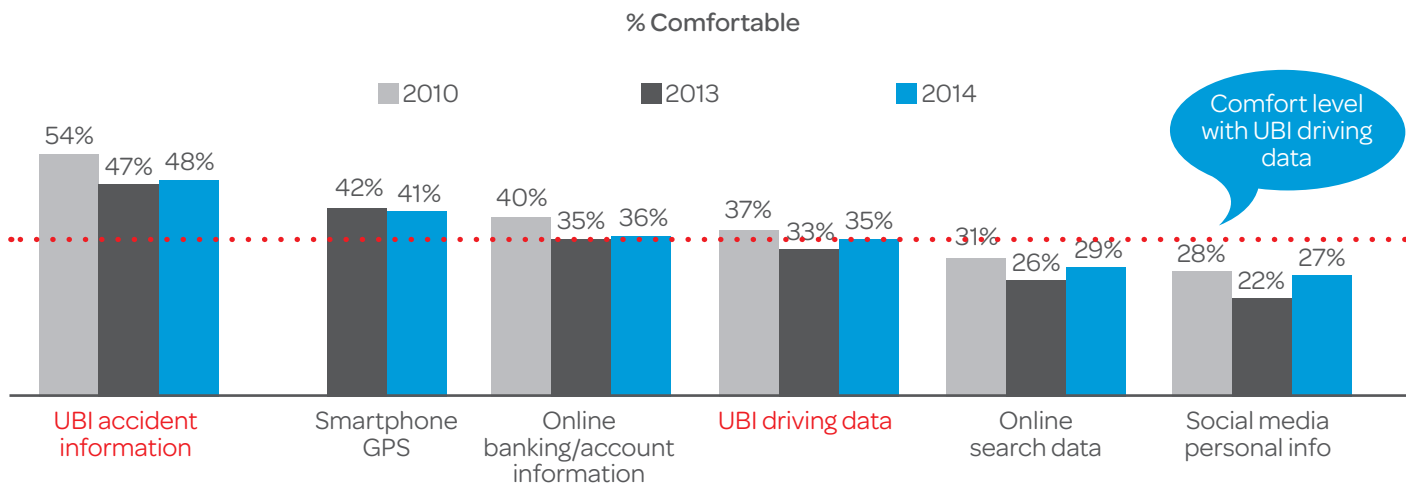


Figure 4. Consumers' comfort levels with sharing UBI driving data are similar to that of using online banking, search and social media.

### Discounts are not the only motivator for UBI adoption

To date, the main motivator for introducing UBI programs has been the promise of lower premiums. Interestingly, Figure 5 demonstrates growing consumer interest at lower discount rates. As consumer familiarity with UBI grows, carriers may be able to offer more moderate UBI discounts to attract consumers.

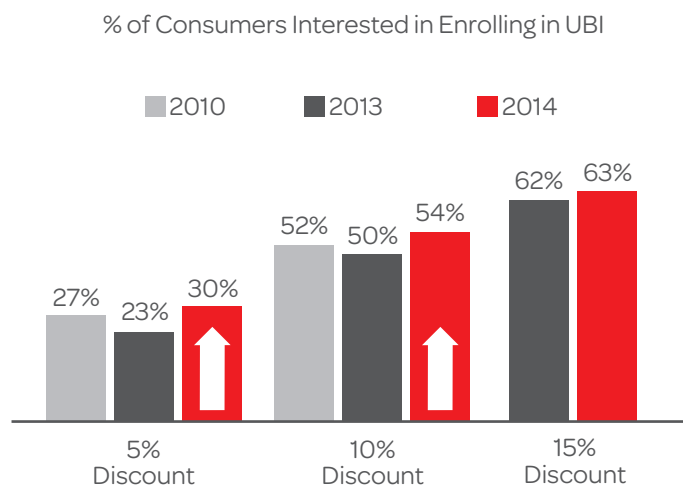


Figure 5. Consumer interest in UBI is rising, especially at lower discount levels.

