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How Insurance Technology helps Reduce Distracted Driving

Nevada Traffic Safety Summit



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Can automobile insurance
technology lead to safer
driving?



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Usage-Based Insurance (UBI)

Approach to pricing automobile insurance that considers the amount of an insured's driving and/or specific driving behaviors in order to set or adjust the premium paid.



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Examples of characteristics that *may* be considered by a UBI model (not all insurers consider all of these characteristics):

- **Miles driven**
- **Times of day one drives**
- **Braking and acceleration**
- **Speeding**



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Examples of characteristics that *may* be considered by a UBI model continued...

- **Type of road one drives on**
- **Distracted driving**
- **Turning behaviors**
- **Location of driving**



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How Insurers Measure Driving Behavior

- Plug In Devices
- Some of the OBD-II devices were not GPS-enabled, but others had GPS capabilities.
- More recently, most insurers have introduced programs where the driving behavior is measured using an app on the insured's mobile phone.



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Mobile Phone Apps

Mobile-phone apps generate fewer expenses for both the insurer and the insured.

Several advantages over Plug In Devices:

- A mobile phone always has GPS capabilities. It can also be used to detect phone usage behaviors and identify possible distracted driving.
- Provide driving tips.
- Shows driving habits over time.



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Nevada's Regulatory Environment

- All rates and rating rules for personal lines of insurance must receive Division of Insurance approval prior to implementation.
- [NRS 686B.050-060](#): Standards for rates. Rates must not be excessive, inadequate, or unfairly discriminatory.
- For every predictive model, the characteristics used must be reasonable and supported by relevant experience data. The characteristics may not result in similarly situated insureds (from the standpoint of risk) being charged different premiums arbitrarily.
- Insurers began to submit usage-based automobile insurance models in 2008, and the frequency of submissions has increased significantly since 2016.
- Focus on **protecting the consumer** - ensuring that UBI programs help to improve, rather than limit, availability and affordability of insurance; remain optional to enroll in; respect privacy; and use logically justifiable attributes.



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Impacts of UBI on Consumer Premiums

- **UBI attributes are almost never the sole rating considerations.**
- During the early history of UBI, the UBI programs would be offered on an opt-in basis. The insured would get a discount (typically 5-10%) for participating, with the option to earn additional discounts for safe driving behavior.
- **Now many such insurers have also implemented surcharges for riskier-than-average driving behavior.** Consumers should be aware of this possibility.



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Impacts of UBI on Consumer Premiums

There are some specialty insurers for whom UBI is central to their business models. Some insurers charge premiums per mile driven rather than per time period (the “**pay-per-mile**” concept). There are also emerging **Insurtech** companies whose business model revolves around entirely electronic communications and an app-based platform (often mobile), where measurement of driving behavior is also part of the entire premise of the innovative automobile insurance product.



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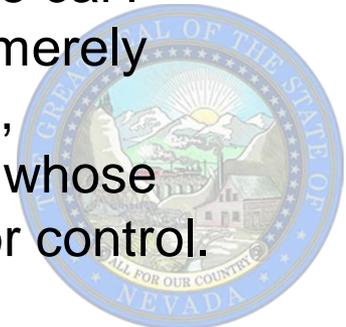
How Do Insurers Capture Distracted Driving?

- The Nevada Division of Insurance has been interested to ensure that UBI characteristics that capture phone usage *only* consider true distracted driving, not passengers using the phone or passive functionality such as GPS navigation or receiving (but not picking up) a call while driving.



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- (i) How does the app distinguish between the driver using the phone and a passenger using the phone?
- (ii) How do you distinguish between the insured using the phone as a driver and the insured using the phone as a passenger in a different vehicle?
- (iii) How does the app distinguish between the driver performing dangerous activities (such as calling or texting) versus benign uses such as the driver having a GPS application open on the phone to provide directions?
- (iv) How do you distinguish between the phone being handled by the driver versus the phone being plugged into the vehicle charging port and moving on its own because of vibrations of the car?
- (v) Does the app consider the phone to be “in use” if it is merely receiving a call (but not being answered)? Many times, individuals receive spam phone calls on their phones, whose timing or frequency is extremely difficult to anticipate or control.



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Potential Advantages of UBI

- **Insurance premiums could be set based on behaviors that directly contribute to the risk of insurance loss.**
- **Drivers would get feedback on behaviors that contribute to risk and suggestions for improvement.**
- **Premiums could automatically adjust during periods of reduced driving.**



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Potential disadvantages: Privacy Concerns

- Many consumers are reluctant to consent to the tracking of driving location and phone usage habits by insurers. This is the major barrier to more widespread adoption of UBI programs.
- Consumer take-up of UBI programs is still much lower than 50%, but a recent [J.D. Power survey](#) shows that 46% of consumers were “highly interested” in UBI programs in the wake of the COVID-19 pandemic. (June 25, 2020)



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Privacy Concerns

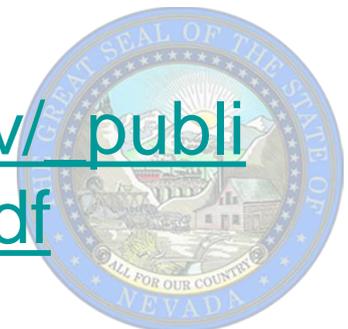
- In order to secure public trust in UBI programs, insurers need to credibly communicate that:
 - Consumer driving data will not be sold to third parties.
 - Consumers will not be granularly tracked based on location; insurers will not make subsequent decisions based on non-driving-related, location-specific considerations.
 - Consumers will not be tracked via their phones when they are not driving.
 - Consumers' driving behavior will not be shared with law enforcement (apart from circumstances when an accident occurred). For example, if a UBI algorithm considers an insured to have engaged in speeding, this information should *not* be shared with law enforcement.



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Resources for Consumers

- DriveCheck: Is Usage-Based Insurance Right for You.
- <https://www.insureuonline.org/drivecheck.htm>
- Nevada Division of Insurance Website: Consumer's Guide to Auto Insurance Rates.
- https://doi.nv.gov/uploadedFiles/doinvgov/public-documents/News-Notes/Auto_Guide.pdf



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Questions?

