

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



James Barber
Sales Director
Business Solutions



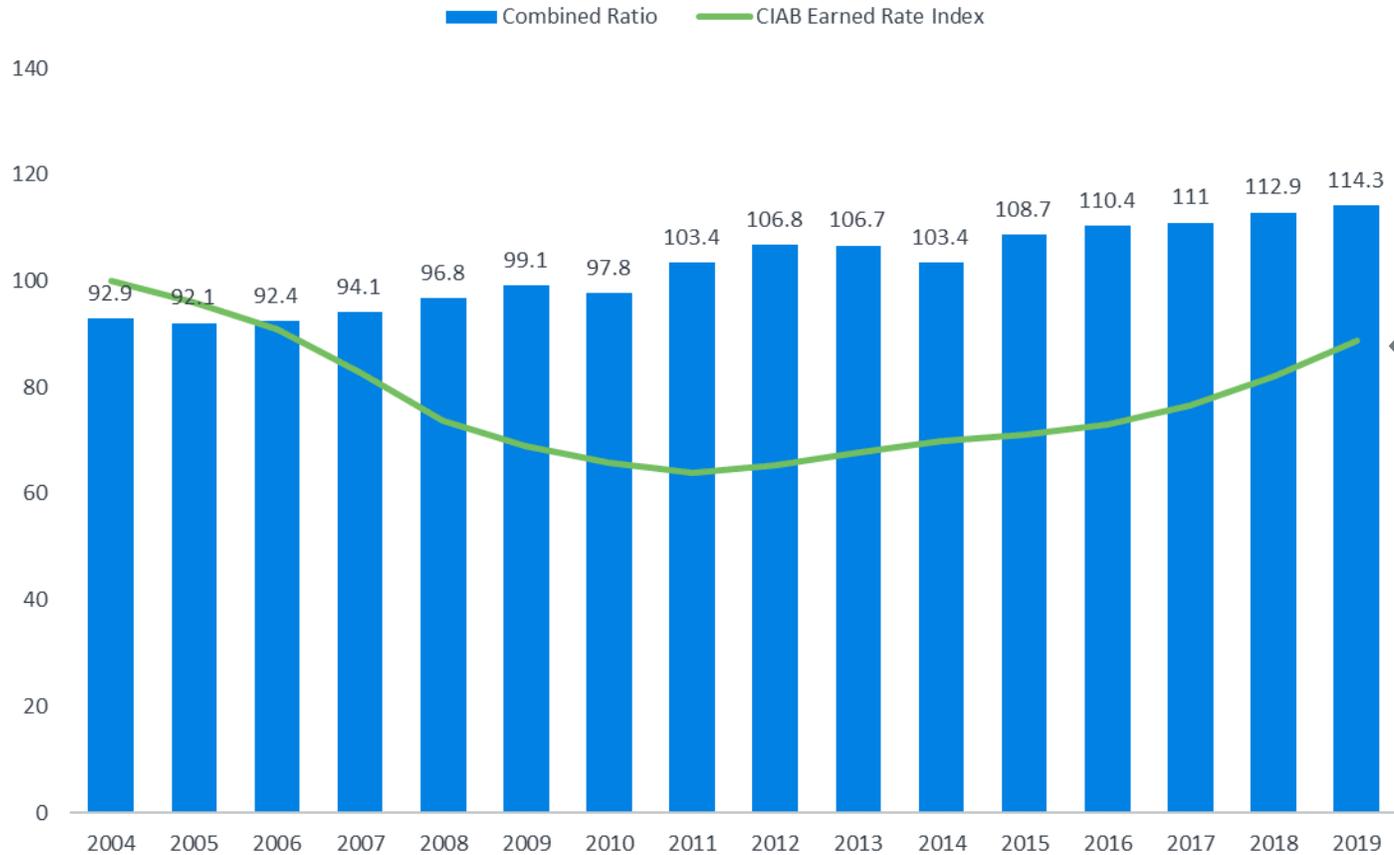
Peggy Brinkmann
FCAS, MAAA
Principal and
Consulting Actuary

Current state

How did we get here?

