

Insights

Usage-Based Insurance Consumer Survey

Understanding What Customers Want

U.S. consumers are overwhelmingly open to participation in usage-based auto insurance (UBI) programs, according to a recent Towers Watson study. UBI programs are already being implemented by most major auto insurers, and UBI use is gaining momentum in the industry. A growing number of consumers (likely as many as 200,000 per month) are choosing to install a UBI device in their vehicle, allowing their insurer to monitor how, when and where their vehicle is being driven. These driving data allow for significantly more accurate insurance rates, give customers new ways to control their premiums and provide an opportunity for satisfying new services.

Towers Watson's survey revealed three important findings:

- The marketplace is ready for widespread UBI adoption, with nearly 90% expressing openness to buy a UBI policy in the U.S. if there is no risk of premium increasing.
- UBI is about more than just price, as consumers want value-added services, presenting opportunities for auto insurers to decommo-ditize their offerings.
- The majority of insureds interested in UBI are willing to change their driving behavior, reinforcing the potential of driver coaching to make our roads safer.

A Primed Marketplace

A full 50% of survey respondents express very strong interest in UBI, saying they would definitely or probably buy a UBI policy. Another 29% say they are willing to consider the concept. Taking these two segments together reveals that 79% are open to purchasing a UBI policy. If consumers are guaranteed that their premium would not increase, the percentage of respondents open to UBI skyrockets to nearly 90%.

Interest in UBI is highest among younger drivers, drivers who drive most and drivers who own newer cars, according to our research. This is not surprising, as these drivers pay the most for auto insurance and have the most to gain by choosing a UBI policy. Approximately 66% of survey participants between the ages of 18 and 34 show very strong interest in UBI, saying they would definitely or probably buy a UBI policy. This compares with about half in the 35 – 44 age group, and 40% in the 45 – 64 age range. Interest ticks up slightly for the 65-plus age group, perhaps reflecting a desire among better drivers to keep premium rates lower in a group that could be charged higher rates, may feel erroneously grouped with drivers of diminishing skills and might be on fixed incomes.

Slightly over half of those who drive every day show very strong interest in UBI, compared with approximately 40% of consumers who drive two or three times a week, and the roughly 30% of those who drive once a week or less. This may be an important insight for insurers that assumed UBI is primarily an opportunity to target low-mileage drivers.

Two-thirds of those who own a vehicle two years old or less show very strong interest in UBI. This compares to 56% for respondents who have owned a vehicle between three and five years. Interest gradually trends downward for older vehicles.

What Are the Major Concerns?

While consumers have some concerns about UBI, none of these concerns seem to be material enough to prevent its adoption.

The most common concern is related to money, with nearly half of respondents concerned that their premiums would increase. The next largest area of concern is related to privacy, with approximately 40% worried about sharing their data. Specifically, consumers are concerned with insurers tracking driving destinations and sharing data with other organizations (Figure 1).

These are reasonable concerns, but should not be interpreted as insurmountable challenges. In fact, these concerns present opportunities for insurers to create better-designed UBI products. Recall that 79% said that they would be open to a UBI policy despite these concerns. We also asked consumers if they would be willing to buy a UBI policy if there is no risk of their premium increasing. With no risk of a surcharge, the percentages of those open to UBI increases to nearly 90%. This is likely the main reason why there are few, if any, UBI products currently in the marketplace that surcharge based on UBI data.

UBI Is About More Than Price

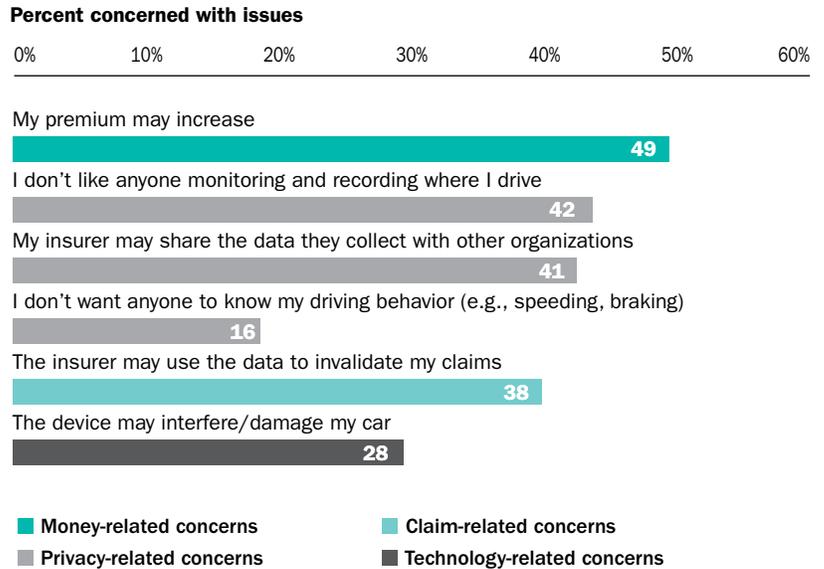
While UBI has already begun to revolutionize how we price auto insurance, our survey finds that the potential for UBI products extends beyond better pricing. Consumers are showing a very strong interest in various value-added services that are enabled by the technology underlying UBI (Figure 2a). Three of the most desired services, with interest from approximately 80% of consumers, include:

