

WHITE PAPER

2016 Usage-based insurance (UBI) research results for the U.S. consumer market

Do your customers know about your UBI program? Only one in five customers are offered UBI—yet half of them end up enrolling.

AUGUST 2016



Executive summary

Since 2010, LexisNexis Risk Solutions has investigated consumer attitudes toward usage-based insurance (UBI) and how best to drive adoption. The 2016 study surveyed more than 4,000 individuals and found that:

- **Awareness of UBI has grown from 39 to 43 percent since 2015, representing a 10% increase year over year.** However, the study indicates that exclusively marketing UBI as a way to save on premiums may be limiting expansion to audiences that are not motivated by premium discounts. In order to capitalize on untapped opportunities, carriers will likely need to adopt new marketing strategies and channels.
- **Approaches other than discounting premiums can help carriers target new customer segments and expand market share without sacrificing the bottom line.** In particular, discounting deductibles or offering roadside assistance are affordable and attractive ways to acquire new UBI customers. Furthermore, the study shows that many consumers are motivated by reasons other than cost savings. For example, carriers may be able to position UBI to appeal to non-financial motivations, such as improving young driver safety or minimizing a driver's carbon footprint.
- **There is significant growth potential for UBI programs.** This year's study found that 6 percent of households have a driver enrolled in a UBI program, compared with 5 percent in 2015. This represents a 20 percent increase throughout the past year.
- **Among consumers who are offered UBI, half of them enroll—yet, only one in five report being offered UBI at all.** To drive adoption, carriers need to equip all channels, including direct channels, agents, brokers and call center representatives, with appropriate messages and tools to promote UBI.
- **Word of mouth, social media marketing and customer testimonials may be needed to increase UBI adoption.** For example, 56 percent of survey respondents said they wouldn't enroll in a UBI program until feedback or reviews are available, and 40 percent said they wouldn't enroll unless someone they knew participated first.
- **Increased interest from consumers between the ages of 45 and 64 may offer carriers a new target market for UBI offerings.** New marketing approaches will be crucial to helping carriers reach this particular, and growing, customer segment. Successful carriers will be those that can position and market UBI to emphasize the benefits that align best with their target audience's needs and wants.

Overall, the results of the 2016 study show that there are untapped opportunities for carriers to expand UBI into markets beyond that of tech-savvy, price-sensitive millennials. By increasing adoption of UBI programs, carriers can better understand the risk associated with individual drivers, enable more accurate pricing and enhance the claims process.

More broadly, UBI programs provide carriers with the opportunity to access a deeper and broader data set than is traditionally available to them. Today, big data and advanced analytics can help carriers differentiate themselves and achieve a competitive advantage, but in the not-too-distant future, the ability to collect vast amounts of data—and more importantly, derive meaningful insights from that data—will become table stakes. The time to act is now.

Introduction

Since 2010, LexisNexis Risk Solutions has commissioned independent third-party research into the consumer UBI market in the United States.

In comparison to the 2015 study which indicated plateaued awareness and interest in UBI offerings based on a premium discount model, the 2016 study shows a rebound in consumer awareness and interest in UBI programs. However, both the 2015 and 2016 results point to significant interest in incentives other than premium discounts which may not only be more attractive to a diverse base of consumers, but may also be more profitable and easier for carriers to implement. The 2016 study delves deeper into the attractiveness and viability of these incentives to drive UBI adoption while also identifying untapped markets for carriers to target with their UBI offerings, particularly the expanding 45 to 64 age group.

UBI programs provide carriers with the opportunity to access a deeper and broader data set than is traditionally available to them.

Methodology

In March 2016, LexisNexis Risk Solutions conducted two separate web-based surveys, using an online panel as a sample source, to collect feedback from US auto insurance consumers. The online panel was managed to ensure a representative sample. Key demographics, including age, income, gender, ethnicity and geographic region were monitored for those who responded to the survey (including those who qualified as well as those who did not) to ensure the characteristics of respondents matched US Census demographic distributions. Each survey was conducted among approximately 2,000 respondents. LexisNexis Risk Solutions was not identified as the study sponsor.