Navigating through the rearview mirror

Rates not keeping up with changes in exposure and behavior

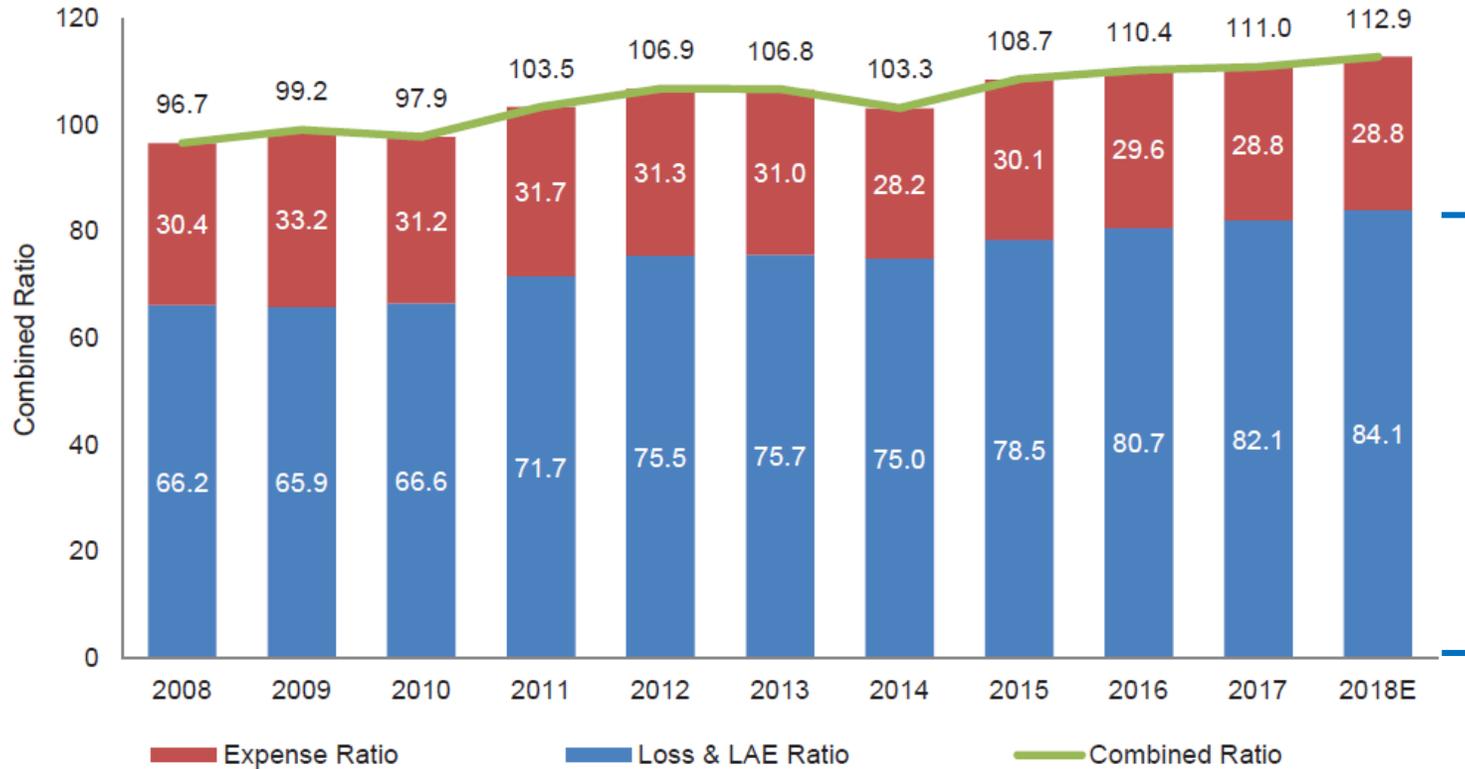


Source: AM Best, CIAB Market survey

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

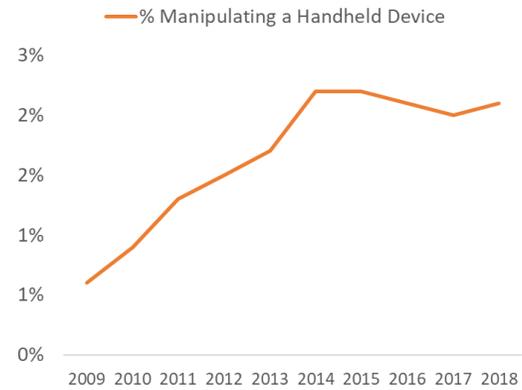


Loss ratio is the culprit

Source: AM Best

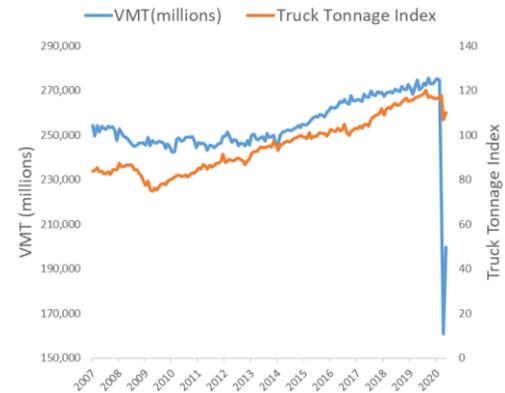
Trends vary by market

Distracted Driving



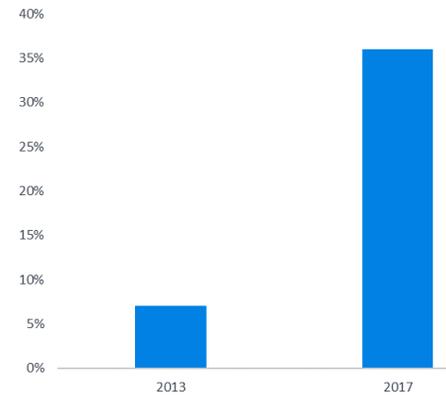
Source: NHTSA

Miles Driven



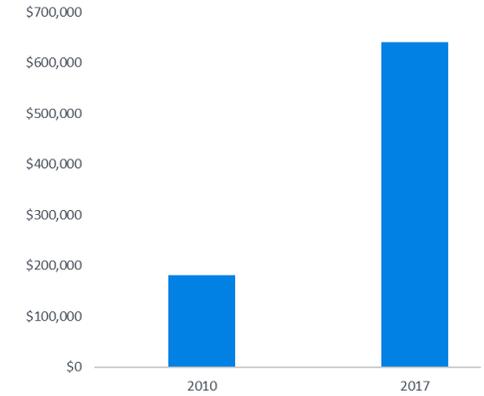
Source: Federal Reserve Economic Data

U.S. law firms using litigation finance