- **Vehicle theft tracking.** The GPS in the UBI device can be used to track your vehicle in the event that it is stolen, increasing the likelihood of recovery.
- **Automated emergency response.** The UBI device can often detect when an accident occurs and notify emergency response, providing your exact GPS location to get help faster.
- **Vehicle wellness reports.** A diagnostic report tracks your vehicle's critical systems, helping to keep drivers informed when their car requires service.

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Interest in value-added services is high enough that nearly three-quarters of those interested in UBI (i.e., those saying they definitely or probably would buy a UBI policy) are willing to pay for value-added services, according to our survey. In fact, 61% of those interested in UBI are willing to pay between \$3.75 and \$7.50 per month for value-added services.

Figure 1. What are insureds main concerns with UBI?

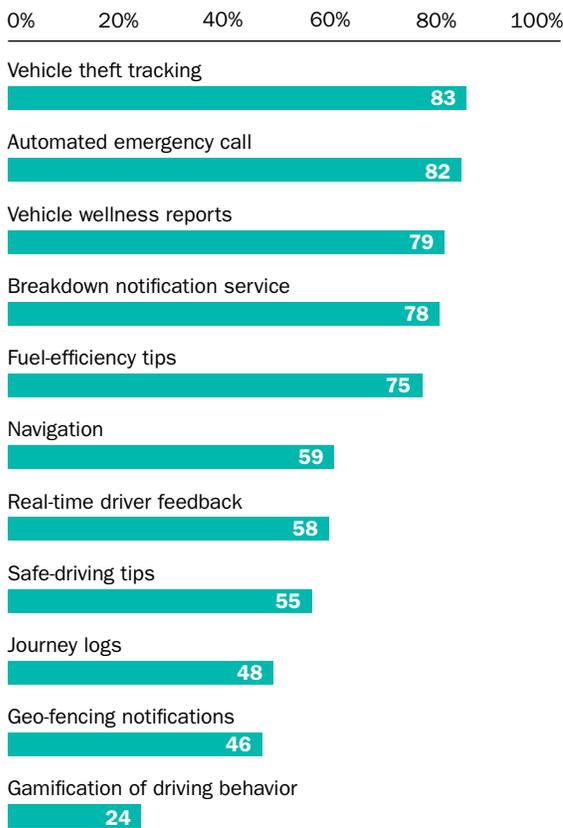


Decommoditizing Auto Insurance

The demand for value-added services presents an opportunity for insurance companies to commoditize their auto insurance products. By incorporating value-added service into their offering, insurance companies can cater their value proposition to the specific needs of their target market. If this is done effectively, it could lead to greater new business growth and higher renewal retention.

For example, concerned parents are a high-potential market for insurers offering UBI programs. Many value-added services, such as automatic emergency response, are related to increasing safety. Interest in these safety services spikes among parents (Figure 2b). Interest in automatic emergency response among parents is above 90%, compared

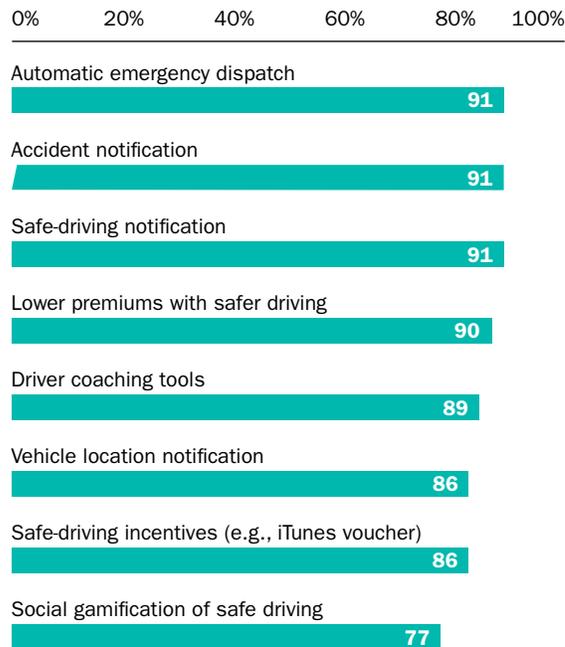
Figure 2a. Percentage of respondents that are interested in value-added services
Ordered by interest



“Consumers want value-added services, which presents an opportunity for auto insurers to commoditize their offerings.”

to approximately 80% for the broader population. In addition, our survey found that 81% of parents that are interested in UBI are willing to pay for value-added services, which compares to 72% of the broader population. Only 6.9% of parents would not want any safety services for their children, an unsurprisingly low number. By bundling safety services with their offering, insurance companies can increase their value proposition and offer a highly differentiated product to concerned parents.