As shown in Figure 6, consumers still view insurance discounts as the primary benefit of using UBI, but perceive increasing value as additional features are offered. We can categorize these as control- or information-related. Examples of control-related features are the ability to opt out or to see driving scores. Information-related features might include data on teenage driving behavior or tips for safer routes.

### Factor Increases Interest in UBI

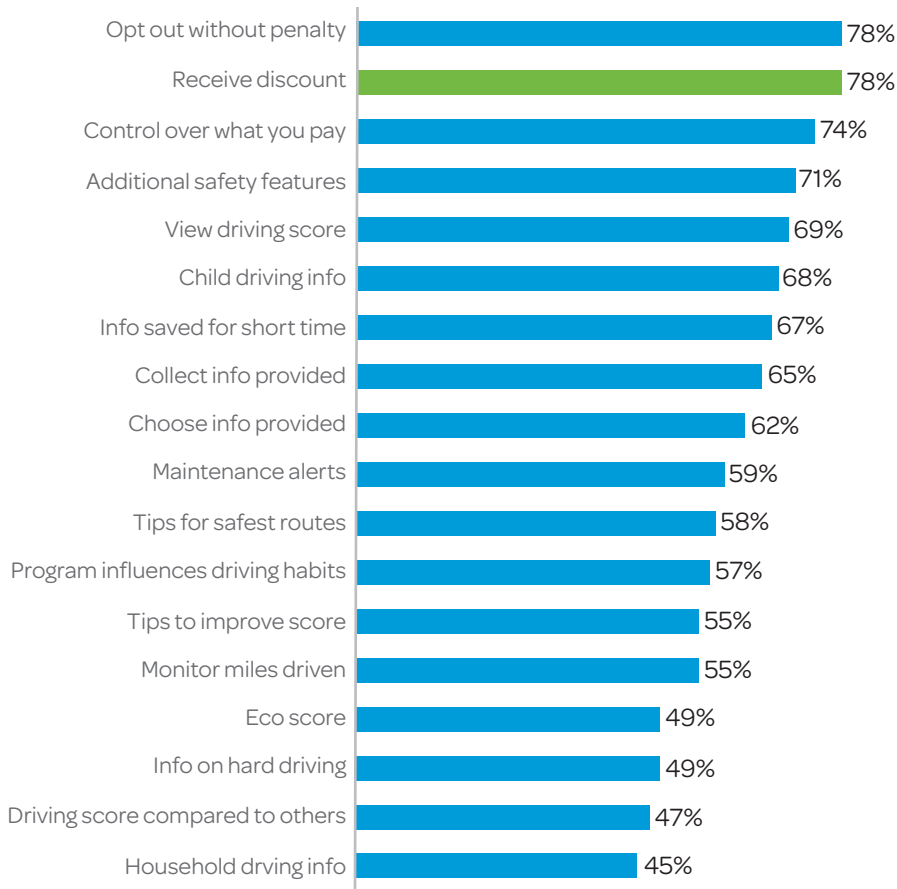


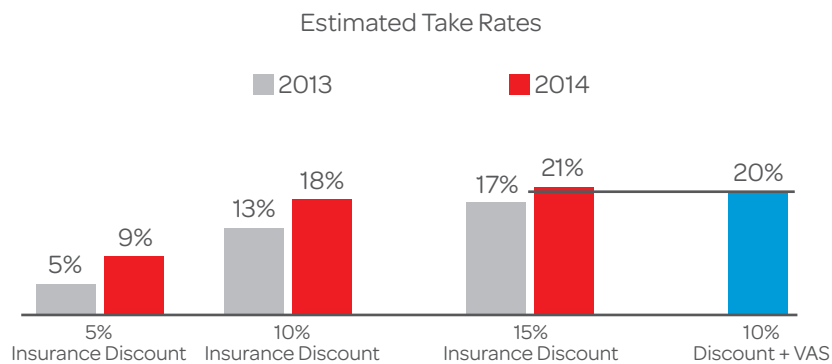
Figure 6. Consumers perceive value as additional features are offered.

Notably, in 2014, 56 percent of respondents with children on their policy said they would be interested in UBI-enabled teen tracking features—compared to just 44 percent in 2013. In addition to teen tracking, we observed increased market interest in being able to obtain information on other household drivers and having access to additional safety features.