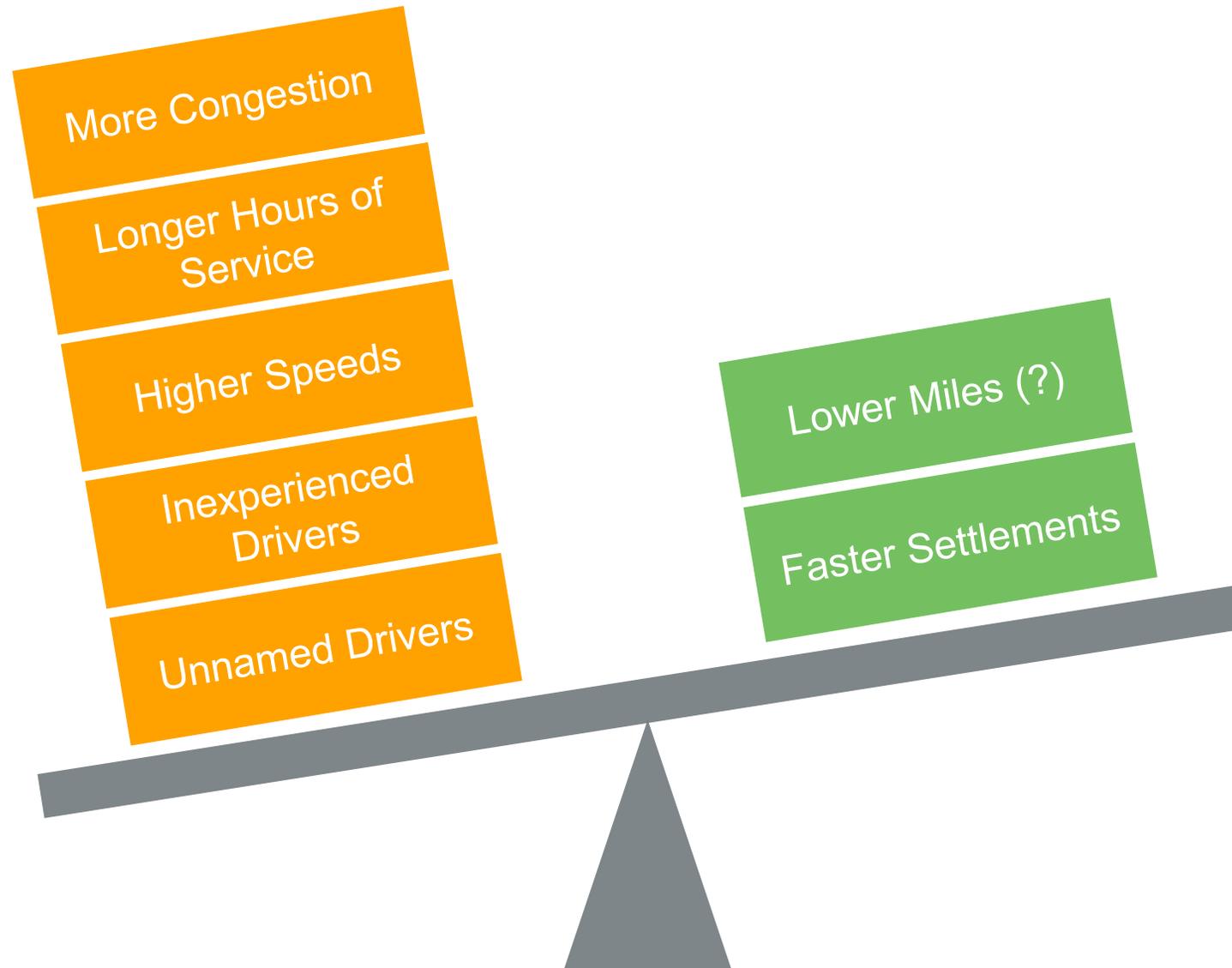
Source: Burford Capital

Average jury verdict



Source: III

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



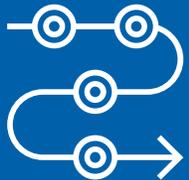
How telematics addresses your business model

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.

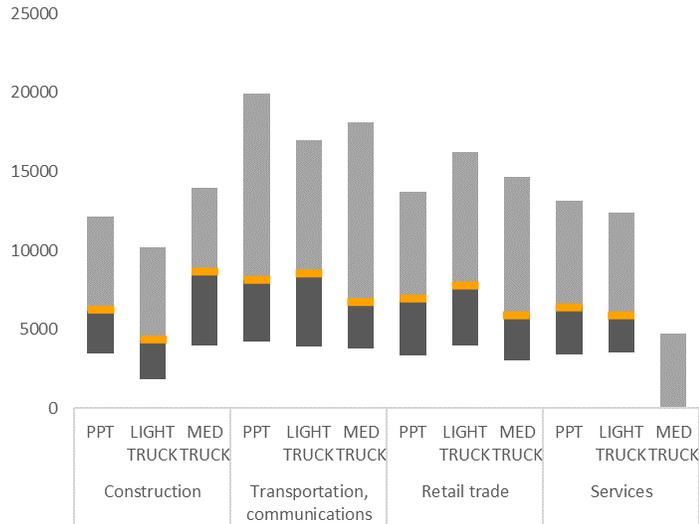


Reacts to exposure and behavioral shifts immediately and automatically

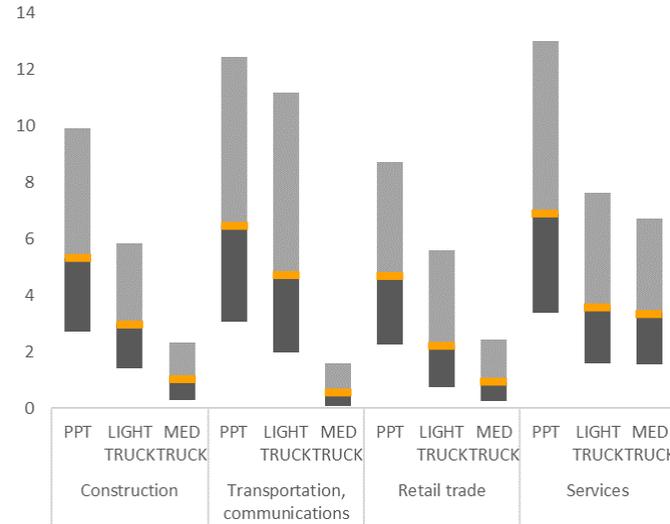
- Not paying for insurance when fleets are parked and not in use.
- Ability to control premium costs.