Key findings

Awareness and demand for UBI is on the rise, but new marketing tactics are needed to further increase adoption

From 2013 to 2015, we observed a plateau in awareness of UBI programs. However, in 2016, awareness increased to 43 percent of respondents (Figure 1).

U.S. Consumer Awareness of UBI programs

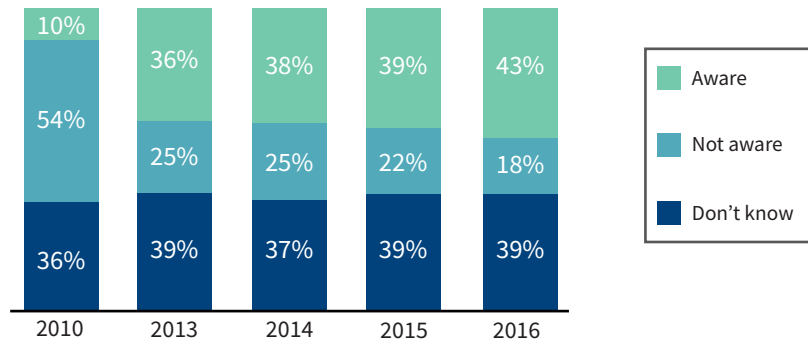


Figure 1. Awareness of UBI has grown from 39 to 43 percent since 2015, representing a 10% increase year over year.

As in previous years, we assessed common consumer perceptions of UBI across four metrics (Figure 2). UBI appeal rebounded from last year, while believability and relevance remain steady. We expect a fourth measure, uniqueness, to continue to decline as UBI is marketed more broadly—and the general trend of decreasing uniqueness indicates that telematics is becoming a more common offering.

U.S. Consumer perceptions of UBI programs

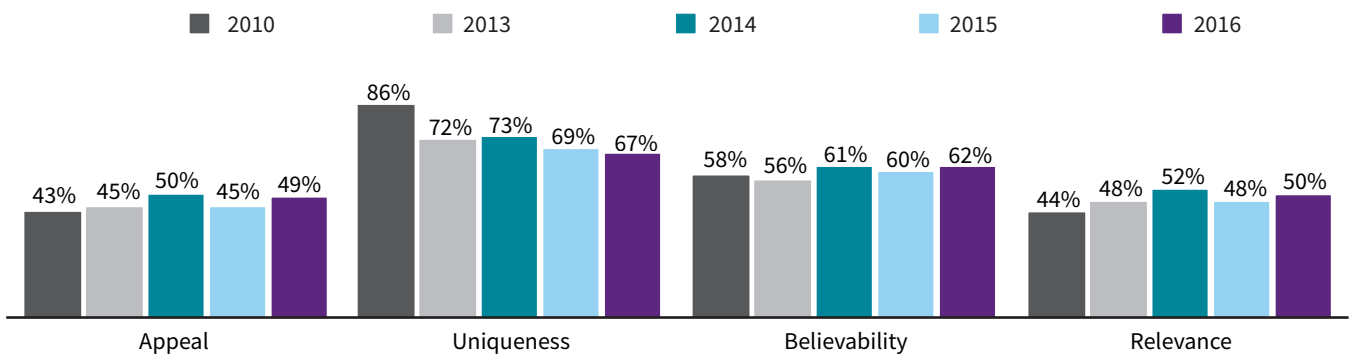


Figure 2. UBI is perceived as appealing, believable and relevant by consumers. However, uniqueness is in decline.

Finally, we observed a slight lift in consumer demand compared to last year, bringing estimated demand closer to that of 2014 levels (Figure 3). Notably, this year’s study found that a 10 percent premium discount creates nearly the same demand as a 15 percent discount.