Value-added services may prove to be an important lever for carriers to generate incremental lift for UBI programs. Across the board, consumers reported a consistent increase in adoption (also referred to as take rates) from 2013 to 2014 (Figure 7). In addition, a new survey question for 2014 measured the take rate for a 10 percent discount coupled with value-added services—and notably, the 2014 take rate for a 15 percent discount is nearly comparable with that of a 10 percent discount with value-added services.

### Consumer findings at a glance

- Consumer UBI is still in the early stages of product adoption.
- UBI programs are continuing to gain acceptance among consumers, especially younger drivers.
- Consumer comfort with sharing UBI driving is about the same as for online banking.
- Consumers still view insurance discounts as the primary benefit of UBI programs, but perceive additional value in added features.
- Including key emergency or safety features offers incremental lift to standalone UBI programs, and the ability to offer a lower discount while obtaining the same market coverage.
- Interest in mobile UBI programs is growing, and smartphone penetration among enrolled drivers is expected to be high.



**Value-added services (VAS) include:**  
 Emergency roadside assistance  
 Automatic emergency crash response  
 Stolen vehicle tracking and recovery

Figure 7. By including key emergency or safety-related services, carriers can offer a lower discount while still obtaining the same market coverage.

This reveals two takeaways for carriers. First, the incremental lift in demand from discounts tapers off—note that there is a 9-point jump in 2014 take rates when increasing the discount from 5 to 10 percent, but only a 3-point increase when increasing the discount from 10 to 15 percent. Second, carriers need not compete on price alone. Bundling value-added services with a 10 percent discount adds 2 points to the 2014 take rates, and results in comparable take rates to offering a 15 percent discount. By including features like emergency roadside assistance, automatic emergency crash response, and stolen vehicle tracking and recovery, carriers can attract customers without sacrificing as much in premium.

It is also interesting to note the general increase in take rates from 2013 to 2014. In light of our earlier observation that consumer awareness has plateaued, we can infer that consumer demand for UBI among those who are aware is continuing to grow.

**Mobile UBI continues to show promise**

As in traditional, OBDII dongle-based UBI, interest in mobile UBI is growing, likely due to high penetration of smartphones among enrolled drivers. Thirty-four percent of respondents expressed enrollment interest in mobile UBI with a 10 percent discount—a 6 percent increase from 2013.

As defined for survey respondents, mobile UBI would need to be coupled with an OBDII device in the insured’s vehicle. An alternative might be UBI enabled through original equipment manufacturer (OEM) technology. However, in comparing OBDII devices with OEM options, respondents were twice as likely to show resistance to paying more for OEM-based telematics (Figure 8).

**Definition of mobile usage-based auto insurance shared with consumers**

A Mobile App Puts UBI at Your Fingertips—Anywhere, Anytime

Another way to collect the driving information for the Usage-Based Insurance (UBI) program is to use an app on your smartphone. This app not only identifies the vehicle but also the actual driver when collecting the necessary data.

To set this up, you simply plug in a collection device in your car and download the Mobile App. When you turn your vehicle on, this app will automatically start to record when, how much, and how you are driving—and automatically stop once you exit your vehicle.

To send this information to your insurance company, the data collected on the smartphone is compressed and automatically uploaded whenever a WiFi connection is established in your home or elsewhere, minimizing use of your phone’s data plan. The app takes minimal battery power to operate.

### Impact of OEM Technology on UBI Enrollment Interest

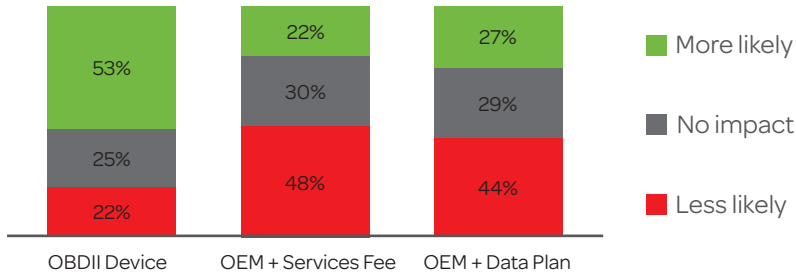


Figure 8. UBI programs based on OEM technology will need to overcome considerable consumer resistance if they include a service fee or data plan cost.

