

White Paper

## 2015 Usage-Based Insurance (UBI) Research Results for the Consumer Market

It's time to think about UBI differently

52 percent of consumers are more likely to enroll in UBI for a discount on their deductible instead of their premium.

August 2015

## Executive Summary

In March 2015, LexisNexis® commissioned an independent third party to investigate usage-based insurance (UBI) in the US personal lines market. The key findings are outlined in this white paper:

- Research shows that awareness and enrollment in consumer UBI has plateaued.
- Carriers must offer increasingly high discounts in order to match the market demand obtained in previous years, suggesting that discount-based UBI may not be a sustainable approach.
- Bundling discounts with value-added services (VAS) does not substantially improve estimated demand for UBI.
- Deductible-based UBI discount programs have a strong impact on consumers' likelihood to enroll.
- UBI programs based on safety offer the potential to drive adoption while also engaging customers, mitigating risk and improving retention.
- Consumers think about UBI differently depending on how it is marketed.

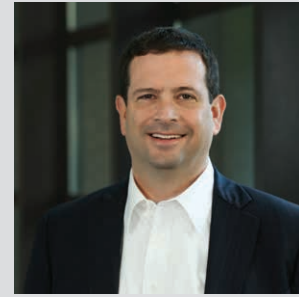
We believe that in order for UBI to go mainstream, additional marketing—and different messaging—is required. In particular, carriers should consider alternative approaches to UBI. For example, a sizable 52 percent of survey respondents would be interested in a UBI program that offered a discount on their deductible instead of their premium. Furthermore, estimated demand for a safe driving concept (a smartphone app that measures a driver's behavior and provides feedback on how to improve their score) exceeds estimated demand for a discount concept (UBI with a 10 percent premium discount). The safe driving concept also shows promise as a way to improve customer engagement and drive long-term retention.

## Introduction

UBI programs offer carriers a way to obtain individual driver data to better understand risk, enable more accurate rating and enhance the claims process. In the US personal auto market, many carriers have early-stage UBI programs in production, and to date, most of these programs have been marketed as a way for good drivers to save money on premiums.

In March 2015, LexisNexis commissioned a research study on UBI in the US personal auto market. It was the fourth year of the study, previously conducted in 2010, 2013 and 2014.

The 2015 study aimed to further our understanding of the consumer UBI market, including consumer attitudes toward UBI discounts and value-added services. We also investigated whether other approaches, such as discounting deductibles, rather than reducing premiums, might appeal to customers. As part of our investigation of alternative approaches to UBI, we commissioned



### About the author

David Lukens is director, telematics, for the risk solutions business of 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.

a separate research study to assess consumers' appetite for a smartphone app that measures their driving score and offers suggestions for driving improvements—without any offer for premium discount. For details on study methodology, refer to the Appendix.

## Key findings of 2015 study

### Awareness and enrollment in UBI programs has plateaued

We observed a large increase in consumer awareness of UBI between 2010 (when the study was first conducted) and 2013 (the next time UBI awareness was measured). Specifically, 10 percent of respondents were aware in 2010, compared with 36 percent in 2013. Consumer awareness of UBI has since plateaued (Figure 1). While there have been small gains in awareness each year since 2013, none of them have been significant year over year.

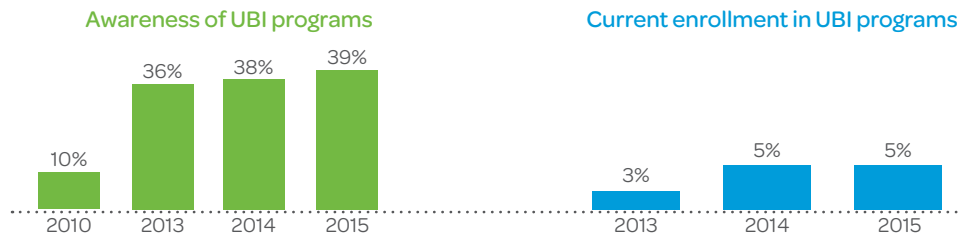


Figure 1. Awareness and enrollment rates of consumer UBI programs have leveled off since 2013.