Estimated demand for U.S. consumer UBI with premium discount

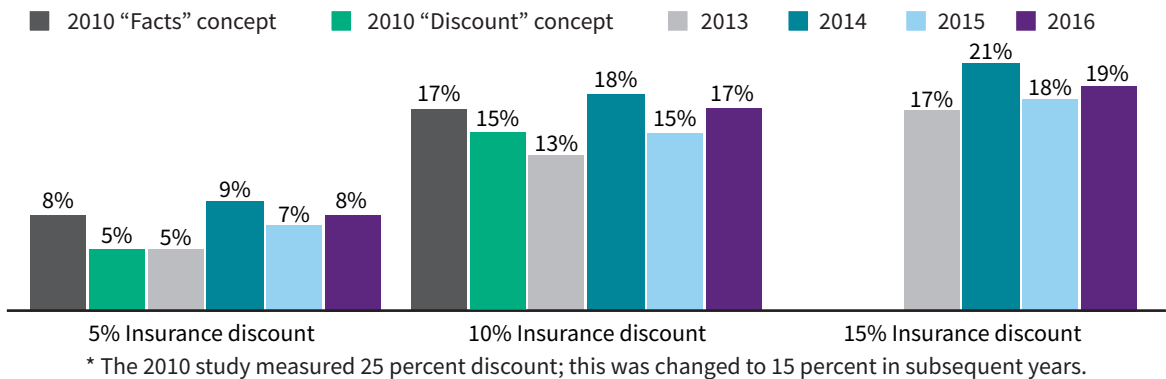


Figure 3. In 2016, estimated U.S. consumer demand for UBI with 5, 10 and 15 percent discounts has rebounded from 2015 levels.

Approaches other than discounting premiums can help carriers target new customer segments and expand their market—while potentially adding to the bottom line.

While premium discounts have been successful in launching UBI to the U.S. auto insurance market, and can be very effective with price-conscious customers, there are other considerations that must be taken into account. For example, 63 percent of respondents said they were tired of carriers claiming they could save them money and 53 percent said they expect carriers can only save them a minimal amount of money.

This skepticism may also result in decreased demand for other services when bundled with a premium discount. Bundling value-added services with a 10 percent premium discount has a minimal effect on estimated demand (Figure 4). Value-added services were defined as emergency roadside assistance, automatic emergency crash response, and stolen vehicle tracking and recovery.

Estimated U.S. consumer demand for premium-discounted UBI with and without value-added services

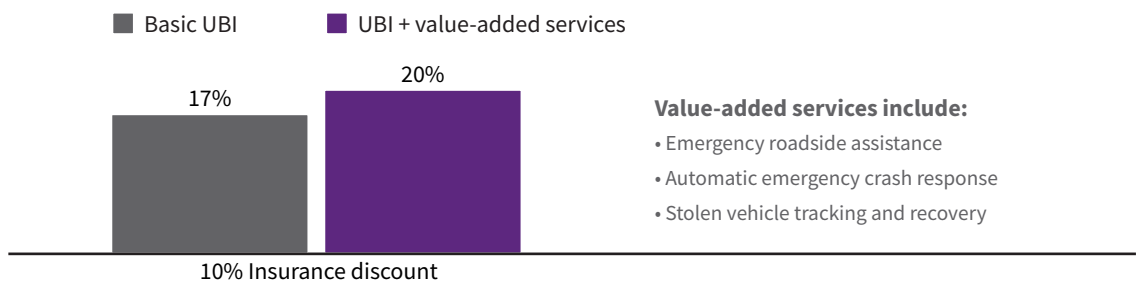


Figure 4. The addition of value-added services on top of a 10 percent premium discount has a minimal effect on estimated demand.

When value-added services were presented as an alternative, rather than an addition, to a premium discount, consumer interest increased substantially (Figure 5). Notably, 76 percent of survey respondents would have the same or higher interest in receiving free roadside assistance instead of a 10 percent discount. Similarly, 86 percent would be as or more interested in receiving a \$200 discount on their deductible, rather than a 10 percent premium discount.