## Key findings: Commercial lines

### Small fleet commercial customers are interested in UBI savings

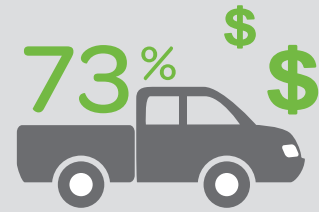
While telematics for fleet management has proliferated in large fleets and at times, has been incorporated into their insurance programs, until now, there has been little understanding of how small fleet customers might use UBI. Our study reveals that:

- Saving money on commercial auto insurance is extremely important to 73 percent of fleet managers
- Sixty-seven percent of fleet managers shop for insurance every 2 years, or more often
- Forty-eight percent of fleet managers have been with their current carriers for 5 years or less

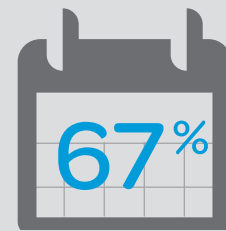
Not only does this demonstrate that small fleet managers will be receptive to UBI, but also that carriers must support UBI programs with strong customer retention strategies.

Our study finds that the current small fleet commercial UBI market landscape is very similar to the consumer market from a few years ago—and given that many small fleet managers are likely exposed to heavy advertising in the consumer market, we expect commercial UBI awareness to increase.

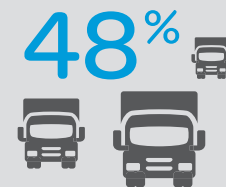
While only a quarter (25 percent) of respondents cited an awareness of commercial UBI programs (compared to 38 percent of consumers), take rates among small fleet managers are higher than among consumers (27 percent and 18 percent, respectively). That is, there is less awareness and greater demand for UBI in small fleet managers, indicating the potential for significant growth (Figure 9).



Saving money on commercial auto insurance is **extremely important** to seventy-three percent of fleet managers



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Forty-eight percent of fleet managers have been with their **current carriers for 5 years or less**



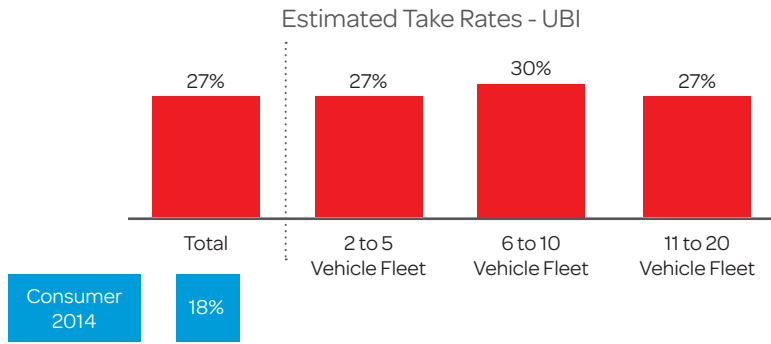


Figure 9. Estimated take rates for small fleet UBI is higher than for consumer programs.

Indeed, the concept of a UBI program is well received by small fleet managers, and exceeds consumer interest in three of four considerations (Figure 10).