Figure 2b. Percentage of parents that are interested in teen safety services
Ordered by interest



The Untapped Potential of Driver Coaching

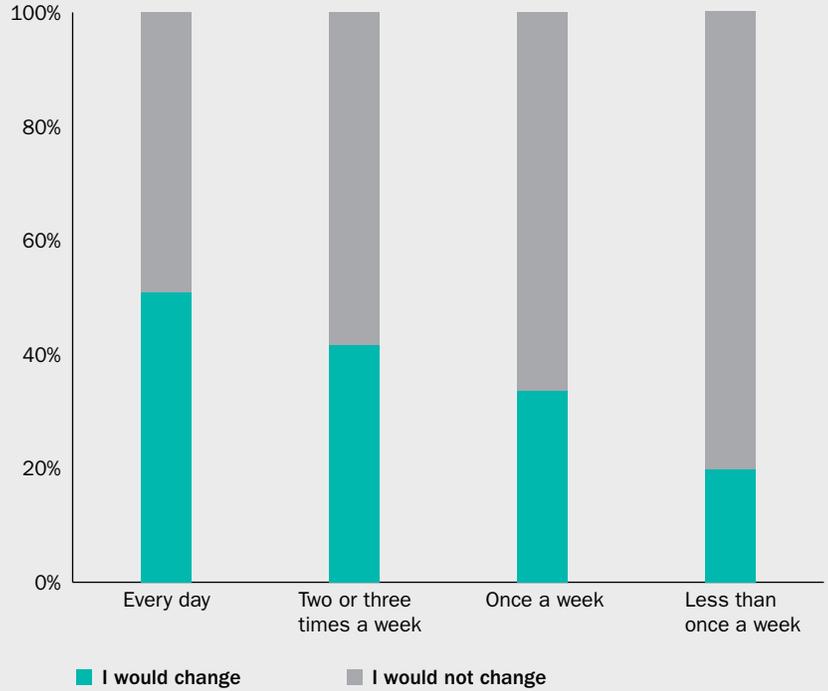
Many consider driver coaching as the highest potential benefit of UBI. Driver coaching, if done effectively, will enable insurance companies to deliver feedback to insureds on their driving habits, teaching them to be better drivers. As drivers become safer, insurance losses will decrease, benefiting the insurance company's bottom line. More importantly, as drivers become safer, roads in general will become safer, benefiting society as a whole.

There is still work to be done to capitalize on the potential of driver coaching. The industry needs to better understand the subtle driving behaviors that make us good or bad drivers, and develop an effective way to deliver timely and relevant feedback to insureds.

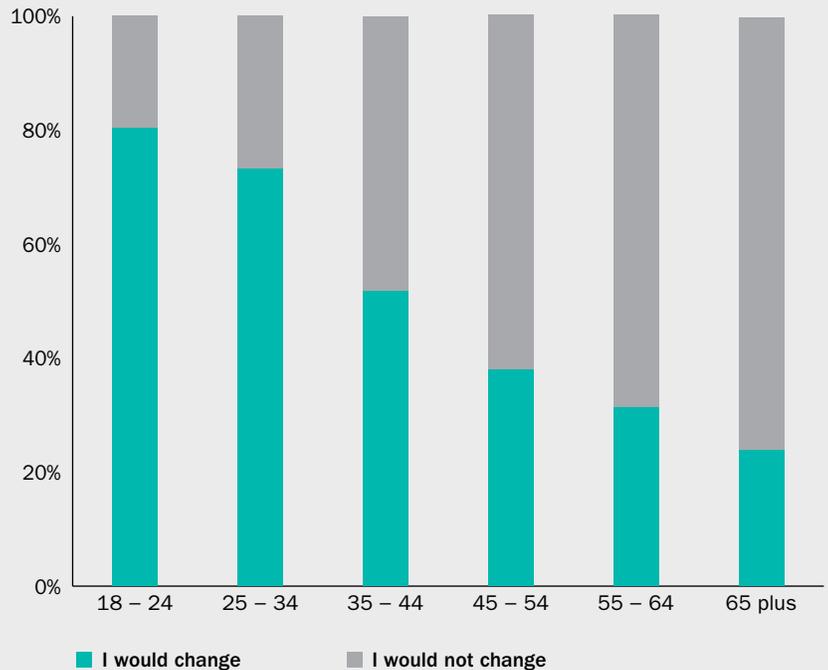
While we still have work to do in this space, our survey findings reinforce the potential of behavior change. Sixty percent of those who are interested in UBI indicate they are willing to change their behavior, suggesting a large appetite for behavior-changing features, which underscores the value of pursuing the development of effective driver coaching. The most promising observation is that the willingness to change is highest among younger drivers, drivers who drive the most and owners of newer vehicles (*Figure 3*). These are higher-risk segments, with above-average expected insurance losses. This suggests that if the industry can effectively deliver driver coaching, this would have the biggest impact on the riskiest drivers, resulting in an improvement in road safety.