Impact on U.S. consumer interest in UBI for alternative offers instead of 10% premium discount

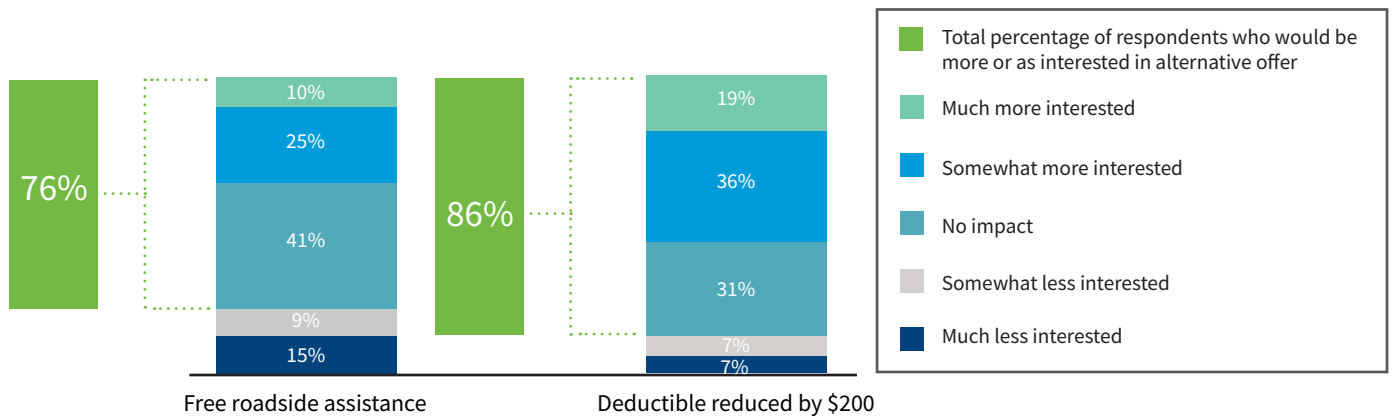


Figure 5. There is significant interest in alternative incentives to UBI, such as free roadside assistance and reduced deductibles.

It is also notable that consumer interest in a reduced deductible exceeds that of free roadside assistance. This result may be due to the perceived difference in value between earned rewards and free services; customers may place greater value on a \$200 discount in deductible because they feel they have earned it.

There are several benefits of offering these incentives rather than premium discounts. They provide carriers with novel ways of marketing UBI, can be simpler for regulators to approve and are friendlier to a carrier’s bottom line (Table 1).

Estimated cost of offering premium discounts, deductible discounts or roadside assistance as incentives to UBI enrollment.

Per-participant costs of different approaches	Low	High
Cost of 10 percent premium discount	\$140.00	\$210.00
Cost of reduced deductible	\$6.25	\$15.00
Cost of free roadside assistance	\$18.00	\$30.00

Table 1. Discounting deductibles or offering roadside assistance can be a more profitable way for carriers to incentivize U.S. consumers to enroll in UBI programs.

*See Appendix for additional details and underlying assumptions.

In marketing UBI as a means of obtaining premium discounts, carriers have all been chasing the same price-sensitive customer. By offering other incentives, carriers may be able to target other, less price-sensitive customer segments, especially given that consumers may have other motivations for adopting UBI (see sidebar below). The key is for carriers to align and promote the benefits of UBI with the needs and wants of the customers they are best able to serve.

Consumer interest increased substantially when presented with value-added services as an alternative—rather than an addition—to a premium discount.

When it comes to UBI, some customers are motivated by more than saving money

In the U.S., UBI programs have largely been marketed as a way for consumers to save money on their premiums. As part of this year's study, respondents were asked whether other factors would increase their interest in UBI. In particular, four are worth noting:

- Determining fault in accidents (70 percent of respondents would have increased interest)
- Providing immediate notification in case of an accident to begin the claims process (68 percent of respondents would have increased interest)
- Monitoring good driving behavior (64 percent of respondents would have increased interest)
- Receiving alerts of poor driving behavior, as well as coaching to improve it (62 percent of respondents would have increased interest)

These factors indicate shared interests between carriers and consumers, and point to opportunities for carriers to market UBI in different ways. For example, to the parent of a young driver, UBI could be a valuable tool to encourage good driving habits. In addition, since safe driving behavior correlates closely with reduced gas consumption,¹ carriers could market UBI as a way to reduce a driver's carbon footprint. Or, for a carrier known for the speed and transparency of its claims process, UBI could be a means of expanding its brand promise of providing a leading claims experience.

