White Paper

Improving Commercial Auto Profitability with Emerging Driver-Based Rating Factors

Drivers with a past accident are 88 percent more likely to have another accident in the future.

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Executive Summary

Sustaining profitability in commercial auto insurance can be challenging, but developments in driver-based rating factors could change the competitive landscape. These include:

- Life experience data
- Driver claims history
- Driver violation likelihood
- Alternatives to consumer credit data
- Telematics

These cost-effective, driver-centric data assets fit together to augment a carrier's existing underwriting processes. They can enable carriers to better understand the overall risk associated with a commercial fleet—facilitating better risk selection and pricing, lowering loss costs and ultimately improving profitability.

Introduction

For some carriers, commercial auto consistently underperforms other lines of business and is frequently leveraged as a loss leader on accounts to obtain other, more profitable lines. Given the decrease in investment income over the past several years and the outlook for the next several, there is a renewed focus for every line to sustain an underwriting profit. Commercial auto is no exception.

When it comes to assessing commercial auto risks, carriers must look beyond the common risk characteristics of the fleet. Given that most severity-driven claims are due to driver error, carriers can benefit from gaining additional insight into individual drivers.

This begs the question: how do you better understand driver risk? In addition to current underwriting methods, using driver-based data assets can enable carriers to look more closely at the exposure from specific drivers. As a result, carriers can better determine the risk associated with a given policy and price it appropriately—or not at all.

The landscape today

Historically, commercial auto carriers have assessed risks based on the business's profile and the motor vehicle records (MVRs) of its drivers. However, some carriers are expanding the types and scope of data they use to underwrite commercial auto risks. In particular, they are using an ever-broadening array of data to help assess individual driver risk within a fleet of drivers.

More specifically, leading multiline carriers are beginning to apply a personal lines-like approach to their commercial business. In personal auto lines, carriers leverage extensive data in rating, including MVRs, claims

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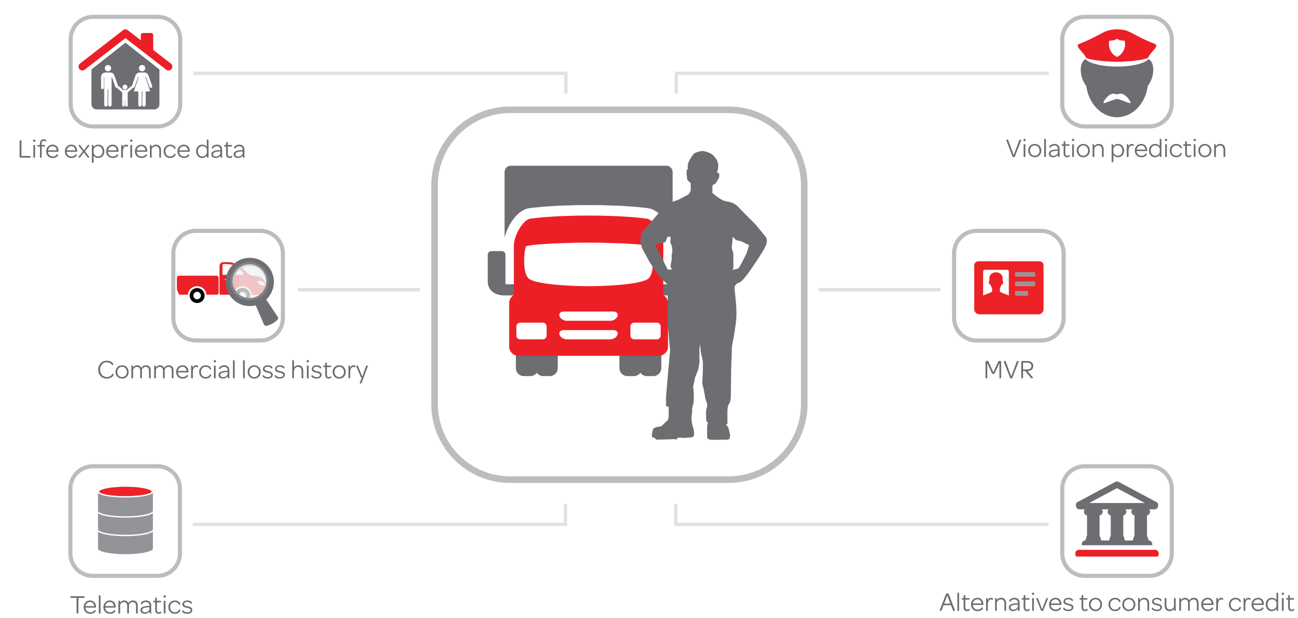
history, credit records, public records and predictive models. This additional data enables underwriters to construct a more robust risk profile for a given driver. For example, while MVRs reveal driver violations, such as speeding citations or DUIs, they are only part of the story. What about other driver characteristics that correlate with risk, such as incidents that didn't result in citations, claims history, consumer credit history or marital status? Commercial auto carriers can access this information—or in the case of consumer credit, surrogate information—to better understand each driver within a commercial fleet.

