

# Commercial auto usage-based insurance

How COVID-19 shows the need for telematics-based pricing

18 AUGUST 2020



# Commercial auto agenda

- Welcome/introduction
- Current state
- How telematics score addresses business model
- Introducing AccuRate UBI score and impact
- Path to overall profitability



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Sales Director  
Business Solutions



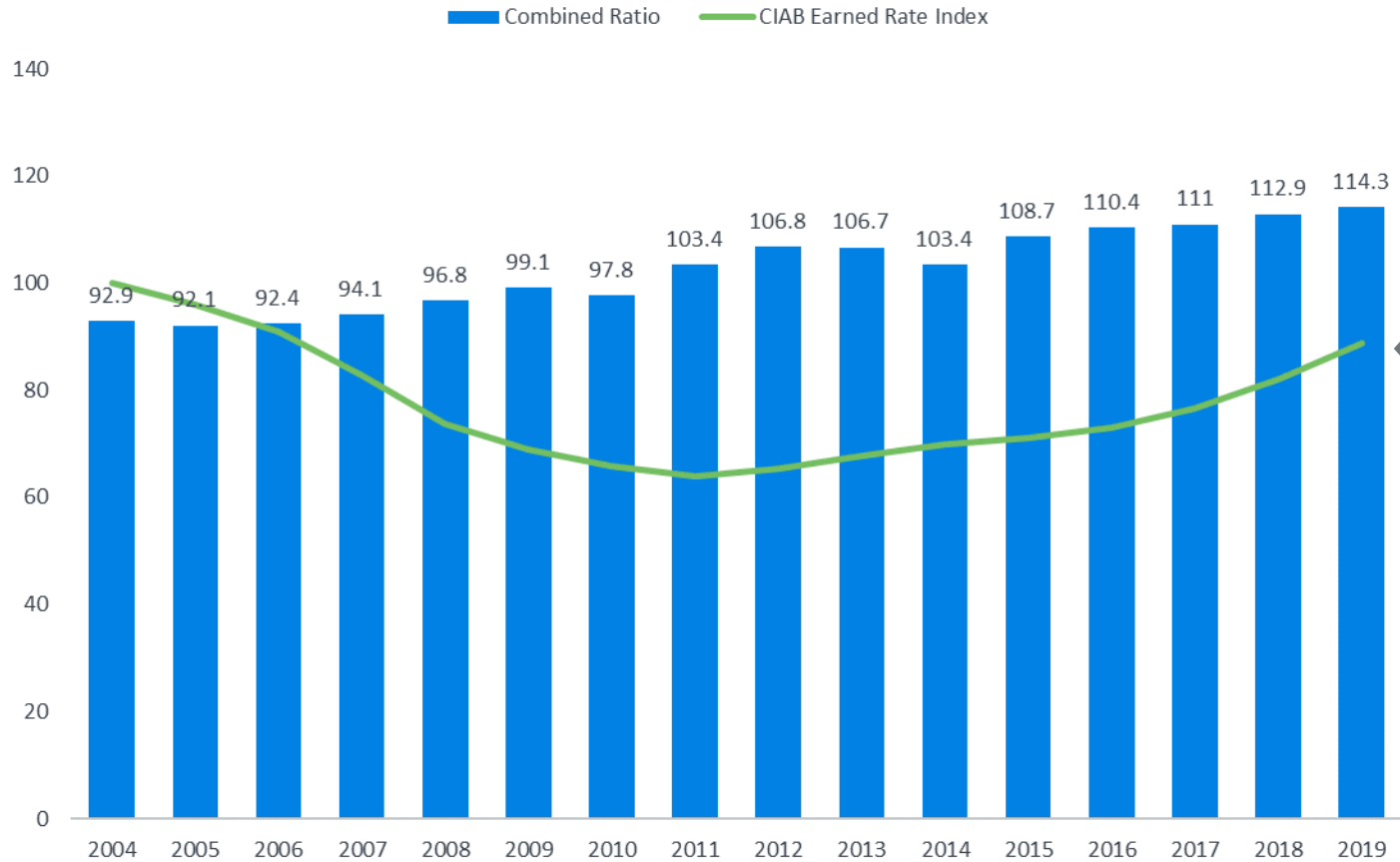
**Peggy Brinkmann**  
FCAS, MAAA  
Principal and  
Consulting Actuary

# Current state

How did we get here?