¹ U.S. Department of Energy, "Driving More Efficiently," <https://www.fueleconomy.gov/feg/driveHabits.jsp> (accessed July 15, 2016).

Carriers need to drive UBI adoption through agent and direct channels

Given that awareness of UBI has increased, and that it still holds appeal with consumers as a relevant and believable way to determine insurance premiums, actual market adoption remains relatively low (Figure 6).

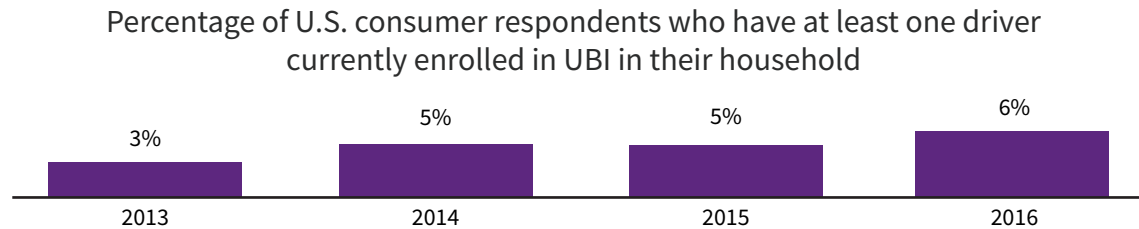


Figure 6. Despite increasing awareness of UBI over time, U.S. market adoption remains relatively low.

Importantly, while only 6 percent of survey respondents said they or someone in their household were currently enrolled in a UBI program, the growth since 2013 corresponds to nearly 19 percent compound annual growth rate (CAGR) across the US personal market. Carriers should take action to ensure they are prepared for a future where this growth continues.

For example, carriers can address the fact that the majority of consumers aren't being approached with UBI offers. Only 20 percent of survey respondents said they had been offered the opportunity to enroll in an insurance program that uses actual driving behavior to determine rates—and 10 percent said they had enrolled (Figure 7). In other words, half of people offered a UBI program accepted.

Percentage of U.S. consumer respondents who have been offered or enrolled in an insurance program that uses actual driving behavior

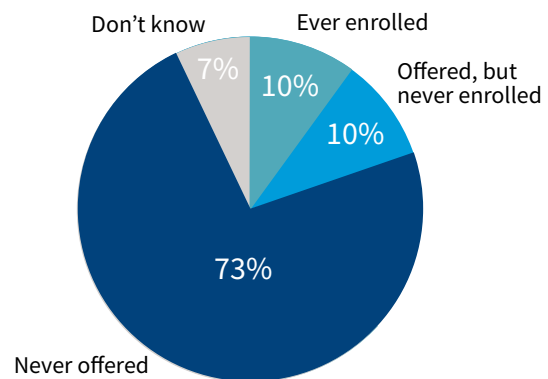


Figure 7. Only 20 percent of survey respondents have been offered UBI—and half of them accepted.

How can carriers expand their offer of UBI to consumers? Our study shows that 41 percent of consumers purchase insurance through agents or brokers while 57 percent purchase through direct channels. However, the majority of consumers, including those who purchase direct, interact with a person at some point, whether by telephone, in person or via online chat (Figure 8). This indicates that in addition to promoting UBI through direct channels, carriers need to equip agents and call center representatives with specific, targeted messages that align their UBI programs' benefits with their consumers' needs and values.