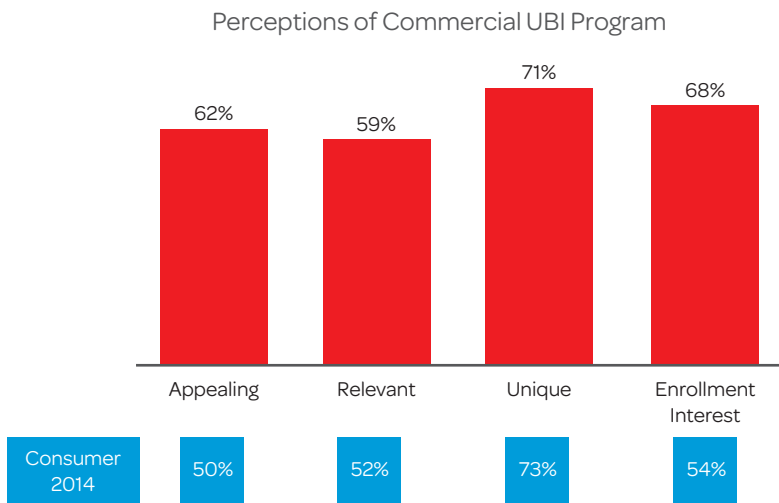


Figure 10. In both personal and small fleet commercial lines, UBI programs are perceived as appealing, relevant, unique and of enrollment interest.

### Bundling UBI with fleet management services has little net effect on its appeal to small fleets

As in the consumer market, fleet managers are primarily interested in insurance discounts. However, program flexibility and control is important (Figure 11). Carriers may consider offering trial opportunities, as nearly three quarters (72 percent) of fleet managers said they would be more likely to enroll in a UBI program if offered a 3-month trial.

### Definition of usage-based auto insurance shared with small fleet managers

Usage Based Insurance (UBI) is an insurance program that allows you to share information about when, how much, and how the vehicles within your fleet are driven. This information is automatically collected and stored and is available for your insurance company to review in order to determine if you are eligible for discounts on your premiums.

Driving data is transmitted to the insurance company using an in-vehicle telematic device. To participate in UBI, you place a device in each of your commercial fleet vehicles. The device will monitor driving behavior such as speed, acceleration and deceleration and transmit this information directly to your insurance company. Insurance discounts may be available based on the driving data transmitted.

As a fleet manager, you will have access to the driving information being submitted to your insurance carrier through an easy-to-use web site. This will provide you the ability to monitor your fleet's driving patterns and make adjustments, as needed in your fleet's driving behavior to improve your eligibility for discounted rates.