Plateauing UBI awareness (a leading indicator of potential demand) coupled with plateauing enrollment in UBI programs indicates that current approaches to UBI may no longer be sufficient for driving adoption and that alternative approaches may be necessary.

### Discount-based UBI does not appear to be sustainable

In general, UBI has been marketed to consumers as a program to reward good driving behavior with discounted insurance premiums. Since 2013, we have tracked estimated demand for UBI programs with discounts of 5, 10 and 15 percent. From 2013 to 2014, we observed an increase in estimated demand at all discount rates (Figure 2). However, estimated demand in 2015 is lower than that of 2014 across the board.

This begs the question: is the current approach of discounting insurance premiums a sustainable approach to driving UBI adoption?

### Estimated demand for UBI

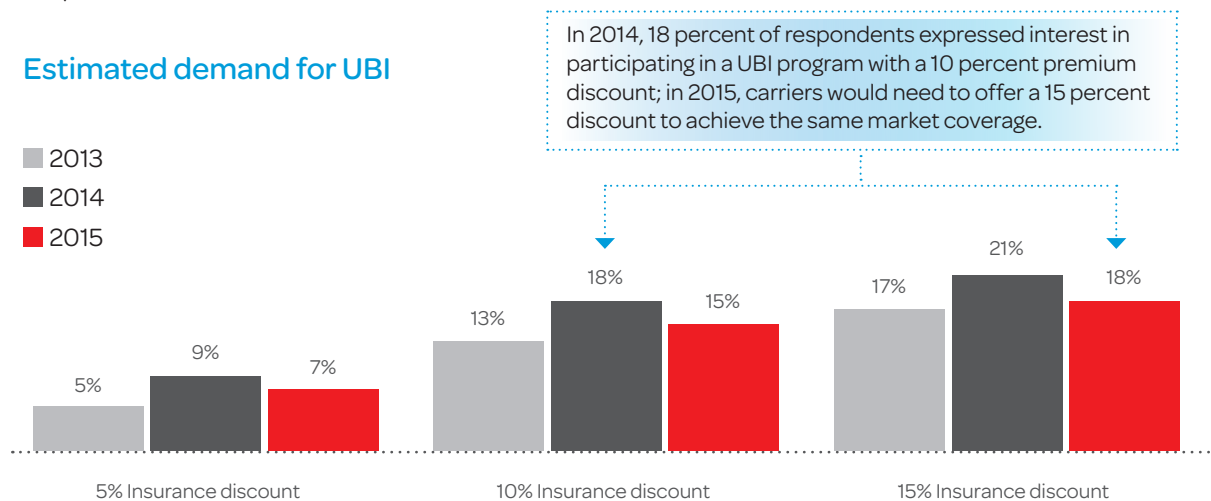


Figure 2. In 2015, a 15 percent premium discount is required to match last year's estimated demand for a 10 percent premium discount.

## Bundling discounts with value-added services does not substantially improve estimated demand for UBI

Discounts are not the only motivator for consumers to enroll in UBI programs, and some carriers have experimented with value-added services (VAS) to drive UBI adoption rates. While bundling VAS with a 10 percent premium discount offers improvement of 2 percentage points, it does not substantially change the estimated demand for UBI. In fact, the estimated demand for UBI with a 10 percent discount and VAS is roughly equivalent to offering a 15 percent premium discount (Figure 3).

### Estimated demand for UBI with and without VAS



#### Value-added services:

- Emergency roadside assistance
- Automatic emergency crash response
- Stolen vehicle tracking & recovery

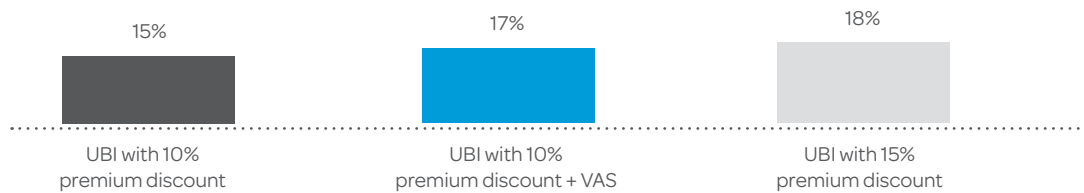


Figure 3. Offering a 10 percent premium discount plus value-added services does not have a substantial effect on the estimated demand for UBI and is roughly equivalent to offering just a 15 percent premium discount.