U.S. consumer method of communication with insurance provider

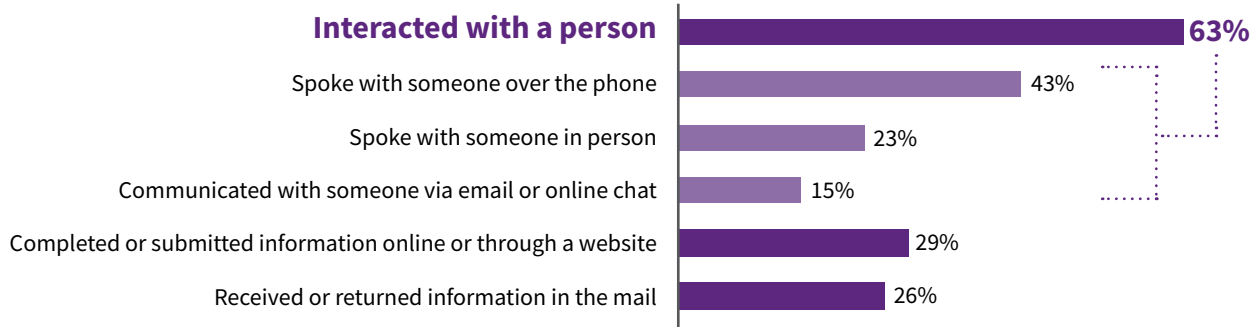


Figure 8. The majority of consumers interact with a person at some point during their auto insurance purchase, highlighting the importance of equipping customer-facing personnel with training and tools to drive UBI adoption.

Carriers may need to leverage social proof when presenting UBI to consumers

Only 13 percent of respondents know others who have been offered or enrolled in a UBI program. Further, those who have been enrolled in a UBI program are more likely to know others who have been offered or enrolled in a similar program. Conversely, a sizeable portion of the market is reluctant to enroll in a UBI program because they do not know anyone else who has enrolled (Figure 9). For example:

- 56 percent wouldn't enroll until feedback or user reviews are available
- 54 percent would need to know that many people are enrolled in UBI to be assured of its legitimacy
- 40 percent would enroll if they knew someone who had already signed up for UBI

These findings suggest that consumers may be more receptive to UBI if they hear about it through word of mouth, or if people they know are familiar with the program. Social media marketing, testimonials and case studies may also help carriers address consumers' concerns.

U.S. consumer attitudes toward enrollment in driving behavior-based insurance programs

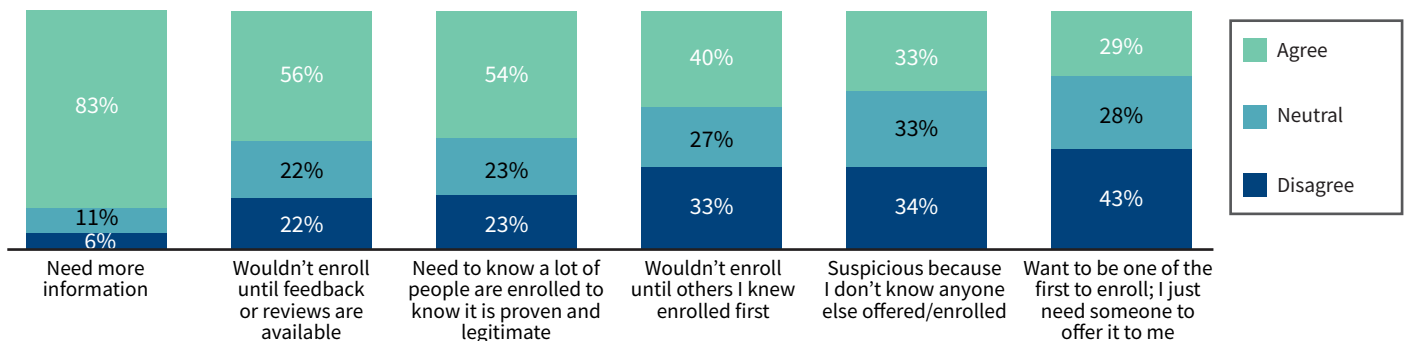


Figure 9. A significant portion of the market is reluctant to enroll in UBI without social proof.

Increased interest from consumers aged 45 to 64 may offer carriers a new target market for UBI offerings

UBI enrollment continues to be strongest among consumers aged 21 to 25. In general, there is a slight upward trend among all age segments between the ages of 25 and 64, with a small jump in enrollment among consumers aged 45 to 54. There is no change in enrollment among consumers aged 65 and older.

Carriers have typically marketed UBI toward tech-savvy millennials. However, this research points to an untapped market among consumers aged 45 to 54, who contribute the most to the recent increase in UBI awareness with an increase of 6 percentage points since 2015 (Figure 10).