# Navigating through the rearview mirror

Rates not keeping up with changes in exposure and behavior

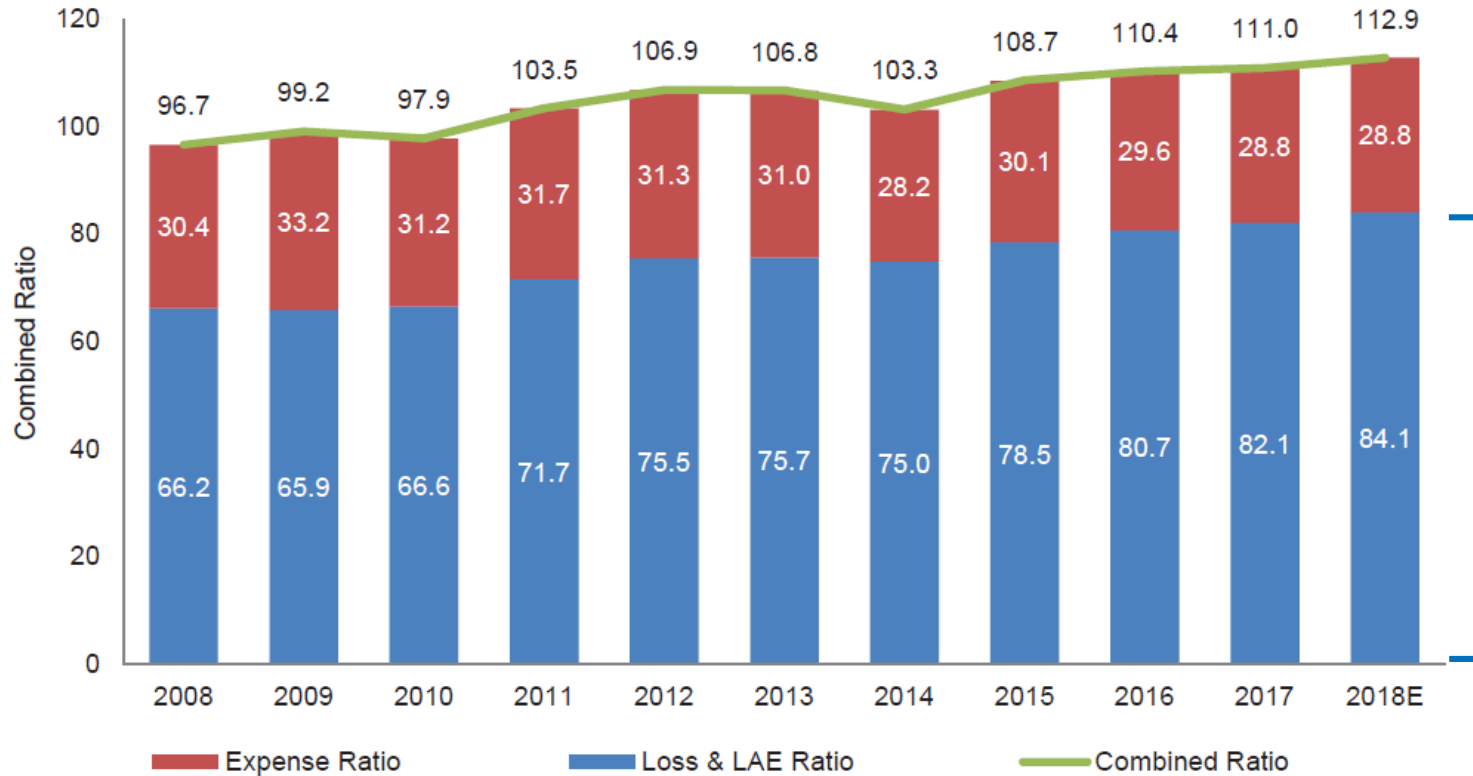


Source: AM Best, CIAB Market survey

In 2019, earned **8%** in rate increase, but would have needed **30%** rate increase to get to **95** combined ratio.

