



By  
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**T**iny telematics devices that can be installed in policyholders' vehicles have great potential in areas such as pricing, loss control and customer service. But usage-based insurance for auto, better known as UBI, is not a "one size fits all" solution to insurers' business problems.

Every business faces a unique set of issues, and designing a UBI program with the right fit involves careful specification of business objectives. That said, three key challenges are common to all insurers in pursuit of a successful UBI program.

First is the ability to collect telematics data and make sense of it.

100,000 number isn't necessary to see how different rating characteristics perform.

Many carriers are building models that can show separation in driving performance and asking regulators to approve discounts where lower rates are appropriate. Assuming the insurer has a good financial position overall, modest rate decreases are easier to justify. Offering discount-only programs allows auto writers to get to market quickly and continue building their data sets for increased credibility down the line.

The other important benefit to taking a discount-only approach to UBI is that it helps drive consumer acceptance. Direct measurement of driving through telematics requires policyholder cooperation and acceptance. It's hard to imagine consumers volunteering for UBI if one possible outcome is that their rates will increase.

The third key challenge is satisfying all of the stakeholders involved, including regulators, agents and customers. Demonstrating how UBI benefits all key stakeholders helps speed adoption. Transparency is also crucial. Telematics and UBI programs measure driving behavior directly—and thus offer transparency about how carriers set rates. That's especially true when telematics data is compared with widely used but controversial proxies such as credit-based insurance scores.

So assuming insurers can meet these three challenges, they still may face one or two more: UBI requires high-quality granular data, and collecting that data costs money. But with an increasing number of insurers deeming UBI financially viable, the one option companies may not be able to afford is to do nothing, since doing nothing won't help them meet perhaps the biggest challenge of all: keeping pace with the competition.

## Audio:

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# UBI Done Right

**Insight:** Telematics implementation for auto carriers is a three-step process.

That's a much bigger problem than many carriers anticipate, since telematics data is categorically different from other data. Just think about the raw telemetry that a vehicle's accelerometer generates. The data indicates the forces acting on the car in each of three dimensions at a moment in time. So, physics and engineering come into play. Transforming the data into something coherent and accessible for use by actuaries is a big job that requires a multidisciplinary approach.

**Transforming UBI data into something actuaries understand and use is a big job.**

The second key challenge is developing the right model. Telematics devices can generate enormous amounts of raw data. Actuarial papers often cite 100,000 "car years" as the threshold for model credibility. Credibility is particularly important when insurers are constructing a rate plan that will impact premiums. Regulators need to see a model with high credibility. But strictly speaking, the

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