U.S. consumer awareness of UBI programs by age group

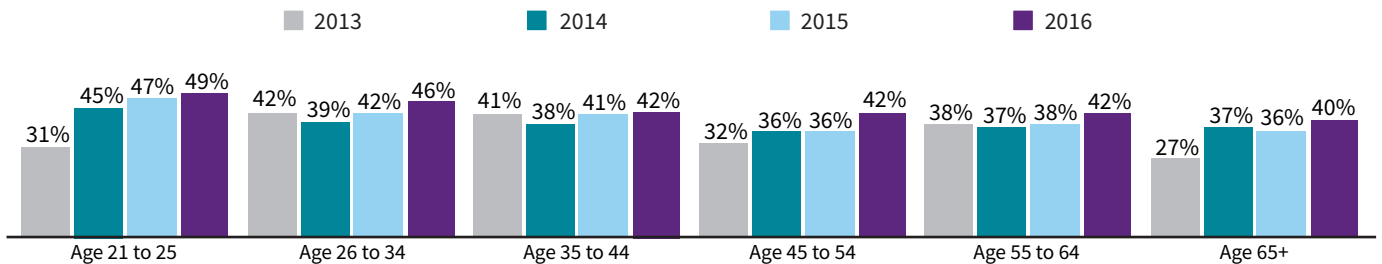


Figure 10. Awareness of UBI programs has increased across all age groups, and particularly among consumers aged 45 to 54.

There are a few possible reasons for this spike in awareness among drivers aged 45 to 54. They may have young or teen drivers in their household, prompting interest in the safety and monitoring features offered by a UBI program. In addition, they may be growing more comfortable with UBI technology. For example, across all age groups, respondents reported the same level of comfort with UBI programs collecting driving data as with online banking and smartphone GPS location-based information. Further, respondents are more comfortable with UBI programs than they are with using social networks or online search.

These results highlight the opportunity for carriers to target UBI programs to a different demographic—one that is driven by different factors than those of savvy, price-sensitive millennial. Furthermore, LexisNexis proprietary shopping data shows growth in shopping activity in consumers aged 45 to 64, indicating that carriers have an opportunity to acquire new business from potential switchers.

UBI: One step forward to the data-driven future

Our ongoing research on the U.S. consumer UBI market shows that carriers have opportunities to expand beyond the traditional early adopters. Growing awareness outside this group indicates that UBI programs are becoming more mainstream. Consumers aged 45 to 54 may be a prime target for carriers.

To expand the market for UBI, carriers need to adjust how they are marketing their UBI programs, and to whom they market. While premium discounts have been successful in helping carriers establish their UBI offerings, there are opportunities to further expand the market by appealing to customers who are motivated by objectives other than reducing premiums.

Carriers that explore other incentives, such as discounted deductibles or roadside assistance, may be able to access untapped opportunities in the UBI market. In addition, promoting UBI as a way to achieve other customer outcomes, such as reducing gas consumption or improving safety for young drivers, may also help carriers reach a broader audience. The key is to tailor marketing messages to appeal to the customers that the carrier can best serve—and that includes equipping agents, brokers and call center representatives with the training and tools required to support a UBI sales strategy.

Establishing a foothold in the UBI market is the first step in a long-term strategy for longevity and success. In the not-too-distant future, winning carriers will be those that are best able to harness and derive insights from multiple data sources. Carriers that take steps now to collect, analyze and use UBI data can begin to learn how to compete effectively. Today, it can lead to a competitive advantage but soon, it will be table stakes—and savvy carriers will continue to deepen their knowledge in this area.

Appendix

Table 1 Underlying Assumptions

	Low	High
Typical 12-month premium for full coverage	\$1,400	\$1,400
Average UBI discount	10 percent	15 percent
Collision claims frequency	2.5 percent	6.0 percent
Typical starting deductible	\$500.00	\$500.00
Typical reduced deductible	\$250.00	\$250.00
Typical roadside assistance cost to carrier	\$18.00	\$30.00

About the author



David Lukens is Director, Telematics, for LexisNexis Risk Solutions, where he is responsible for telematics and mobile solutions for the auto insurance market. Since joining LexisNexis in 2010, Lukens has also led several key data and advanced 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.

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