In addition, many of these emerging data assets are highly cost-effective. Their affordability means that they can be used more often and at more points in the policy lifecycle, enabling carriers to better manage their book of business.

Emerging driver-based rating factors

MVRs are just part of the puzzle. As more cost-effective data assets become available, carriers can fit them together to see a more complete picture of the risk associated with a commercial fleet of drivers.



Driver-based rating factors provide a more complete view of the true policy risk by delivering critical insights about the commercial drivers in a fleet.

Life experience data

What do marital status, residence history and length of driving experience have to do with risk assessment? Plenty. These are simple indicators that correlate with how well individuals drive, and the risk a carrier takes on by insuring them. There's a reason that leading carriers include these fields on insurance applications—and often run the results through a predictive model or rating table to determine appropriate pricing. In addition, carriers can obtain life experience data from third parties to help them verify applications, identify discrepancies and highlight red flags for further investigation.

Driver claims history

Disciplined underwriting depends on having a solid understanding of the risk involved. When it comes to assessing the prior loss experience of drivers in a fleet, carriers must look at both parts of the puzzle: commercial and other loss history.

Today, armed with little more than a driver's name, date of birth or driver's license number, carriers can discover individuals' prior commercial auto claims over a multi-year period, and across multiple employers. Given a fleet of drivers, this information provides tremendous insight over and above a single commercial loss history.

Market solutions now allow carriers to drill down to see the type of claim, its value and its status. In particular, carriers can get updates on open claims or reserves. From a new business underwriting perspective, a driver associated with a large open reserve claim might be cause for concern, particularly on longer-tail, third-party bodily injury claims.

In addition to commercial loss history, carriers should be interested in individual drivers' other driving history. Data assets are now available that show other loss history, including the number and details of accidents that occurred while someone was driving a personal vehicle.

Driver violation likelihood

While MVRs are the traditional means of assessing individual driver risk, they are an expensive way to underwrite drivers in a fleet. In fact, there are alternative, cost-effective data sources that are indicative of similar information. For instance, we have observed that many drivers do not have any MVR violations. Today, innovative solutions are available that allow carriers to quickly see the likelihood of a driver having MVR violations. Used as a screening tool, this can enable carriers to reduce their MVR spending while still maintaining strong risk management capabilities.

Alternatives to consumer credit data

In personal lines, carriers use consumer credit information to assess the risk of a driver because credit history is correlated with a driver's propensity of loss. Instead of using consumer credit information, commercial carriers can tap into other types of predictive models. Based on public records, these models can be used to assess loss propensity, and offer scores and reason codes to behave as a surrogate for consumer credit—while reducing the number of regulatory requirements a carrier must comply with.

Carriers can use these models in conjunction with the previously discussed data assets to create a complete picture of each individual driver within a commercial fleet. Or, carriers could include the use of aggregate scoring on the fleet as a whole.

The importance of claims history

A 2011 study by the American Transportation Research Institute found that drivers with a past accident are 88 percent more likely than accident-free drivers to have another accident in the future.

Telematics

So far, the data assets mentioned in this report are historical: loss history, violation history and alternatives to credit history. One set of emerging driver-based rating factors is focused on the present, and in some cases, the future: telematics.

