How to Implement UBI and Telematics Programs

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Abstract
Telematics and usage-based insurance are revolutionizing the industry. These programs offer insurers the opportunity to gather vast amounts of data they can use to develop more accurate rates and reduce their costs. Consumers, meanwhile, can benefit from discounts for safe driving, immediate assistance in case of a crash, better customer service, and more. Insurance professionals need to understand the various considerations related to these advancements, including how to choose a telematics partner, how to launch a pilot program, and how to market the program.

In the early 1990s, credit-based insurance scoring caused a revolution in the insurance industry. Research showed a strong correlation between credit score and likelihood of loss, so insurance companies started to use certain elements of a person’s credit history, along with many other factors, to predict how likely that consumer was to have an insurance loss. Companies that adopted this capability in their rating plans were able to gain a competitive advantage, while those that did not experienced adverse selection and either went through consolidation or shut their doors for good. Today, 95 percent of auto insurers use credit-based scoring in states that allow it.

Telematics—the integration of telecommunication and information and communications technology—is causing a similar revolution in the industry, and the insurance telematics market is forecast to grow at a 50 percent compound annual growth rate by 2020, according to PTOLEMS Consulting Group. With actual driving data strongly increasing the ability to accurately predict whether a consumer will experience a loss, telematics is now an important factor in insurance premium pricing. When compared with traditional rating variables, telematics data provides insurers with context about how a person drives and presents insurers with the opportunity to rate risk more accurately.

But telematics offers much more than more accurate ratemaking. For example, if an accident occurs, the crash data can immediately be leveraged to initiate emergency response and to facilitate quick and appropriate resolution of the claim. In addition, telematics connectivity allows insurers to engage consumers through value propositions beyond the traditional insurance paradigm (e.g., loyalty programs, vehicle diagnostics, location-based services), strengthening customer satisfaction and retention.

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In the United States, most of the top ten auto insurance carriers have successfully implemented telematics-driven usage-based insurance (UBI) programs, and forty-five states have approved ten or more UBI programs. Millions of consumers have participated in these programs. Companies that do not soon adopt this capability will be at a disadvantage and could have a hard time staying competitive in the future.

Before adopting it, however, companies should consider these product principles:

- Solutions should provide useful context and information relevant to the business of insurance.
- Solutions must provide insurers with ways to reduce loss ratios, increase revenue, and improve retention.
- Solutions need to make sense to policyholders.
- Programs must provide tangible value and be welcome additions and easy to use for policyholders.
- Solutions must align with the insurance value proposition—how to deliver on a promise made at policy inception.
Choosing a Telematics Partner

So where do you start? Adopting telematics is not a simple proposition. While insurers of any size can do so with the right technology partner, several considerations need to be understood before committing to a UBI program.

First, research into the right telematics partner is crucial—does the potential partner understand what to do now, not just later? That is, can this partner assist with the decision-making process beforehand? Anyone can provide technology, but a telematics partner should also provide superior service: data management, security, industry experience, and training for staff on what is and is not needed in the program.

On the operational side, it is crucial that your telematics partner understand your insurance business to help you properly execute the program. Does this partner know how to properly engage an agent to help build an effective call center and support team? Does it understand the best channels to use? Is it steeped in the insurance industry?

There are tricks to understanding how to capture a captive, independent, or direct agent, and a telematics partner that understands this is bound to do a better job than a mere technology provider.

In addition, a partner that can help you work through the insurance budget cycle is crucial. You need to be sure that your partner thoroughly understands the industry in addition to the technology.

Finally, one of the most important considerations in choosing the right partner is viability: What are the histories of the vendors you are comparing? Are they viable in the long run? You will not want to have to switch telematics vendors in three or five years, for doing so is costly and could be detrimental to your program’s success.

Here are some additional tips for insurance companies considering a UBI program:

- Gain organizational buy-in—The implementation of a UBI program will affect the entire organization (marketing, sales, underwriting, pricing, servicing, and claims) so it is crucial to gain buy-in.
- Secure leadership support—Resolute support from the top levels of company leadership is necessary to successfully implement the program.
- Set realistic expectations—Rarely is a first-time implementation flawless, and expectations should be tempered based on test-and-learns, with the ability to make on-the-fly adjustments, rather than trying to deploy the perfect launch program.

Companies that wish to adopt a UBI program should also plan for a pilot period. To learn about telematics capabilities through a pilot, they can take these steps:

- Learn about the different telematics service providers and what they bring to the table
- Establish evaluation periods before selecting a service provider
- Develop a comprehensive contract that will govern the telematics services
- Identify the process regarding devices, exchanging and protecting customer data, and acquiring telematics data with minimal automation
- Experiment with program implementation using volunteer employees or customers and small support staff
- Research the telematics data that is acquired and identify what the program will use and how
- Protect any intellectual property associated with the technological aspects of the solution

After completing a pilot, companies may wish to launch a single-state program based on insight gained. These steps can help make such a launch go as smoothly as possible:

- Identify distribution channels through which the launch will occur (e.g., direct, agency, etc.).
- Gain regulatory approval for the product offering—choose a state with favorable regulation and, if possible, one in which customers may already understand the technology and its implications.
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- Engage the marketing department to test messaging campaigns for acquisition.
- Expand the automated aspects of customer acquisition and the exchange of data with the telematics service provider. Allocate adequate time to design, implement and test the program, including any device-fulfillment processes, with the provider.
- Build up the infrastructure that will store and analyze the potentially huge amounts of telematics data, which will determine the future evolution of the pricing algorithms.
- Develop training for sales and service personnel and increase the support team’s footprint.
- Monitor key performance indicators (KPIs) to measure success of the program.