Increase pricing segmentation

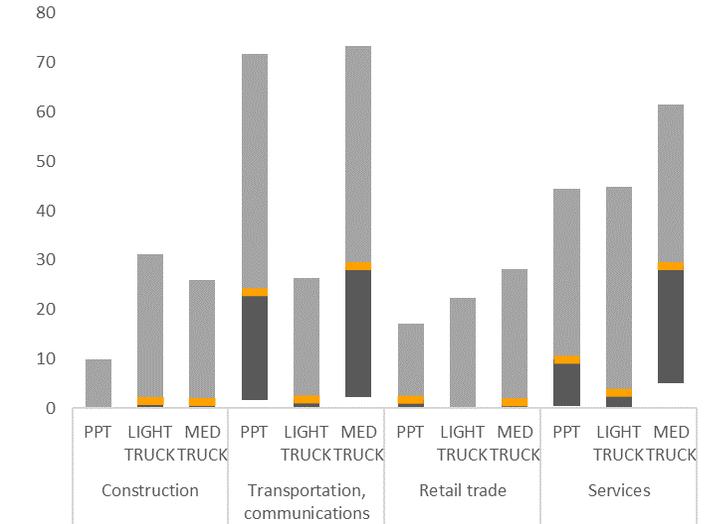
Distance Traveled



Hard Braking



Speeding Events

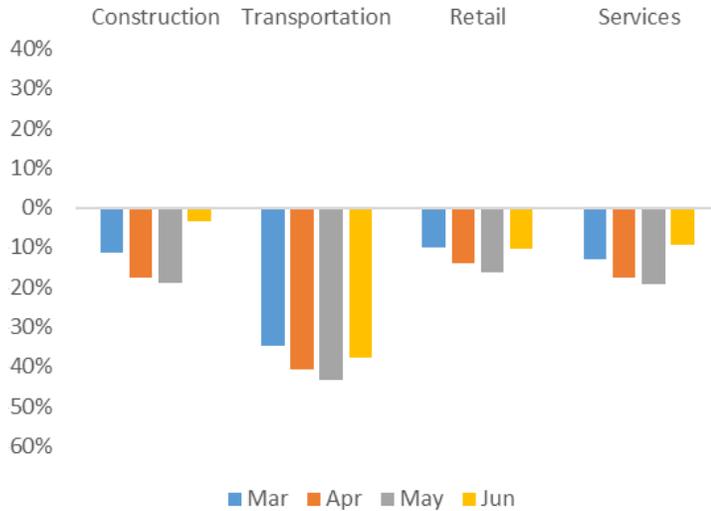


- Exposure and driving behavior vary widely by industry and vehicle type.
- But there is greater variation to be recognized within industry and vehicle type.