## Deductible-based UBI discount programs have a strong impact on likelihood to enroll

The 2015 study tested an alternative approach to driving UBI adoption: by discounting deductibles, rather than premiums. Respondents were asked how likely they would be to enroll in UBI if it meant receiving a \$200 discount on their deductible, rather than a 10 percent discount on their premiums. More than half (52 percent) said they were much more or somewhat more likely to enroll in the program (Figure 4).

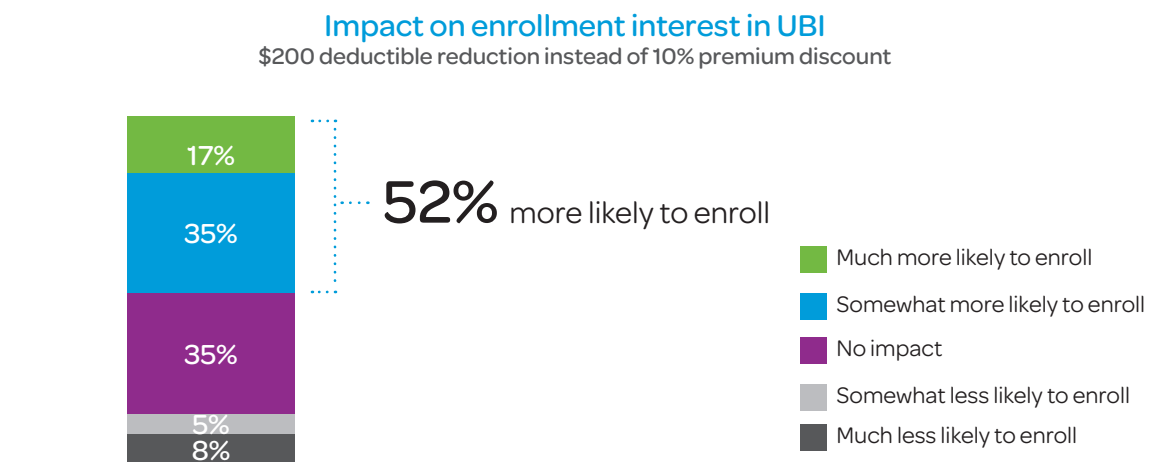


Figure 4. Fifty-two percent of survey respondents would be more likely to enroll in UBI if they were offered a \$200 discount in their insurance deductible.

Overall, the research suggests that discounting deductibles may be a sustainable approach to driving UBI adoption, particularly given consumer interest and its low cost to carriers.

## The safe driving concept offers the potential to drive UBI adoption

Based on success in the Australian personal auto market (see sidebar), we wanted to determine if US consumers were also interested in a smartphone app that measures consumers’ driving score and provides feedback so they can improve their score—without any discount being offered. We refer to this as the safe driving concept.

One component of the safe driving concept is the ability for drivers to obtain a driving score with feedback on their driving behavior, such as speed, acceleration, fatigue and phone use. Another is a leaderboard feature that allows users to see how their driving scores stack up against those of other app users. In general, the self-improvement aspect of the concept was more appealing than the leaderboard feature, which only appealed to a small segment of respondents.

In addition, there was interest in obtaining customer rewards, such as free oil changes, loyalty points or miles, and free roadside assistance, as part of enrolling in UBI, albeit not a large increase compared to the safe driving score components (Table 1).