# Commercial auto industry expected to remain unprofitable

Net underwriting performance

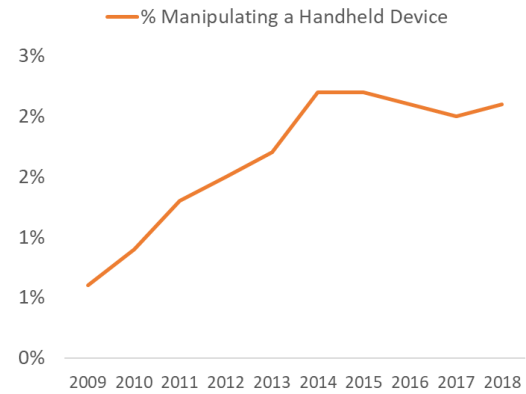


Loss ratio is the culprit

Source: AM Best

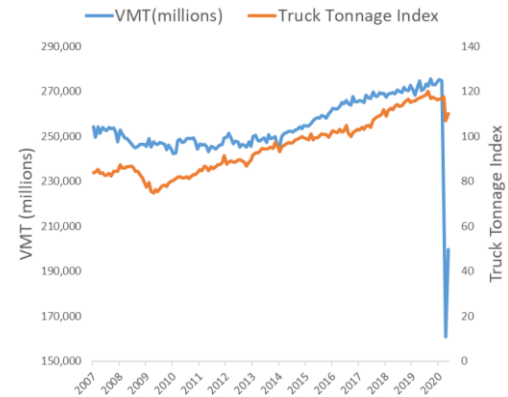
# Trends vary by market

## Distracted Driving



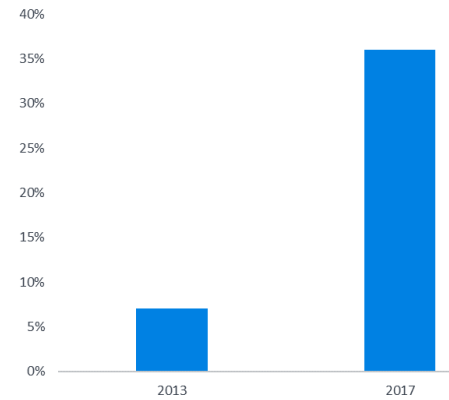
Source: NHTSA

## Miles Driven



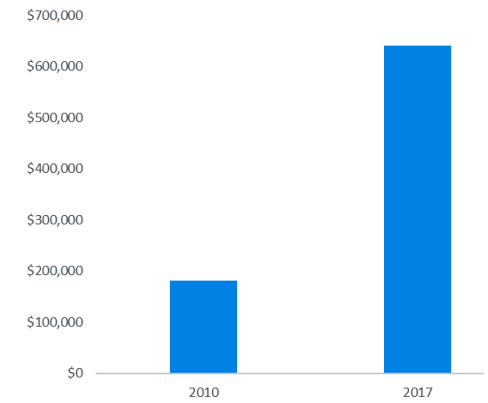
Source: Federal Reserve Economic Data

## U.S. law firms using litigation finance



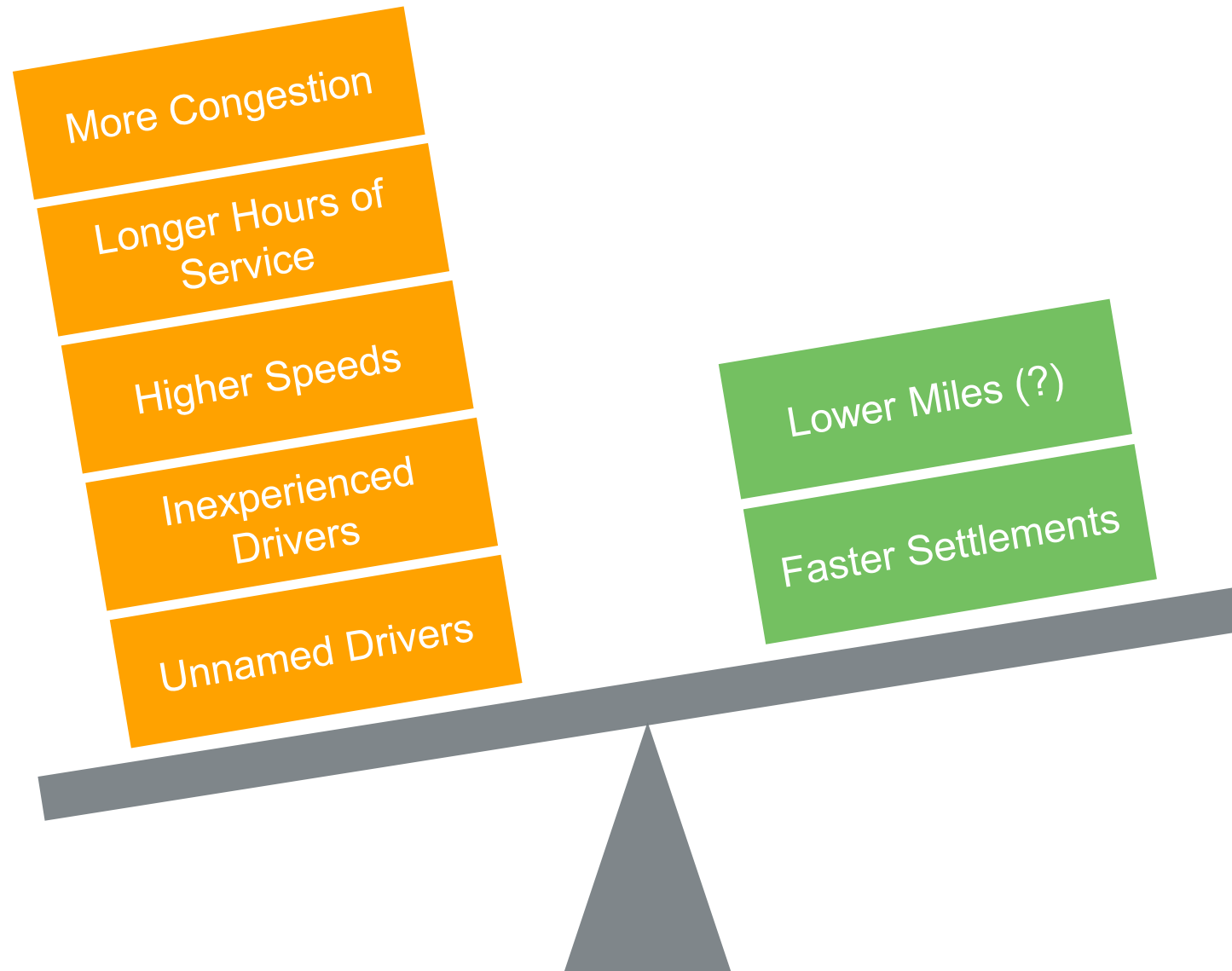
Source: Burford Capital

## Average jury verdict



Source: III

# Commonly used pricing structures don't account for shifting conditions for individual risks



# **How telematics addresses your business model**

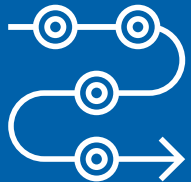


# Benefits of pricing with telematics



## **Increases rating plan granularity, driving profitable growth and competitiveness**

- Not all risks are suitable for experience rating—telematics helps fill the gap.
- Reduces subsidization of higher-risk fleets by lower-risk fleets.
- Increased affordability for lower-risk fleets.
- Get additional rate on higher-risk fleets that otherwise would be unprofitable.

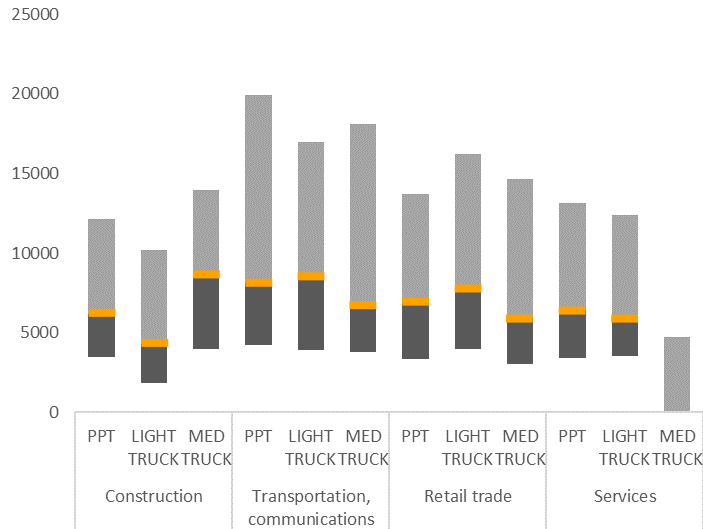


## **Reacts to exposure and behavioral shifts immediately and automatically**

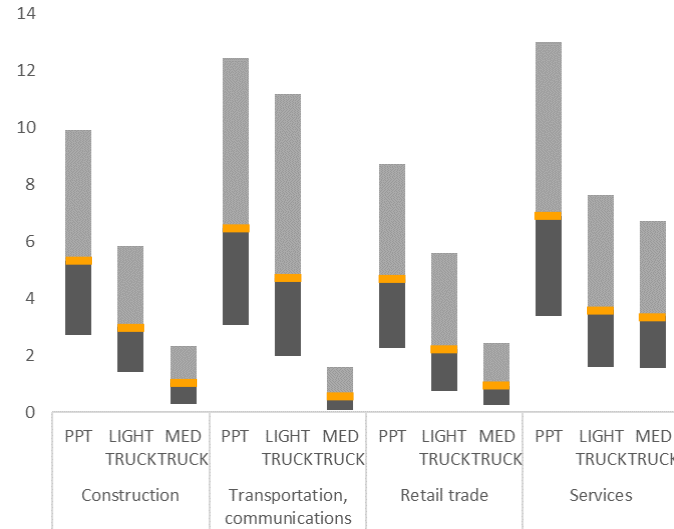
- Not paying for insurance when fleets are parked and not in use.
- Ability to control premium costs.