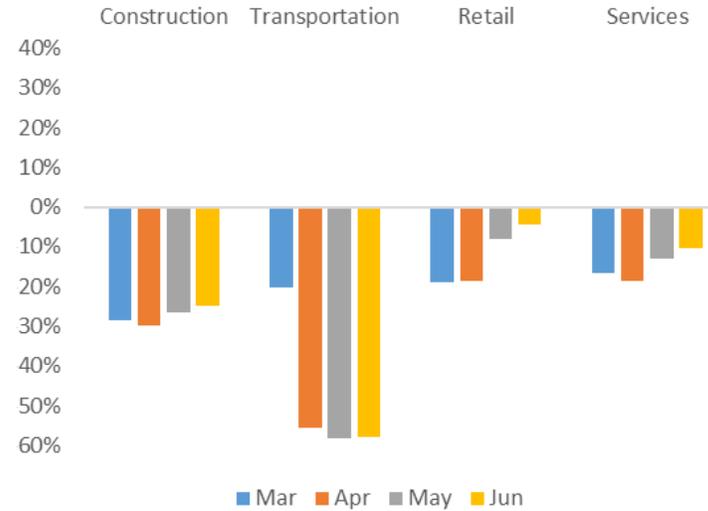
Source: Azuga

React to wide range of exposure and behavioral shifts

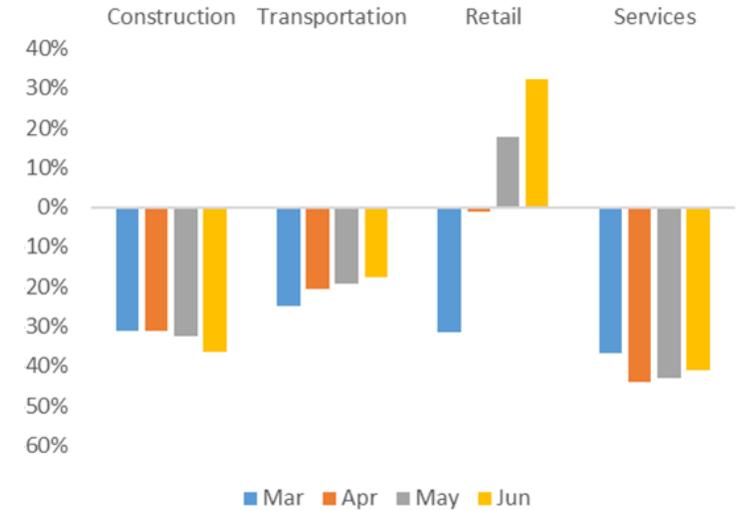
Distance Traveled



Hard Braking



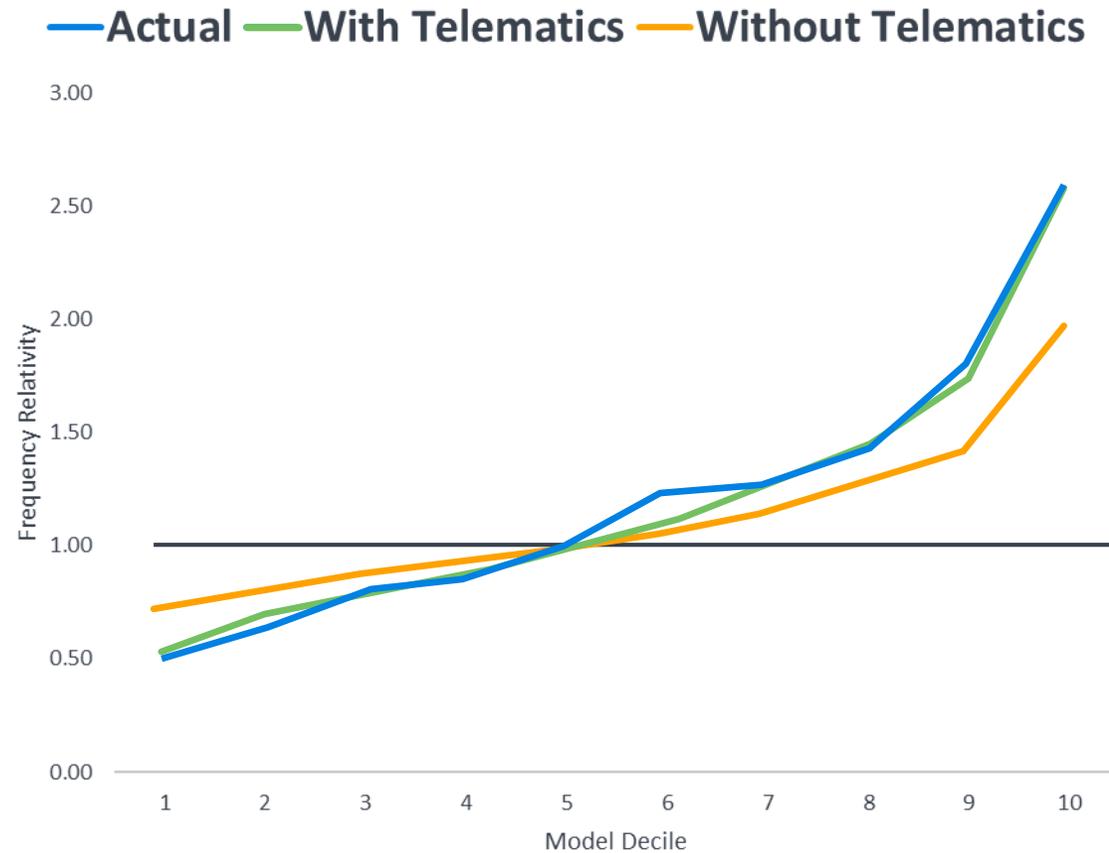
Speeding Events



- 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.