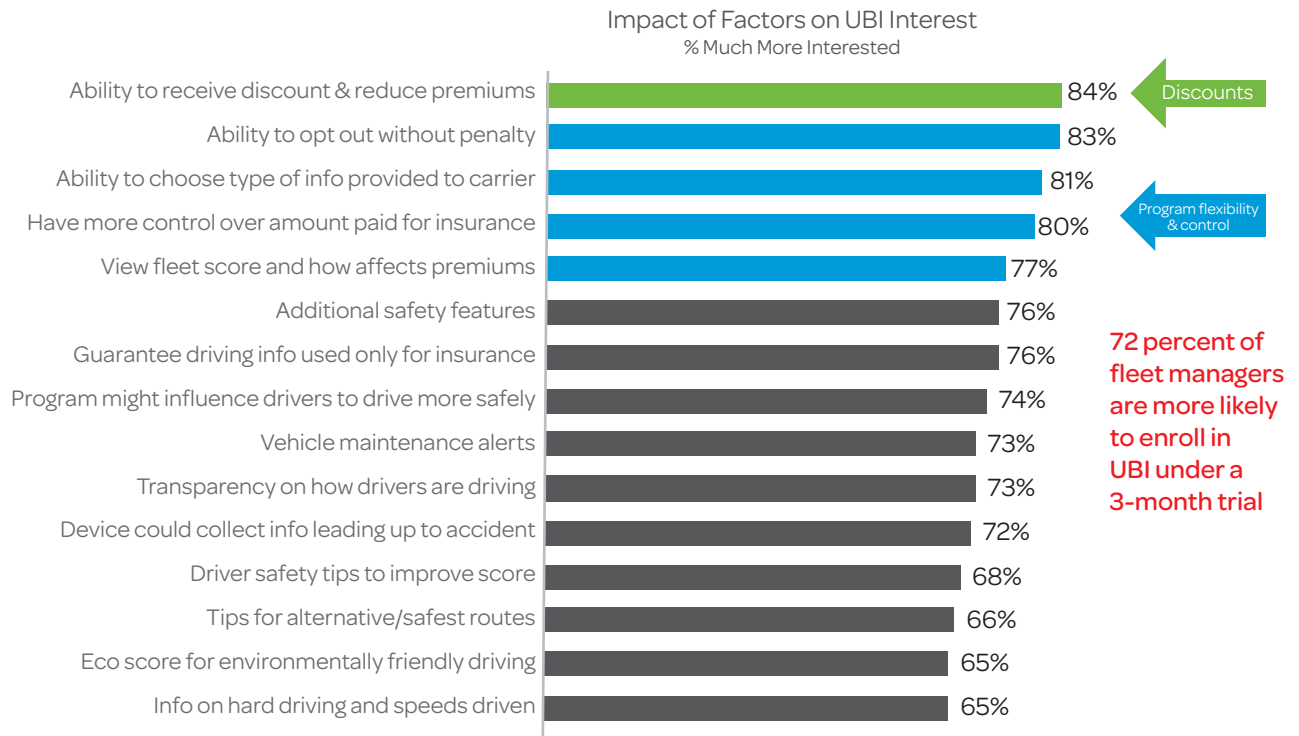


Figure 11. Among small fleet managers, insurance discounts drive interest, but program flexibility and control are also important.

While many fleet management services are perceived as valuable (Figure 12), they have almost no effect on a small fleet manager's likelihood to enroll in a UBI program (Figure 13).

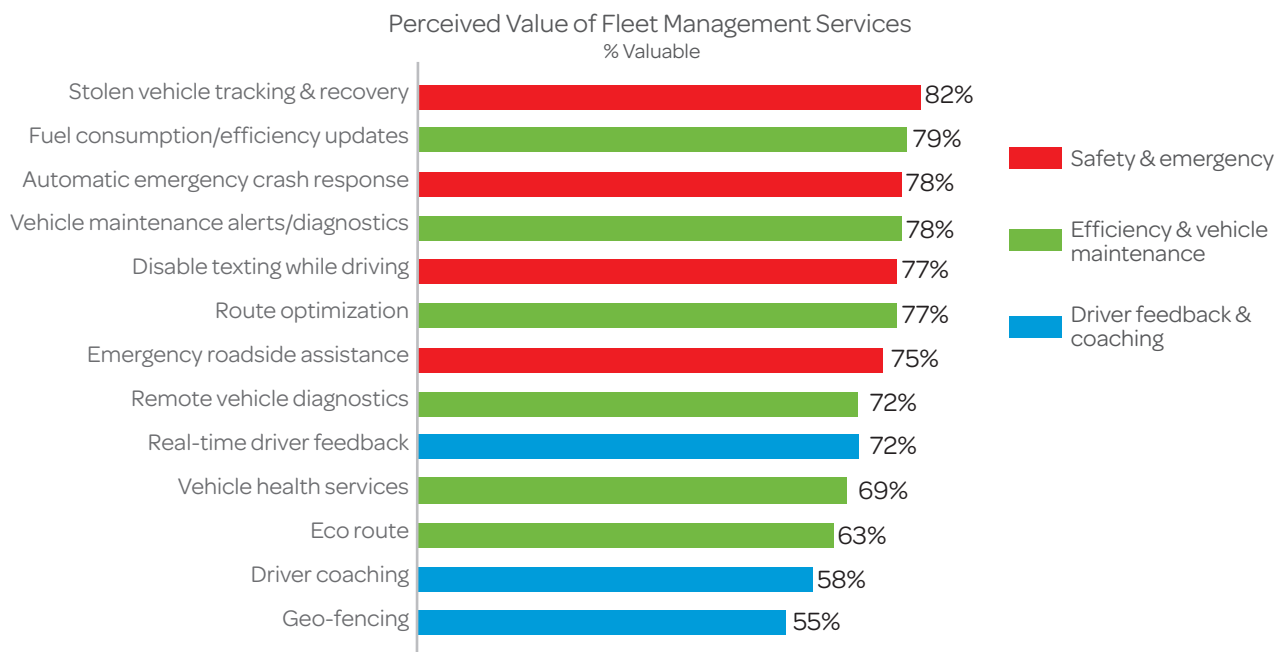


Figure 12. Small fleet managers see value in fleet management services, ranking safety and efficiency services above driver coaching.