# Increase pricing segmentation

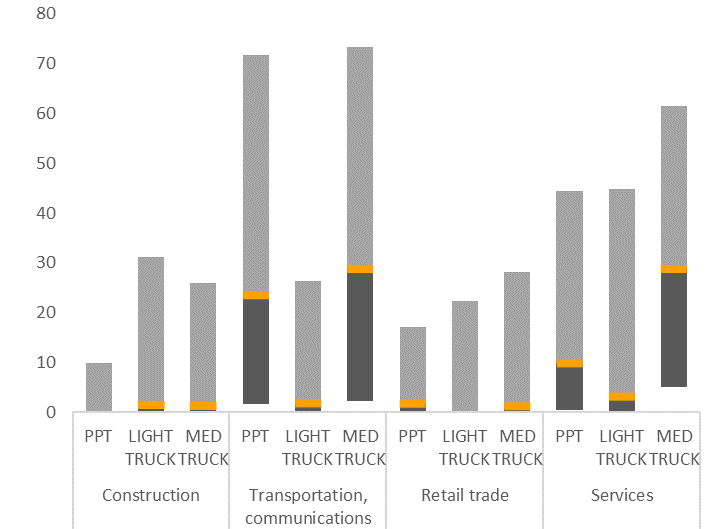
## Distance Traveled



## Hard Braking



## Speeding Events

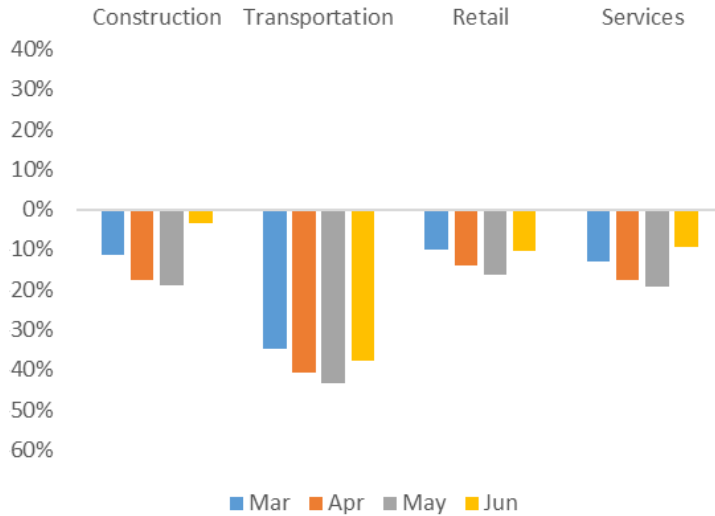


- Exposure and driving behavior vary widely by industry and vehicle type.
- But there is greater variation to be recognized within industry and vehicle type.