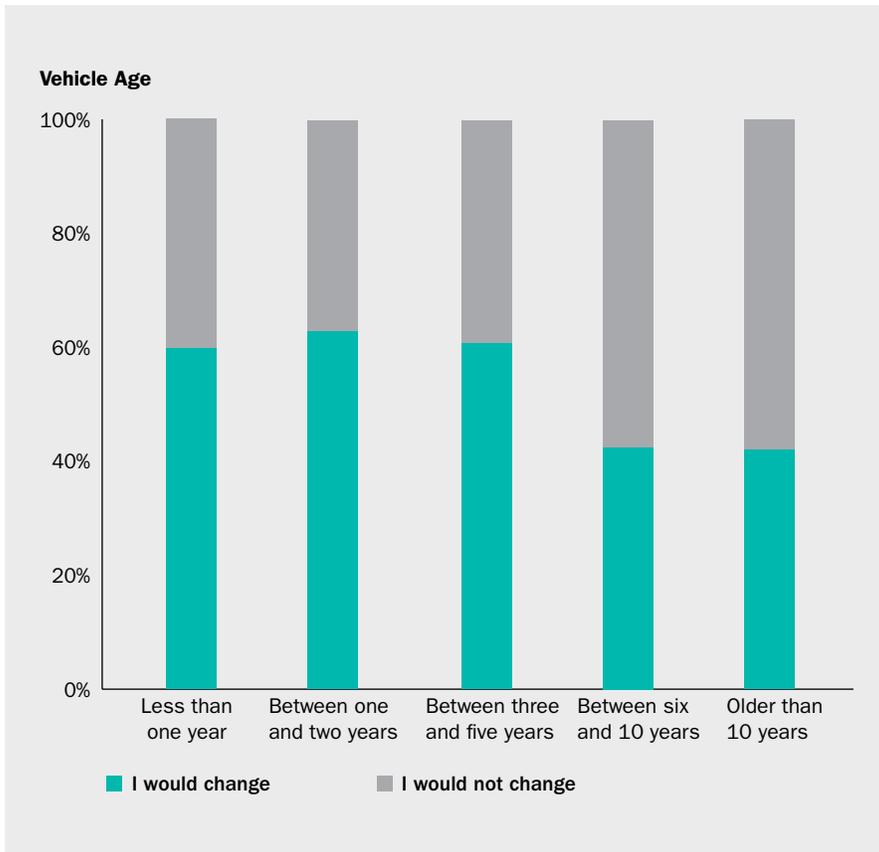
Figure 3. Higher risk segments tend to be more willing to change behavior, potentially resulting in lower loss costs

Frequency of driving



Age





“The majority of consumers interested in UBI are willing to change their driving behavior, reinforcing the potential for driver coaching to make our roads safer.”

Understand What Customers Want

The Towers Watson UBI Consumer Survey provides some important insights into consumers’ views on UBI. It is clear that the marketplace is ready for widespread UBI adoption, with nearly 90% expressing openness to buying a UBI policy in the U.S. if there is no risk of surcharge. In addition, this marketplace is not driven solely by price. Consumers want value-added services in addition to more accurate insurance

rates, which presents an opportunity for insurance companies to decommoditize their offering. Finally, our survey findings indicate that the majority of consumers interested in UBI are willing to change their driving behavior, reinforcing the potential of driver coaching to make our roads safer. This will benefit insurance companies’ bottom line and, more importantly, it will benefit society as a whole.

The Towers Watson UBI Consumer Survey was conducted between December 2012 and February 2013. The survey polled 7,645 respondents, including over 1,000 participants from seven countries: France, Germany, Italy, the Netherlands, Spain, the U.K. and the U.S. Results presented in this article relate to U.S. respondents only.

Further information

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