Most commercial policies begin with information provided by the insured, particularly about radius and usage—and the insured, naturally, provides details with the aim of getting the lowest price possible. Using telematics, carriers can validate these rating variables and better assess the risk. Further, as telematics becomes more prevalent, carriers will have more information to work with, including details on hard stops, speeding and other risky behavior. In addition, based on driver routes, carriers can predict and classify the risk associated with those routes, enabling a deeper level of insight into the insured business.

Beyond enhancing the understanding of the risk, telematics also offers significant opportunities for a carrier to differentiate, such as enabling safety improvements through driver feedback and coaching. This could be especially valuable within small- to mid-sized fleets that may not be receiving these services today.

Driver-based rating factors: Beyond underwriting

At point of underwriting, driver-based rating factors can improve segmentation, enhance risk management and enable more accurate risk pricing. In addition, these data assets can be helpful at multiple points in the policy lifecycle, not just for underwriting.

Risk selection

The relatively high cost of MVRs means that many carriers order them well into the underwriting cycle. However, emerging driver-based rating factors can enable earlier risk selection, and help carriers better control the risks through the underwriting cycle—potentially saving time and money.

In particular, driver-based rating factors can play into the point of submission. For example, life experience data or claims history can uncover details about the risk involved. Notably, it can reveal drivers who are too risky to underwrite.

Policy renewal

Between point of binding and point of renewal, a lot can change within a fleet of drivers—and not just changes to the composition of the fleet, but also the status of each of the drivers. Life changes or events in an individual's life can transform reliable, safe drivers into accidents waiting to happen (or, perhaps, vice versa). However, obtaining an updated schedule of drivers can be time-consuming, and revisiting the MVRs of the fleet prohibitively expensive.

One piece of the puzzle: MVRs

MVRs provide insight on driver violations, but they are only part of the story. Here are three real-life scenarios that all resulted in car accidents:

- Scenario 1: Speeding 10 miles over a 45 mph limit
- Scenario 2: Making a left turn across two lanes
- Scenario 3: Getting into a fender bender in a parking lot

All three resulted in an insurance claim.

Of note, none of them resulted in a violation on the driver's MVR. Other driver-based data is needed to gain a more complete view of the risk.

At point of renewal, driver-based rating factors are a cost-effective way to enable underwriters to make informed decisions based on changes in risk. For example, is it necessary to ask the agent for an updated driver schedule? With driver-based rating factors, carriers can see the changes in scoring between point of underwriting and point of renewal—and red-flag cases with significant differences. Carriers can see at a glance whether it's worth investigating further, or whether a simple renewal will suffice.

Challenges and solutions for using driver-based rating factors

Emerging driver-based rating factors can enable commercial auto carriers to improve their risk management capabilities. That said, potential barriers to their adoption include:

- **Lack of awareness.** Emerging driver-based rating factors are exactly that—emerging—so some carriers aren't aware of the extent of data that they could be using, especially within contributory databases. Early adopters can achieve a competitive advantage; as more data becomes more widely used, lagging carriers may face adverse risk selection.
- **Privacy concerns.** Commercial lines carriers tend to be less comfortable than personal lines carriers with consumer data. However, used responsibly and judiciously, these data assets can enhance risk management capabilities and enable more accurate pricing, which benefits carrier, agent and customer.
- **Effort of adoption into existing processes.** It takes time and effort to integrate new rating factors into rating plans and processes, but doing so can enable carriers to achieve a competitive advantage through additional segmentation and improved risk selection. Additionally, an underwriter might review these data assets for individual drivers, but might not file them for a composite rating of the overall risk.
- **Effort of integration into IT systems.** Driver-based rating factors can be provided in multiple ways that minimize IT integration—for example, through integration with existing system-to-system ordering mechanisms, vendor web portal or batch file.

Conclusion

By focusing on the individual drivers within a commercial fleet, carriers can improve profitability, risk selection and pricing.

With emerging driver-based rating factors, commercial carriers can gain an in-depth understanding of the individual drivers they are underwriting. By tapping into new data assets, carriers can:

- Improve risk selection and pricing, both with new business and renewals
- Uncover profitable market niches that competitors cannot see
- Achieve a competitive advantage with early adoption, and avoid adverse selection as driver-centered risk assessment becomes more common

Used smartly, driver-based rating factors can augment carriers' existing processes, enable them to better manage risk throughout the policy lifecycle—and help them achieve commercial auto profitability.

For more information:

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