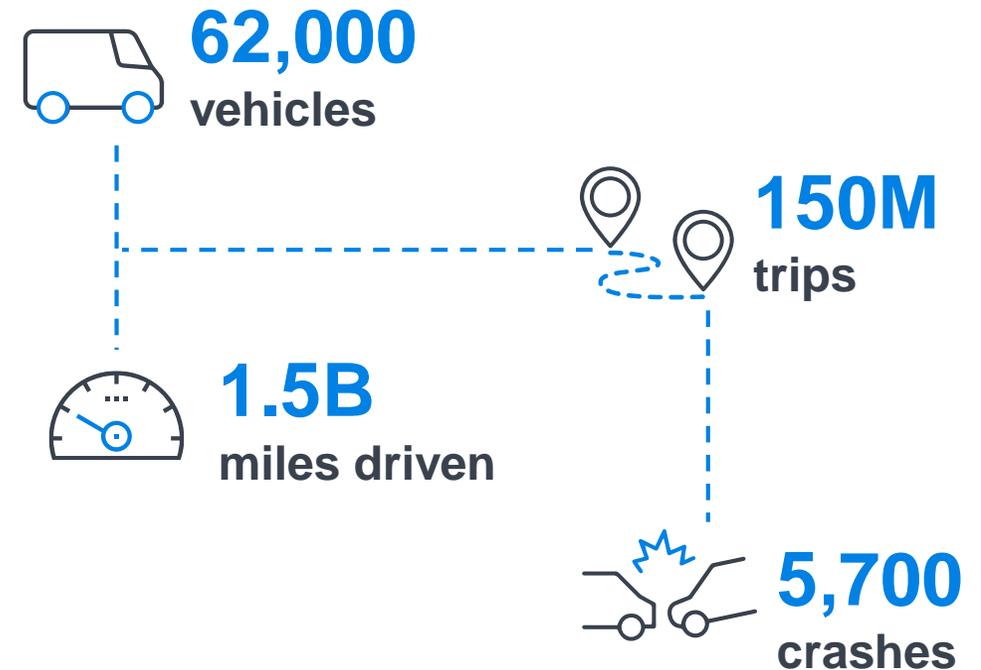
Regulatory challenges

- 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

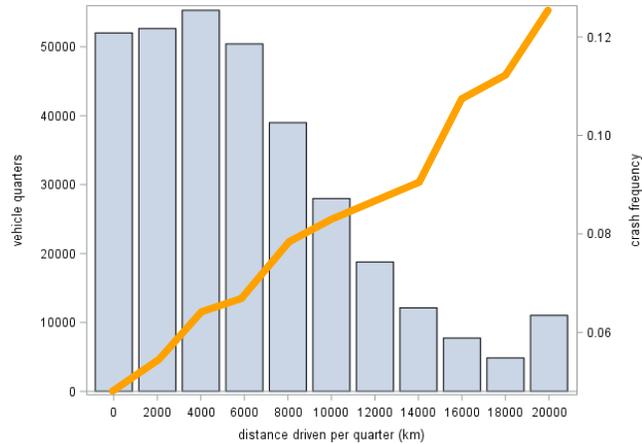
- AccuRate Fleet is a **risk score** relating driving behavior to the likelihood of a crash, developed by Milliman actuaries and data scientists.
- Developed from telematics data from commercial vehicles provided by **Azuga**.
- **Pre-approved by regulators** through advisory organization, Milliman Appleseed.