### Interest in self-improvement and rewards as part of a safe driving UBI program



 <b>Safe Driving Score</b> % Makes More Interested		VS	 <b>Rewards</b> % Makes More Interested	
Control & affect score .....	<b>55%</b>		Free oil changes .....	<b>69%</b>
Feedback to drive more safely .....	<b>55%</b>		Earn points/miles type rewards .....	<b>67%</b>
Feedback to increase driving score .....	<b>54%</b>		Free roadside assistance .....	<b>66%</b>
Driving score customize to you .....	<b>53%</b>			

Table 1. In the US, the self-improvement aspect of the safe driving concept alone provides nearly as much interest as rewards.

Estimated demand for UBI with the safe driving concept is 22 percent, which exceeds that of discount-centric UBI, both with and without VAS (Figure 5). Further, while rewards boosted estimated demand slightly, the bulk of the estimated demand stems from the safe driving concept itself.

## Case study: AAMI achieves success with UBI

AAMI is a leading Australian personal lines carrier. In 2014, AAMI launched its smartphone app that provides users with a safe driving score and feedback on certain criteria, such as acceleration, speed, fatigue and phone use. The app was made available to all Australians, but AAMI customers with good safe driving scores were eligible for free roadside assistance.

After just four months, the AAMI app had been downloaded over 150,000 times, representing an impressive engagement with 1.1 percent of the Australian personal vehicle market.<sup>1</sup> By making the app available to all Australians, AAMI was able to acquire new customers. The app and its associated advertising campaign helped increase brand awareness and reinforced the company’s reputation as a contributor to Australians’ safety.

1. Australian Bureau of Statistics. Motor Vehicle Census, Australia, 31 Jan 2015. <http://www.abs.gov.au/ausstats/abs@.nsf/mf/9309.0>

## Estimated demand for UBI with various approaches

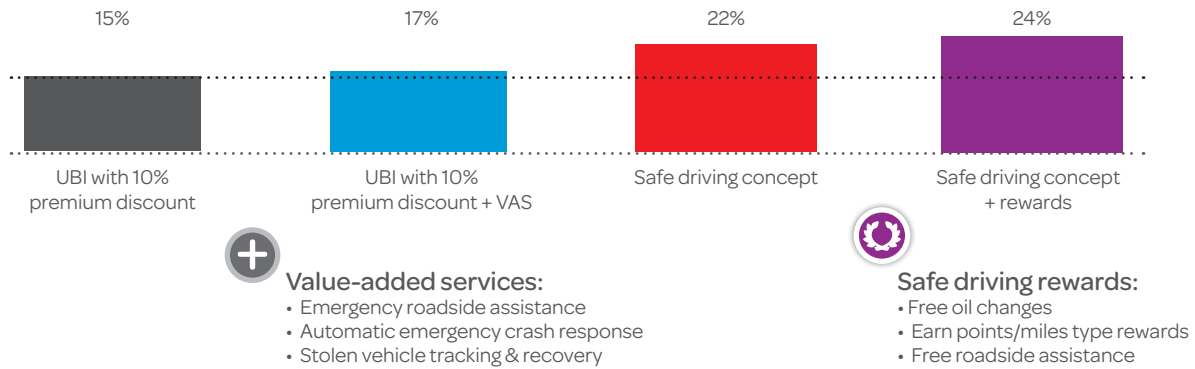


Figure 5. Estimated demand for the safe driving concept exceeds that of discount-centric UBI options.

These results suggest that the safe driving concept is a viable alternative to discount-centric UBI marketing, and can either enable carriers to drive UBI adoption without sacrificing premium or boost adoption rates of existing discount programs.

### The safe driving concept has the potential to keep customers engaged, mitigate risk and improve retention

The safe driving concept also shows potential as a way to increase customer engagement. Among drivers with above-average driving scores, 67 percent said they would continue to engage with the app to monitor their score and try to improve driving (Figure 6). That jumps to 74 percent for drivers with an average score and 77 percent for drivers with a below-average score.

These results imply that the safe driving concept may provide an opportunity to help drivers improve their score through engagement with the app. Over time, that could help carriers mitigate risk and decrease the incidence of claims. Furthermore, the constant interaction could strengthen customer relationships and improve retention.