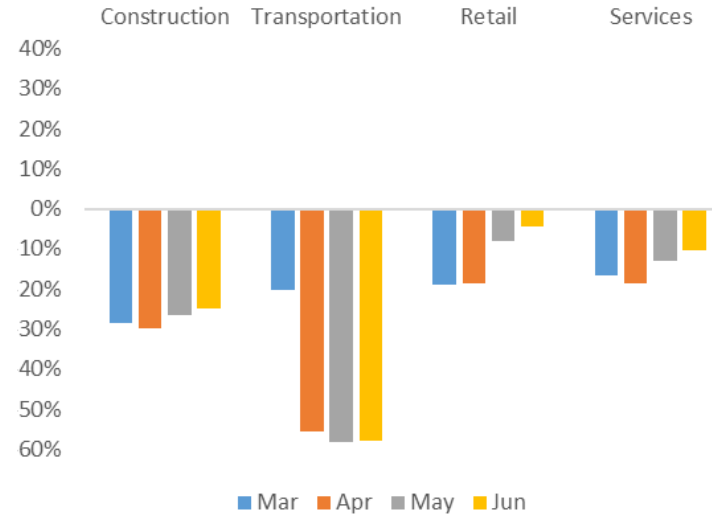
Source: Azuga

# React to wide range of exposure and behavioral shifts

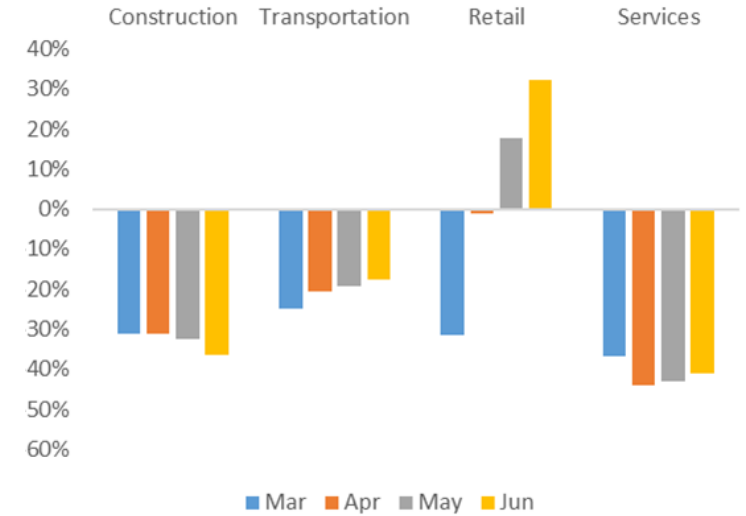
## Distance Traveled



## Hard Braking



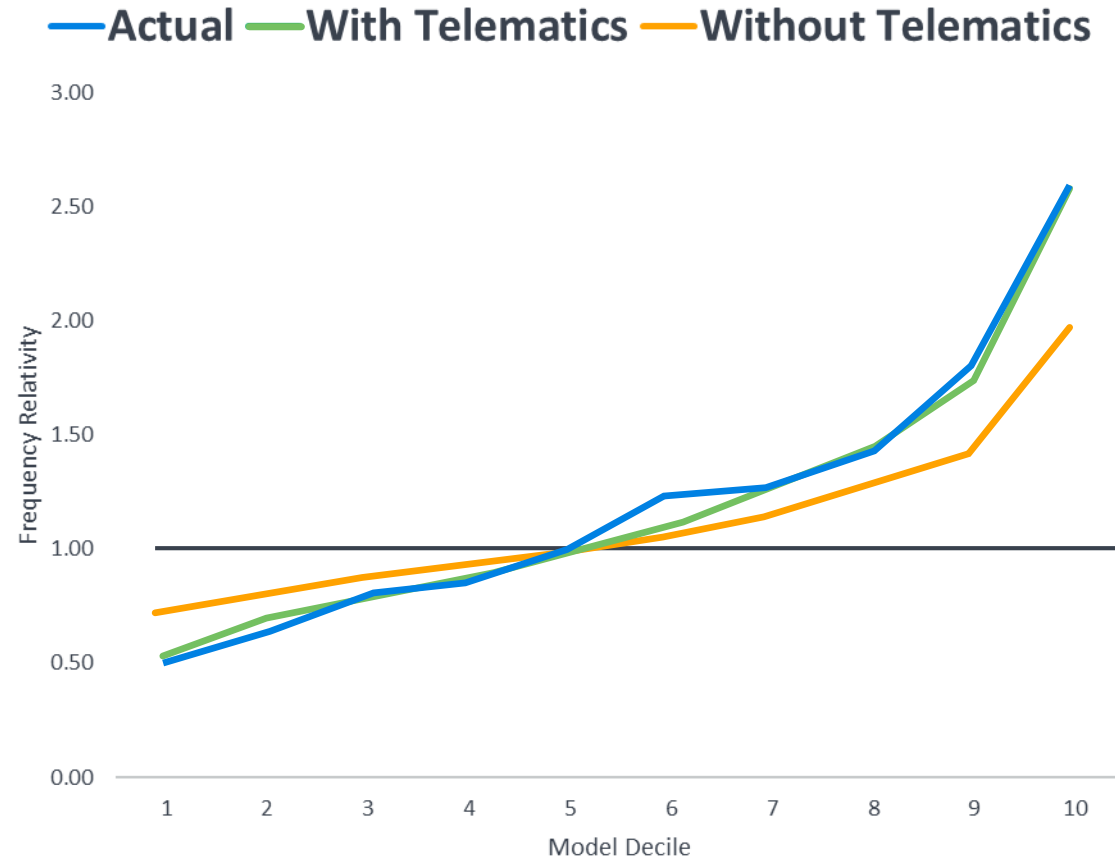
## Speeding Events



- Changes in driving behavior vary widely by industry.
- Across-the-board premium adjustments will unduly favor/penalize some fleets.

# Increase pricing accuracy

- Traditional Model\* has **2.7x** higher frequency for worst decile vs. best.
- Adding Telematics Score has **5x** higher frequency in the worst decile vs. best.
- **Corrects** under/overpricing errors in current rating.
- Provides more **accurate data** for traditional rating variables, such as garaging ZIP and radius.



\* Based on fleet size, territory, model year, vehicle type, radius, and industry code

# AccuRate Fleet Score

Commercial UBI ready to go

# Telematics pricing is challenging to implement



## Data challenges

- Insurers have limited access to telematics data.
- Telematics companies have limited access to claim or validated crash data.



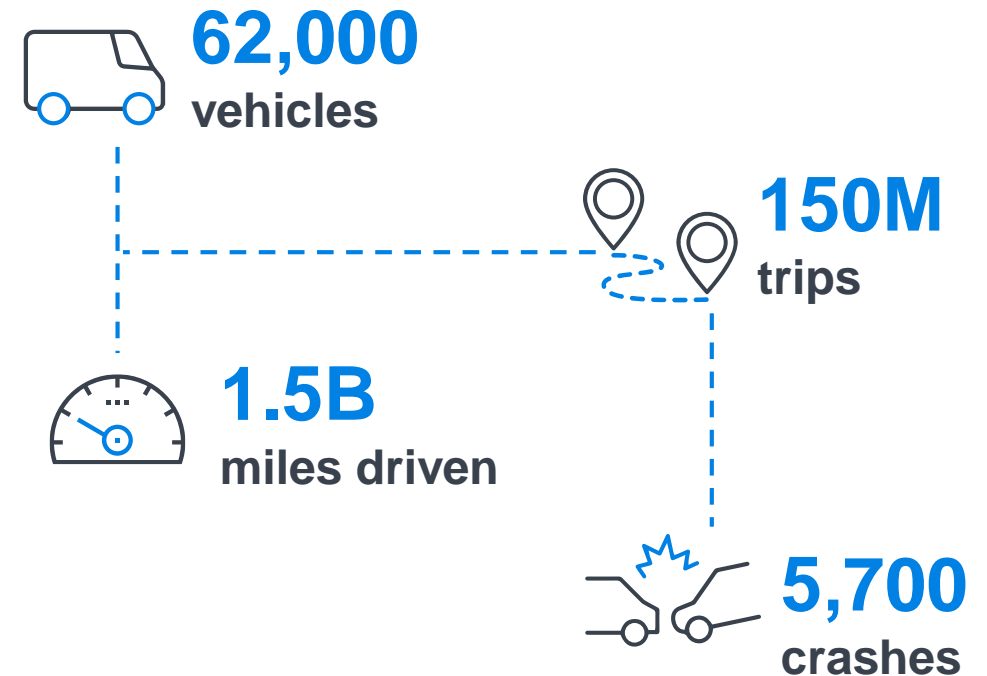
## Regulatory challenges

- In many states, insurers need to file actuarial support for the rates, including telematics-based risk scores.
- Most UBI models are based on personal auto data. Commercial is much more diverse in exposure and behavior.

# What is AccuRate Fleet?

Telematics score for pricing commercial auto

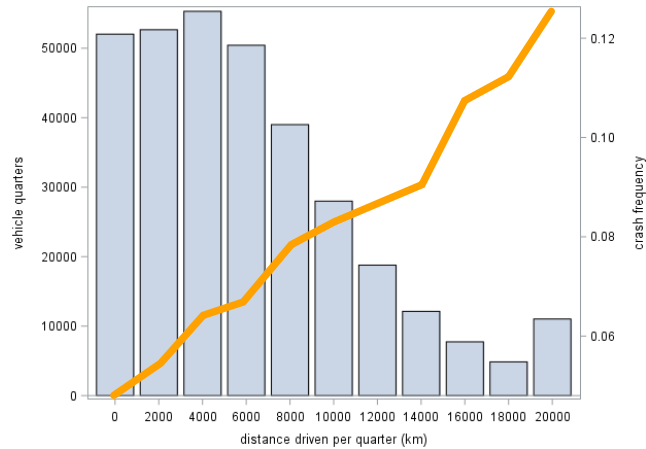
- AccuRate Fleet is a **risk score** relating driving behavior to the likelihood of a crash, developed by Milliman actuaries and data scientists.
- Developed from telematics data from commercial vehicles provided by **Azuga**.
- **Pre-approved by regulators** through advisory organization, Milliman Appleseed.