In confirming their strategy and expanding their program’s availability, companies must remember that launching the program is only the first step. These actions can help maximize a program’s efficiency going forward:

- Tweak processes to be even more effective
- Establish full automation across all systems
- Raise awareness of the program throughout the organization, highlighting successes and findings
- Train the entire organization so that everyone is ready to support UBI
- Launch the program through multiple channels and in multiple states using effective marketing and sales support
- Engage with customers to get feedback on what is and is not working
- Monitor KPIs to ensure program success
- Incorporate into the program value-added services and convenience

Certifications and Standards Considerations

One of the most important considerations when choosing a telematics partner to power your UBI program is whether that partner meets your certifications and standards requirements.

Does your chosen partner meet international quality management standards, such as ISO 9001? What is its experience in doing so? Meeting standards and certifications should be a fundamental principle of everything your technology partner does.

For example, ISO/IEC 27001:2006, an international standard that must be complied with when designing and managing an information security management system, identifies standards of design, specification, and physical and organizational security. Ensure that your potential partner understands, adheres to, and explains these important standards before building a program.

Marketing, Services, and Support

Marketing plays a vital role in a UBI program’s success. No matter how large or small an organization is, it is important to put resources behind marketing the new program and creating a solid support team. UBI and telematics are new not only to insurance companies, but to consumers as well, so there is a level of education required from innovative insurers rolling out UBI programs.

Further, because UBI and telematics are relatively new technologies from the consumer’s perspective, they are often accompanied by the FUD factor: fear, uncertainty, and doubt. It is crucial to educate consumers through marketing messages that address frequently asked questions and clear up any misconceptions.

For example, many consumers fear that UBI is only advantageous to insurers. To correct this misperception, clearly communicate the advantages to both parties, such as UBI’s ability to compile highly predictive driving data for use in auto insurance pricing, enabling insurers to offer discounts for safe and low-mileage drivers rather than lumping such drivers into broad categories. UBI can also help expedite the claims process after a crash, send help immediately, and increase road safety by teaching and rewarding better driving habits. In short, the advantages of UBI are numerous for both insurers and insureds.
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Services are needed to create more inelastic customers—it is all about delivering on the promise made at policy inception. Value-added services, such as theft tracking, automated emergency calls, breakdown and vehicle-health notifications, improved fuel efficiency, and even weather warnings, are important to consumers and can improve retention, so it is important to take them into consideration from the very start.

“...the advantages of UBI are numerous for both insurers and insureds”

Here are some other considerations for your marketing and support teams:

- **Audience identification**—Who are you trying to attract? Are you looking for new business or a renewal? This will factor into your messaging and marketing channels.
- **Pricing**—Will your program have a pure pricing play? Will additional features add costs? What is the pricing structure?
- **Stickiness**—How can you make customers stickier? That is, how can they be more effectively retained? For example, will a services team accompany the UBI program and help your customers step by step? Will you provide incentives to participate in marketing initiatives or a customer ambassador program? In addition to improved retention, these methods can be helpful in attracting customers who may be wary of UBI.
- **Installation**—How will you get the customer to install the device? Marketing material that educates and supports customers is crucial. How many reminders will you send while waiting for customers to install the device? In what format (mobile app, email, mail, etc.) will you send these reminders? And finally, what is your plan if the customer does not install the device after a certain time period? Will you cancel the discount, show them what they could have saved, etc.? Be sure that you clearly outline the parameters of the program, including eligibility for participation and discounts.
- **Returns**—How will you get consumers to return the device once they are finished with the program or if they switch insurers? A prepaid FedEx or UPS package is usually sufficient, but sometimes an incentive may be required. Calculate the expected loss from unreturned devices ahead of time.
- **Scalability**—Develop a clear roadmap for success that outlines what you can do today and how you plan to scale marketing efforts as the program grows.

As with many technologies that have come before, consumers need to understand the benefits and value of telematics before widespread adoption becomes a reality. (Remember the early hesitancy around today’s common technologies, such as Facebook, location apps, or even the smartphone?) Consumers often fear the unknown, so your marketing efforts need to focus on education and thought leadership to gain consumers’ trust.

UBI is not only about pricing for the insurance company, but also advancements in loyalty and customer relationships. In a nutshell, insurance telematics adds value for the customer and context for the insurance company. It must provide features the policyholder desires and information insurers find valuable. And solutions must align with the insurance value proposition.

Endnotes


The partner that puts data to work for you and your policyholders.

- Leverage the intelligence of the largest telematics database in the world
- Work with a partner that supports you every step of the way
- Get actionable insights that move your business forward

Octo is the number one global provider of telematics and data analytics solutions for the auto insurance industry. Founded in 2002, Octo pioneered the insurance telematics industry. Today, Octo is the largest and most experienced insurance telematics company in the world, transforming auto insurance through behavioral, contextual and driving analytics for the leading insurance providers. Octo has millions of connected users and the largest global database of telematics data worldwide. Octo applies proprietary algorithms to this market-leading database to deliver powerful new insights into driver risk, informing solutions that benefit both auto insurance companies and policyholders.

The company is headquartered in London, with offices in Boston, Rome, Stuttgart, Madrid and Sao Paulo.

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