## Expected behavior based on driving score results

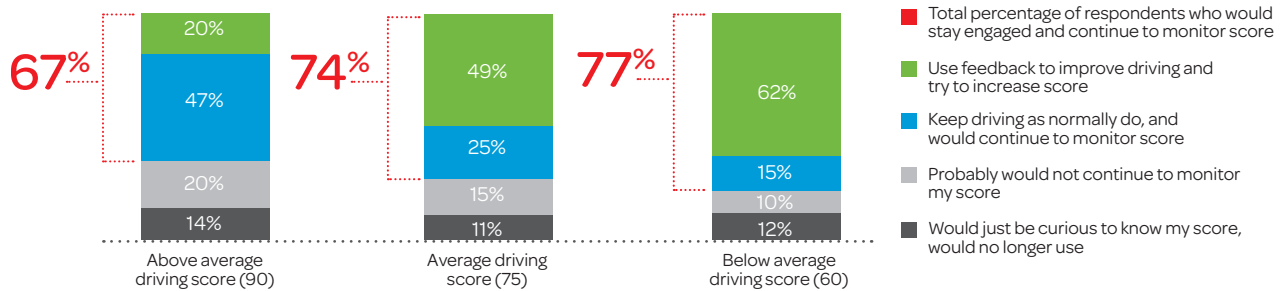


Figure 6. The safe driving concept has the potential to improve customer engagement. Categories may total more than 100 percent due to rounding within each segment.

## Consumers think about UBI differently depending on how it is marketed

The 2015 study demonstrates that there are viable alternatives to discount-centric UBI marketing. When presented with a description of discount-based UBI, consumers focused on discounts. In contrast, when a separate group was presented with a description of the safe driving concept, they focused on improving their driving score. The difference is depicted with word clouds, wherein the size of the word corresponds with the proportion of respondents who “liked” that word (Figure 7).

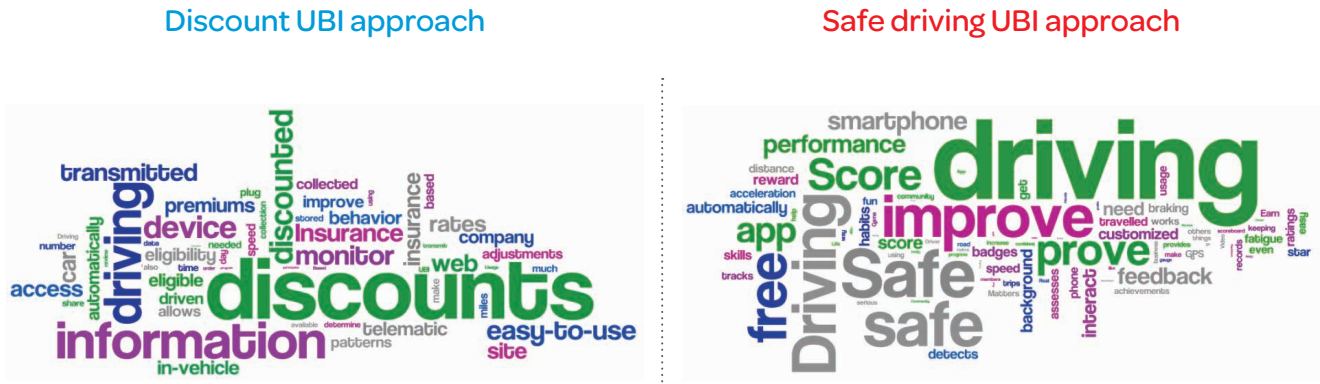


Figure 7. Consumers think of UBI differently depending on how it is marketed to them. The size of the word represents the proportion of respondents that selected that word as a “like.”

This finding underscores the need for carriers to tailor their marketing messaging and programs to reach their target customers. Carriers should consider whether they want customers who are looking for low prices or customers who want to improve their driving.

## Conclusion

Our ongoing study of the consumer UBI market indicates that awareness and enrollment in personal lines UBI has plateaued and suggests that carriers should consider alternative ways of presenting UBI to consumers. For example, discounting deductibles, rather than reducing premiums, could be a more sustainable and profitable way to drive adoption.