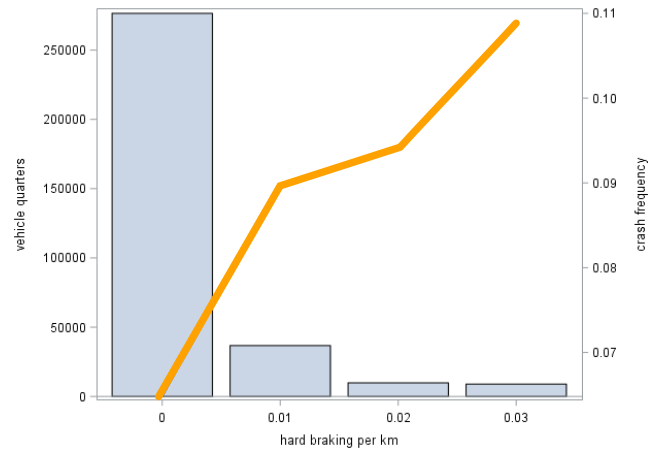
Source: Azuga sample data

# Components of a telematic score have strong correlation with crashes

Distance Traveled

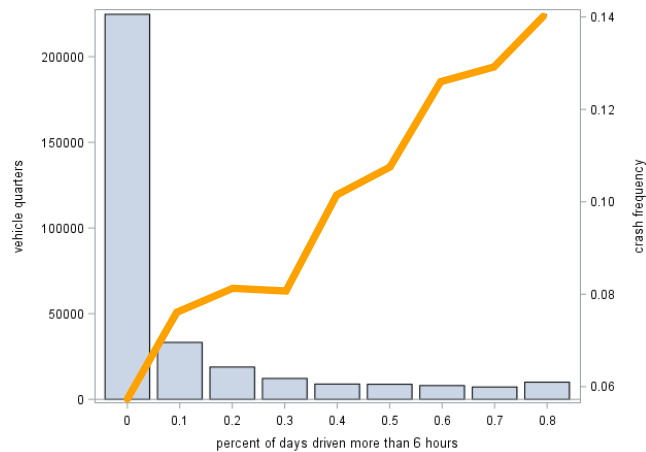


Hard Braking

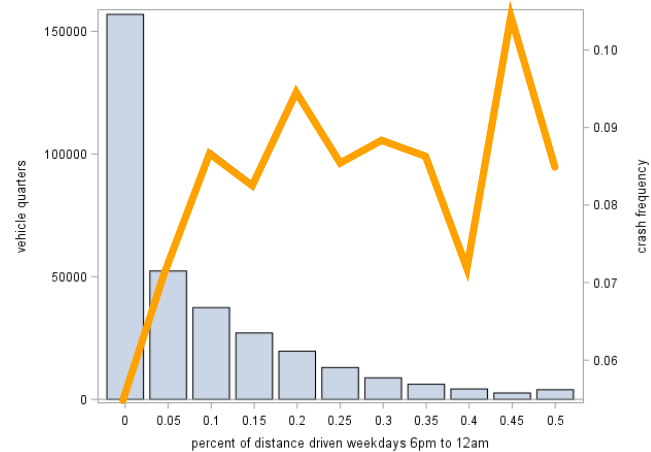


Vehicle quarters  
 Crash frequency

Driver Fatigue



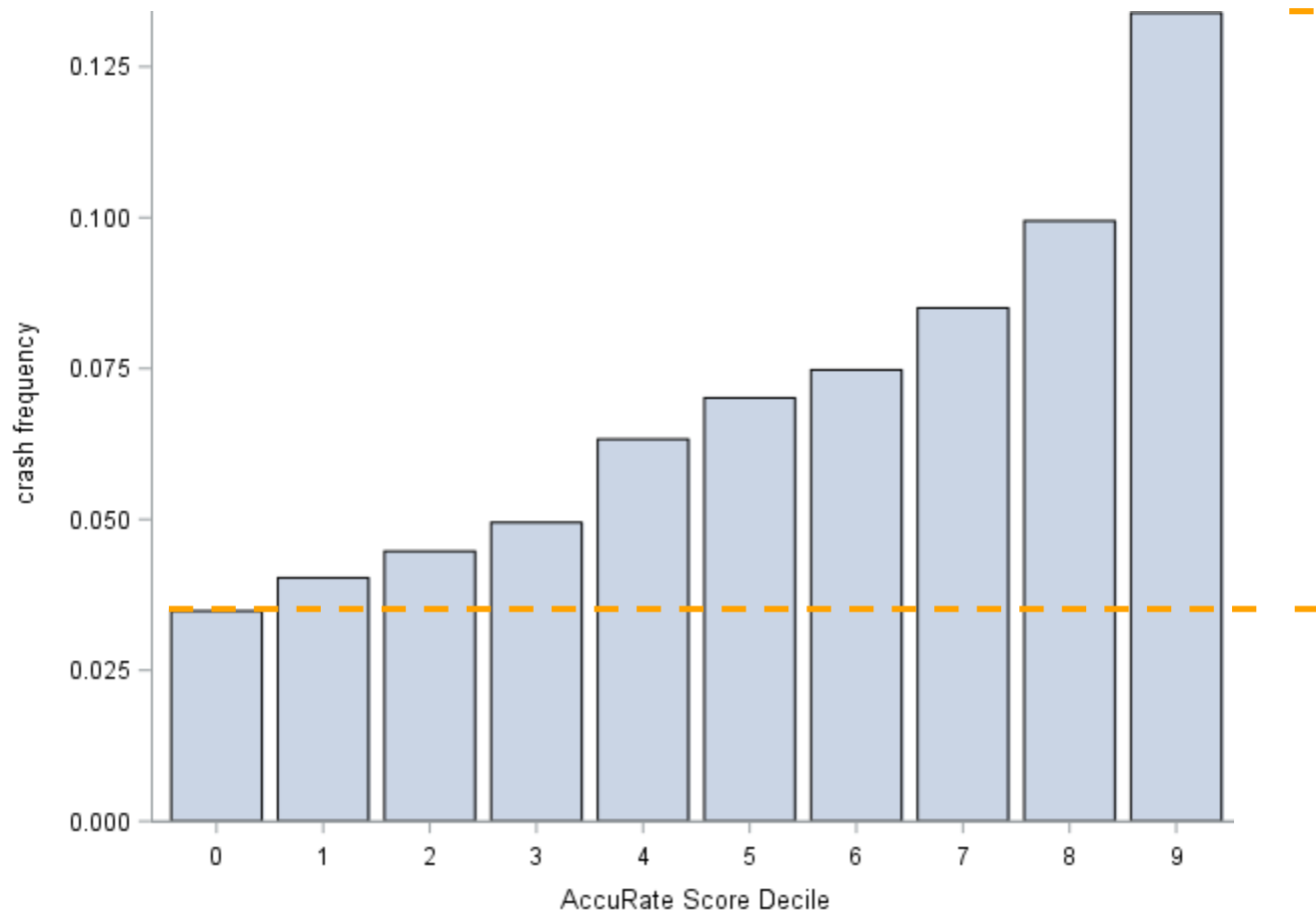
Time of Day



Source: Azuga



# AccuRate Fleet provides significant risk segmentation



Riskiest decile has **400%** higher crash frequency than the best.

Source: Azuga

# Differentiators

Gain valuable risk insight