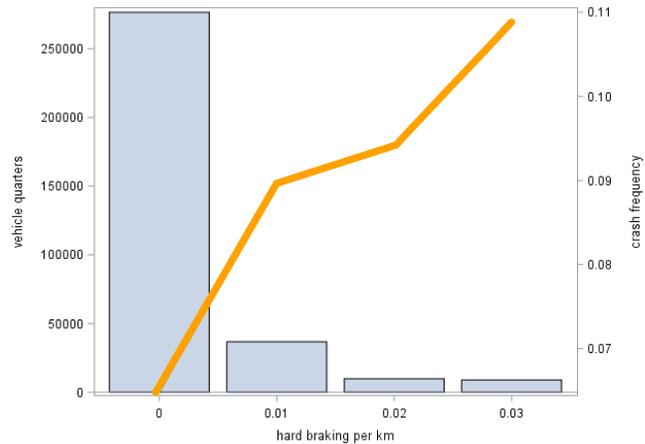
Source: Azuga sample data

Components of a telematic score have strong correlation with crashes

Distance Traveled

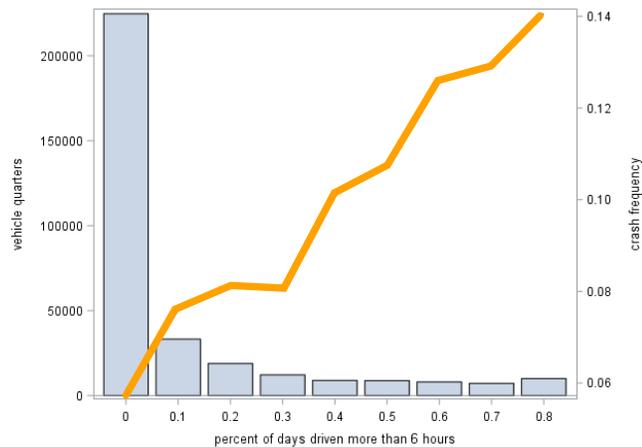


Hard Braking

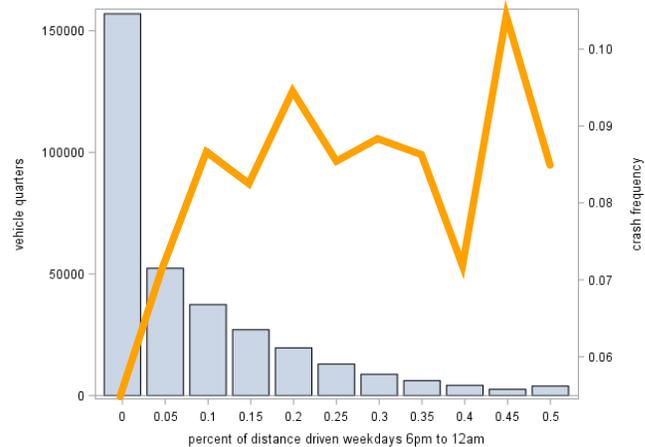


Vehicle quarters
 Crash frequency

Driver Fatigue

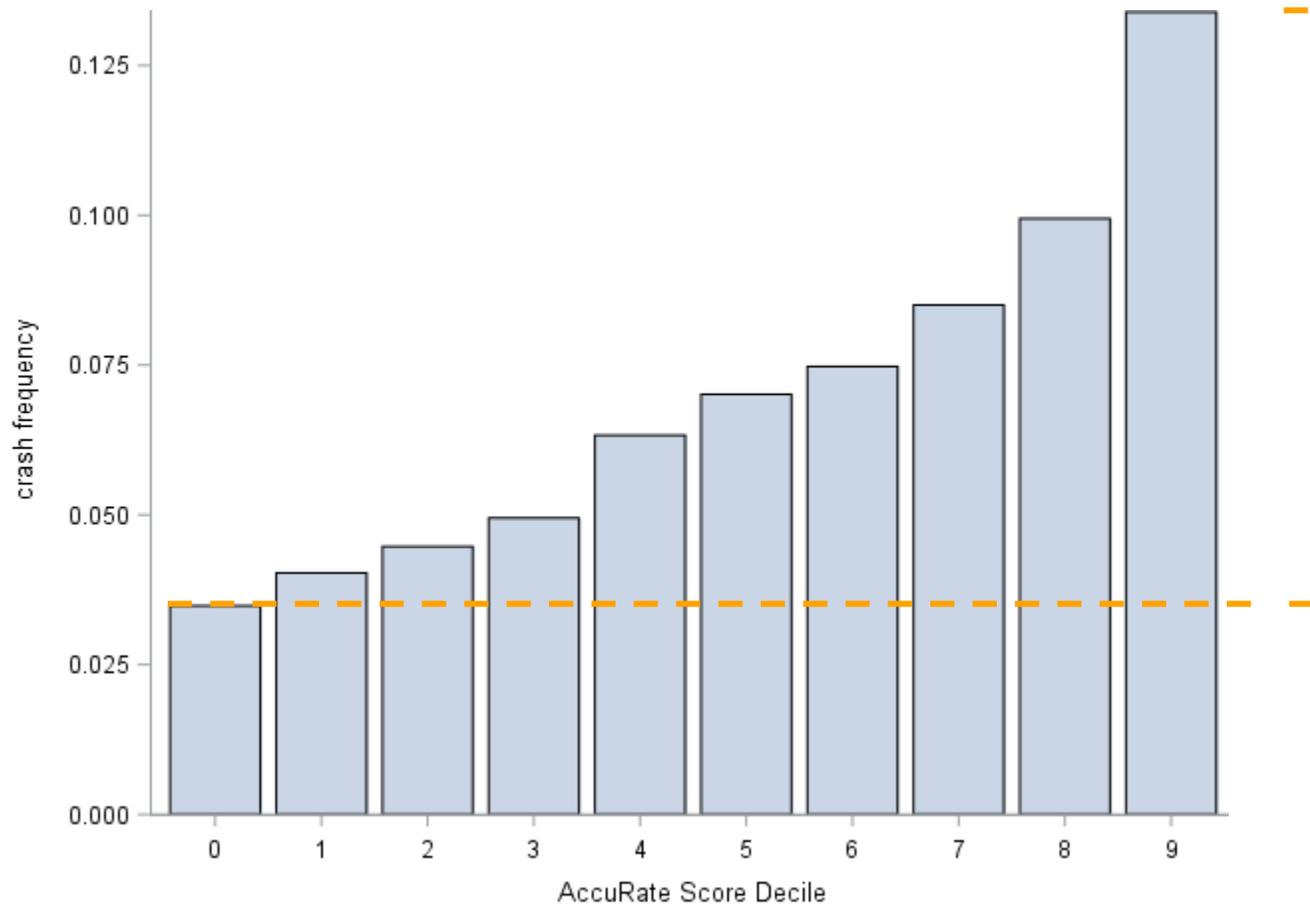


Time of Day



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**.

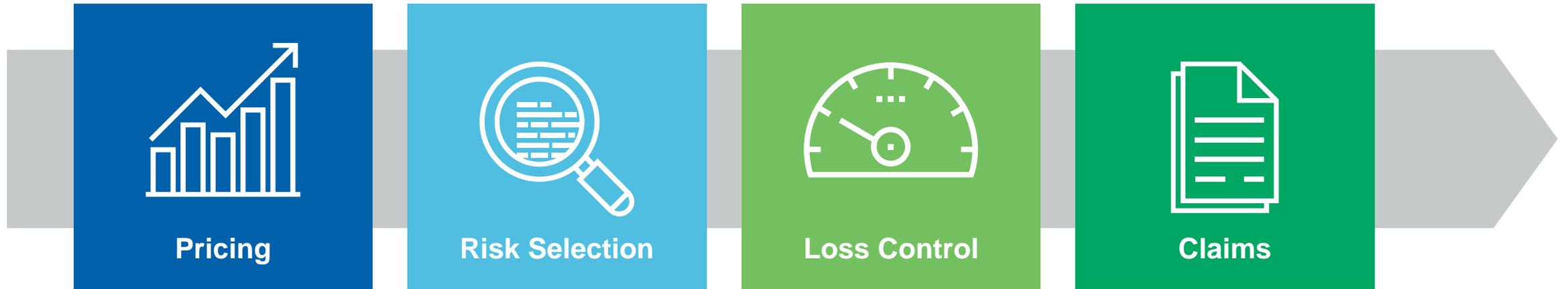
Tailored

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

Path to overall fleet profitability

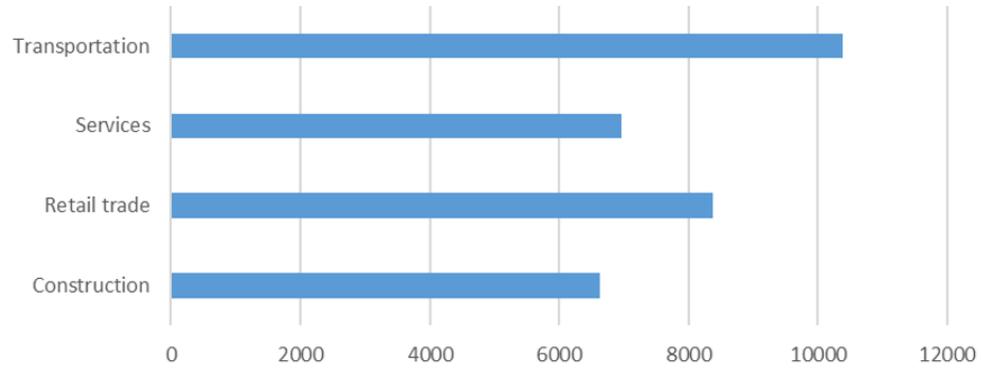
How telematics can help across the value chain