In fact, carriers may not need to rely on discounts in order to be successful in the consumer UBI market. Messaging around safety may be even more effective than a discount-centric approach. For example, our study shows that the safe driving concept can help carriers drive UBI adoption. By leveraging a smartphone app that provides consumers with a customized driving score and feedback, carriers can not only better understand risks, but also improve customer engagement and help reduce risky driving behavior.

In short, for UBI to go mainstream, more focus on targeted marketing is necessary. Further, different messaging could help carriers reach additional drivers who have not responded to traditional UBI marketing. Carriers that drive consumer adoption of their UBI programs can derive customer insights from individual driver data, make better rating and pricing decisions, and enhance customer engagement. In the short term, UBI leaders can gain a competitive advantage, while other carriers may find themselves at risk of adverse selection.

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 1 billion miles of driving data with loss histories and 20 production implementations in four countries. 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.

## Appendix

### General survey methodology

In March 2015, LexisNexis commissioned an independent third-party research provider to investigate the viewpoints of auto insurance consumers.

In order to qualify for the study, respondents were required to meet the following criteria:

- Age 25 to 74
- Currently own at least one vehicle for their household
- Drive the vehicle for personal reasons (not a vehicle provided by an employer for work-related use only)
- Currently have an auto insurance policy for their vehicle
- Be the primary or joint decision maker for auto insurance decisions (including provider and type of coverage/policy)

The online panel sample 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.

LexisNexis was not identified as the study sponsor.

### Specific survey methodology for 2015 UBI consumer study

- The 2015 study builds upon the results of similar studies conducted in 2010, 2013 and 2014.
- A total of 2,042 interviews were completed with a representative sample of consumers.
- The questionnaire was approximately 23 minutes long.
- Respondents were provided with definitions for basic UBI, as well as value-added services added to a UBI program. The concept statements used in the research are provided below.

### Specific survey methodology for safe driving concept study

- A total of 2,007 interviews were completed with a representative sample of consumers.
- The questionnaire was approximately 15 minutes long.
- Respondents were provided with a definition for the safe driving concept and for the safe driving concept with rewards.

### 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 website that allows you to monitor your driving patterns and make needed adjustments in your driving behavior to improve your eligibility for discounted rates.

### Description of value-added services shared with consumers

Now, assume that the usage-based auto insurance program included one or more of the features listed below and would still offer a 10 percent discount on your insurance premiums if the vehicle's driver(s) maintain a good driving record.

- Emergency roadside assistance: Ability for driver to alert a call center of their location and for roadside assistance on demand
- Automatic emergency crash response: First responder notification for emergency assistance as vehicle registers airbag deployment or a crash detection signal
- Stolen vehicle tracking and recovery: Ability to locate a stolen vehicle by satellite and contact the police for fast vehicle recovery

How likely would you be to sign up for this usage-based auto insurance program for any of your household's vehicles?

### Definition of safe driving concept shared with consumers

Real Life Isn't a Video Game—Safe Driving Matters

Now, with this safe driving app, you can prove and even improve your safe driving performance. It's a fun way to go about the serious business of keeping you and others on the road to safe driving. This free smartphone app makes it easy to get your safe driving score. And, your score is customized to you because the app tracks and assesses your driving skills and safe driving habits.

After you download the free app onto your smartphone, it automatically detects when you are driving, records each of your driving trips using GPS and provides you with a safe driving score. The app works in the background on your smartphone, so there's no need to interact with it at all while driving.

You also get feedback on the things that make up your safe driving score—like distance travelled, speed, acceleration, braking, fatigue and phone usage while driving—to help you increase your score. Earn badges and star ratings through the app to help gauge your progress and reward your safe driving achievements.

Feeling confident in your safe driving score? Create your own community scoreboard that posts your score along with those of the friends and family members you invite to be part of your safe driving community. You can keep score among your community members by comparing badges, star ratings and safe driving scores.

**For more information:**

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

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