## Commercial auto focus

Unlike existing filed telematics scores, ours are **developed on commercial auto data**.

## Approved by regulators

Our commercial auto telematics scores have been reviewed and **approved by state insurance regulators** for use in ratemaking.



## Trusted data

Scores are developed by Milliman experts using over a **billion miles of commercial auto driving data**.

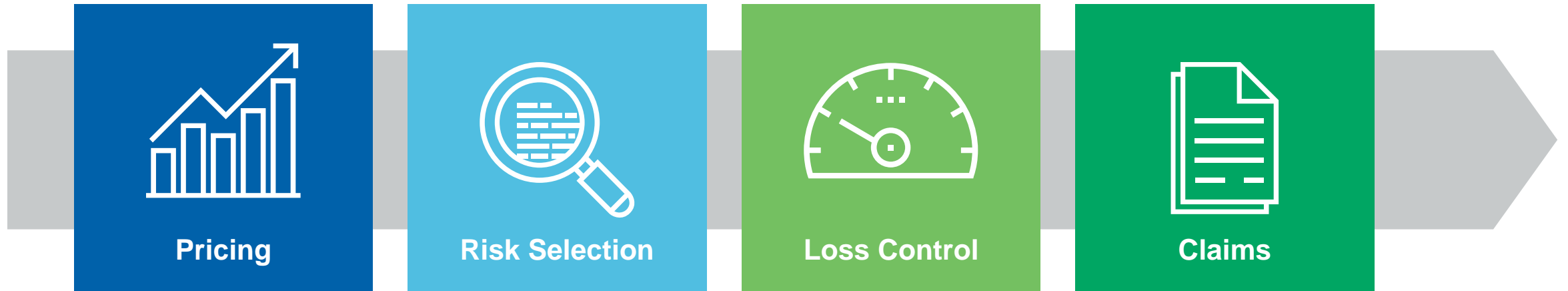
## Tailored

Our experts will work with you to provide a **solution that fits your company and risk culture**.

# Path to overall fleet profitability

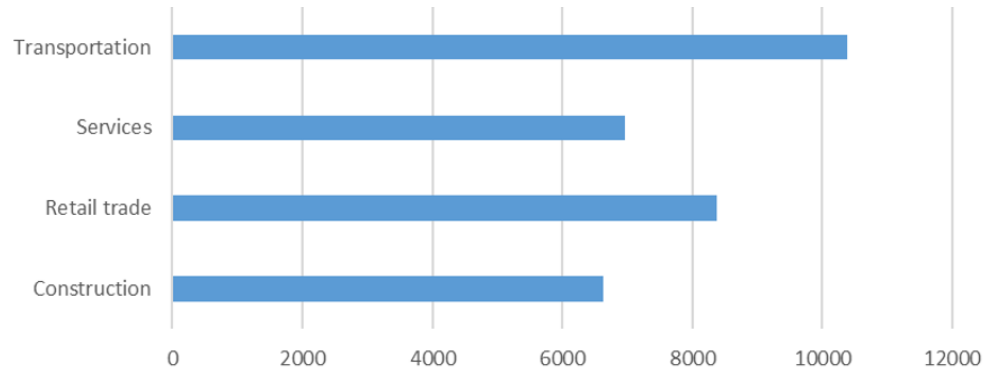
How telematics can help across the value chain