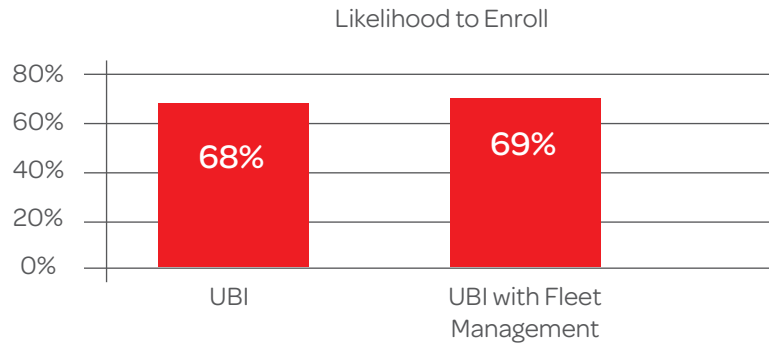
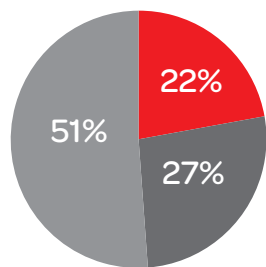


Figure 13. Bundling UBI with fleet management services has almost no effect on its net appeal to small fleets.

We observed that for half of respondents (51 percent), fleet management tools have no effect on their likelihood to enroll, about one quarter (22 percent) are more likely to enroll and about one quarter (27 percent) are less likely. Focusing on the latter group, we discovered that these fleets are too small to perceive benefits from fleet management tools—and in fact, expected that such tools would be expensive, complex and confusing to implement. Some also cited concerns with privacy (Figure 14).

Effects of Bundling UBI with Fleet Management



- More likely to enroll
- Less likely to enroll
- No change

Why would a business be less likely to enroll UBI with fleet management included?

- 31% – Unnecessary / no need
- 20% – Perceived cost
- 12% – Complex / confusing
- 11% – Privacy invasion

Figure 14. About one quarter of small fleet managers are less interested in UBI with fleet management, for a variety of reasons.

### Small fleet findings at a glance

- The current small fleet market is similar to the consumer market of a few years ago, and has potential to grow.
- Current awareness of small fleet UBI programs is lower than in consumer markets, but with higher take rates.
- Insurance discounts drive interest, and program flexibility and control is important. Trials may incentivize small fleet managers to enroll in UBI programs.
- Fleet management services are perceived as valuable by small fleet managers, but at this time, do not offer incremental lift to a standalone UBI program.
- Small fleet managers are receptive to mobile UBI technology, and the majority of smartphones and plans are paid for by the business.

As shown in Figure 15, the UBI take rates categorized by fleet size reflect these concerns. Fleet management services reduce small fleet adoption of UBI in all but the 11- to 20-vehicle category, where adoption remains the same in either case.

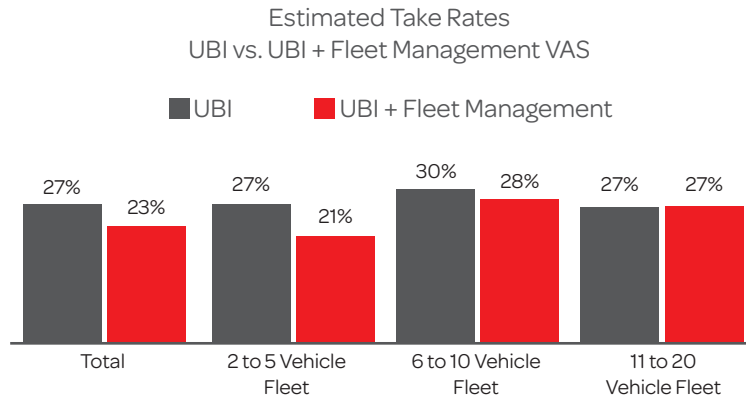


Figure 15. At this point in the product adoption lifecycle, bundling UBI with fleet management services reduces overall market adoption of UBI by 4 percent.

Despite these findings, there is potential for small fleet management services to provide incremental lift later in the product adoption cycle—just as value-added services became more appealing in personal lines after several years of UBI availability.

Finally, small fleet managers are receptive to mobile UBI technology. In particular, we found that nearly three quarters (73 percent) of fleet drivers have a smartphone. Importantly, for the vast majority of respondents, their business pays for the device and data plans (Figure 16). Consequently, the majority of the time, it is within the business’s control to implement mobile UBI, regardless of driver sentiment.

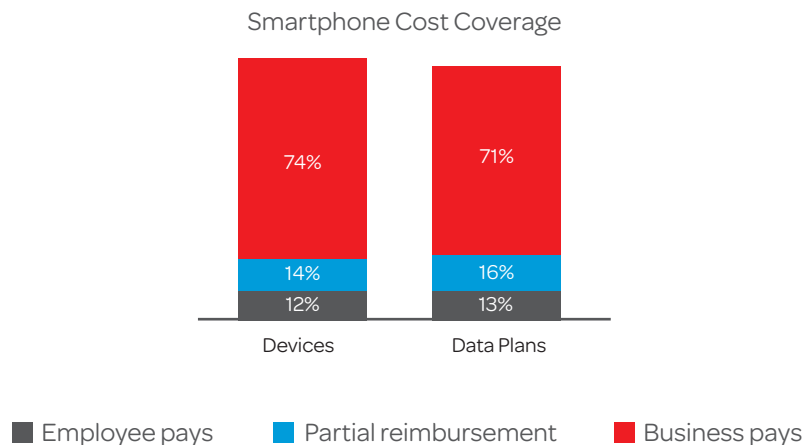


Figure 16. In commercial lines, the majority of businesses cover the cost of smartphone devices and data plans.

## Conclusion

Our study of consumers and small fleet managers shows that UBI is a significant opportunity in both markets. Similarities between personal and small fleet commercial lines offer carriers plenty of learning opportunities and the ability to align efforts between the two markets.

To help nudge UBI further along the product adoption curve and make inroads with consumer mass market segments, carriers should emphasize the value and benefit of UBI beyond discounts. In particular, offering value-added services can enable carriers to grow now and in the future. These services can enhance consumer perceptions of value, relieve pressure on carriers to offer deeper discounts and enable carriers to reach new market segments over time.

In commercial lines, there is strong evidence for a burgeoning market in small fleet UBI programs. While fleet management services are not currently a driving force for adoption, parallels with consumer trends suggest that the opportunity for these value-added services may develop in the future. Notably, in both personal and small fleet commercial lines, smartphones show promise as a low-barrier entry point to UBI programs.

While still a nascent force in today's North American auto insurance markets, UBI holds tremendous potential for the future. To reap the benefits of tomorrow's UBI opportunities, carriers must take thoughtful, market-oriented action today.

In order to help carriers take advantage of these opportunities, LexisNexis has developed unparalleled expertise in the field of UBI, including insights drawn from over one billion miles of driving data with loss histories, 15 production implementations in three countries and over 30 completed pilots. With more than 25 years of experience serving the insurance industry, LexisNexis is a trusted steward, provider of essential information and advisor of best practices to help carriers get the most out of UBI.

### Key findings at a glance

**The UBI opportunity is present in both personal and commercial lines.**

Similarities between the two can help carriers learn faster and develop synergies in the marketplace.

**Key value-added services offer the ability to grow now and in the future.**

In personal lines, value-added services can enhance consumer perceptions of value, and relieve pressure on discounting. Incremental add-ons can enable stair-step growth to help carriers reach new market segments over time.

**Small fleet managers perceive value in additional services, but small fleet management services are not currently a driver in commercial UBI.** Parallels with consumer trends suggest the opportunity for fleet management services in the future.

To reap the benefits of tomorrow's UBI, carriers must act today.

**For more information:**

**Call 800.458.9197, or email  
insurance.sales@lexisnexis.com.**

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