# Telematics improves multiple core processes

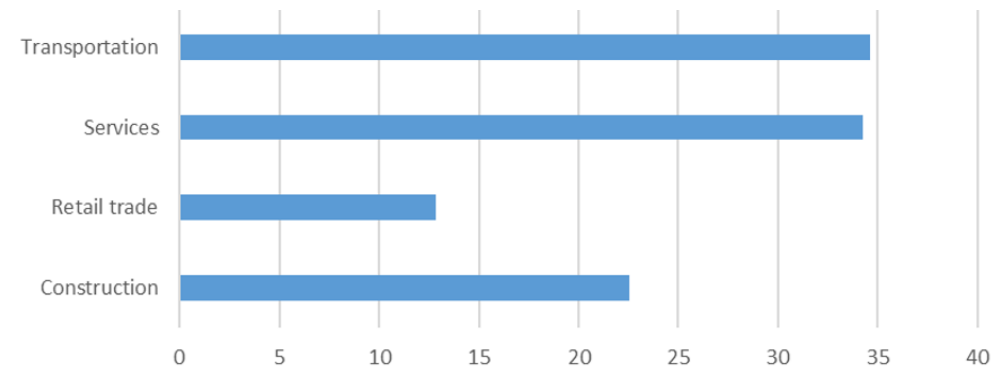


# Risk selection with telematics

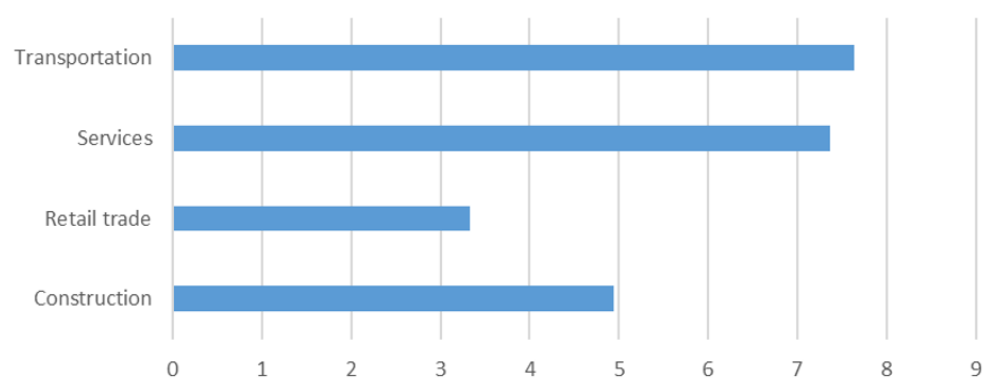
## Distance



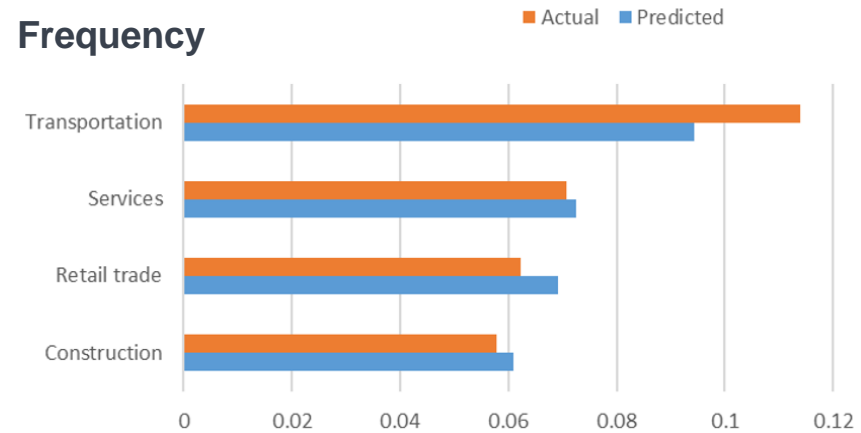
## Speeding



## Braking



## Frequency



Source: Azuga

# Loss control with telematics

## REFERRAL

Refer fleets to telematics vendors.

Hope for the best.

**RESULT: Little impact on frequency**

### Telematics discount

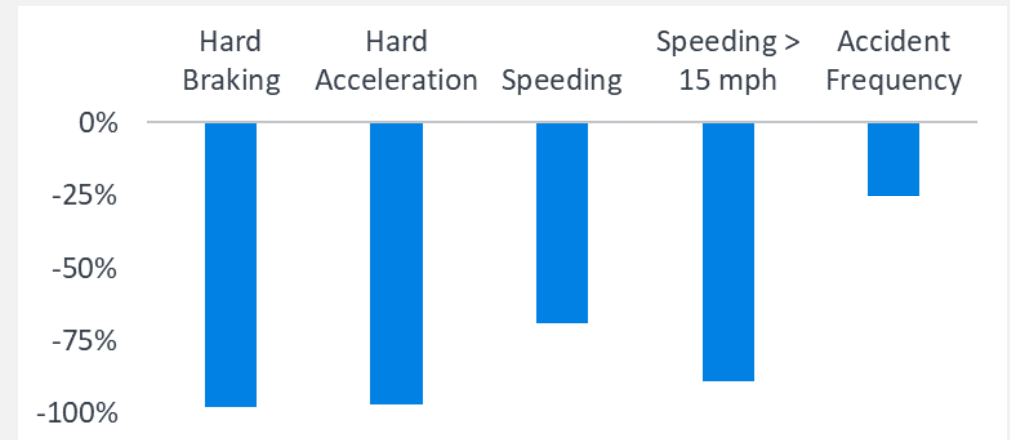
| Telematics | Liability | Medical Payments | Other than Collision | Collision |
|------------|-----------|------------------|----------------------|-----------|
| No         | 1.00      | 1.00             | 1.00                 | 1.00      |
| Yes        | 1.00      | 1.00             | 1.00                 | 1.00      |

## PARTNERSHIP

Engage fleet with interactive risk reduction program.

Partner on driver engagement, positive reinforcement, and behavior change.

**RESULT: 20-40% reduction in frequency**



Source: Azuga

# Claims with telematics

Milliman claims consulting client case study



Lower

- **Property damage severity up to 30%**  
Faster claim reporting and early resolution can lower property damage costs.
- **Loss adjustment expenses up to 50%**
- **Litigation volume up to 30%**  
Instant liability determination with accident video that can exonerate drivers.
- **Bodily injury severity** with stronger evidence for defense and “nuclear verdict” risk.

# Pulling it all together





# Taking the next steps

| Your situation                               | How we help                    | Financial impact                               | Strategic                                   |
|--|--------------------------------|--|---|
| ➤ <b>Considering UBI change</b>              | <b>UBI exploration meeting</b> | <b>Determined by meeting outcome</b>           | <b>Determined by meeting outcome</b>        |
| ➤ <b>Starting new loss control program</b>   | Add UBI score                  | Minimal incremental costs, strongest ROI       | Select, improve, and retain profitable book |
| ➤ <b>Wanting to use/grow telematics data</b> | Pilot full UBI                 | 10-40% LR cut due to pricing, risk, and claims | Select, improve, and retain profitable book |
| ➤ <b>Wanting to assess options</b>           | Fleet telematics assessment    | Varies   | Fit your business                           |



# Q&A

Please ask questions via the chat box or contact us directly.

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- Your results will vary based on your portfolio



**Thank you**