Telematics improves multiple core processes

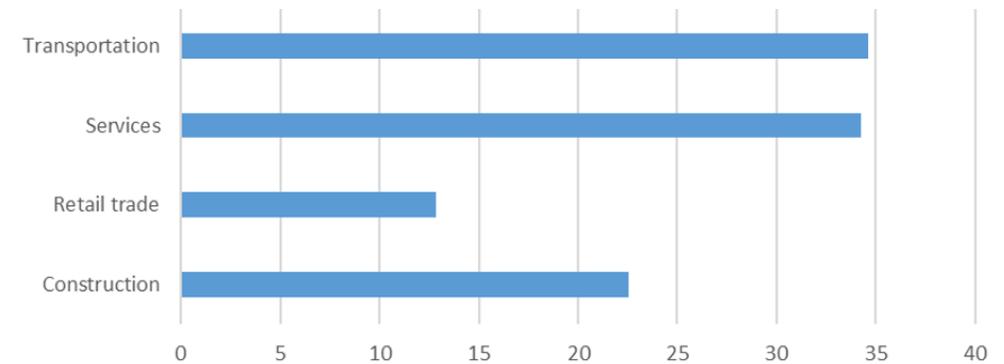


Risk selection with telematics

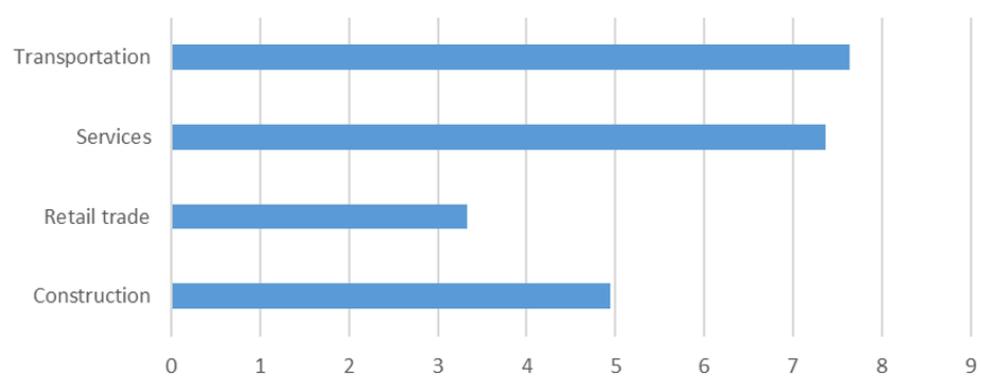
Distance



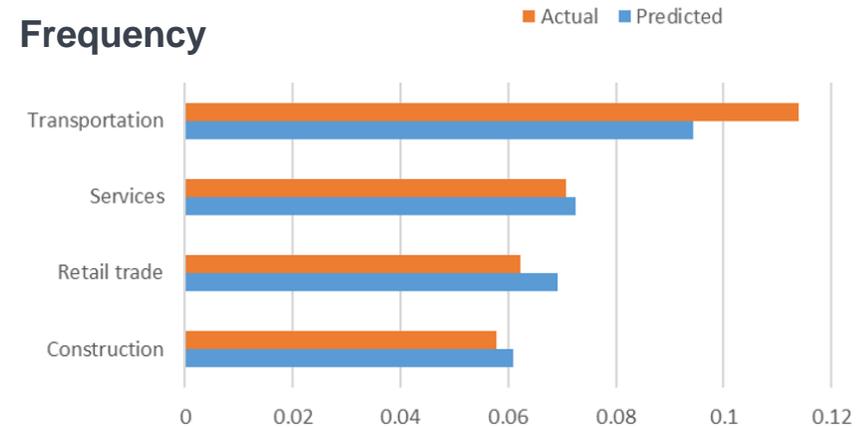
Speeding



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

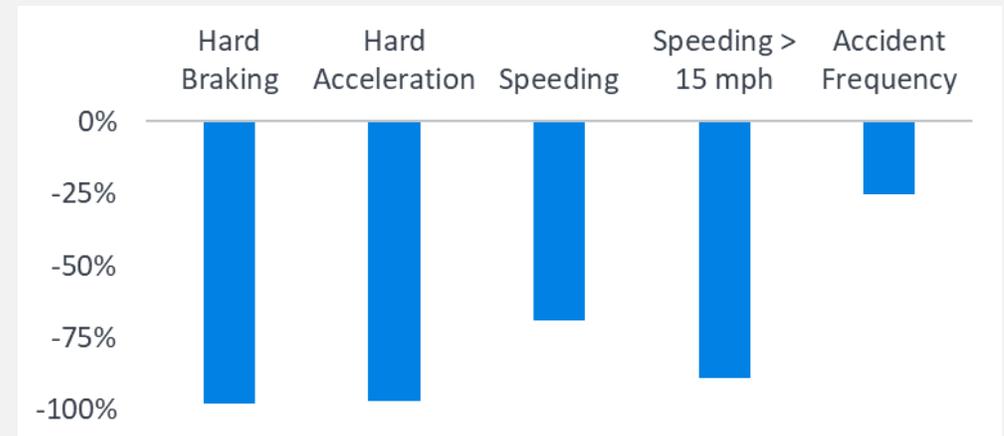
Telematics	Liability	Medical Payments	Other than Collision	Collision
No	1.00	1.00	1.00	1.00
Yes	1.00	1.00	1.00	1.00

PARTNERSHIP

Engage fleet with interactive risk reduction program.

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

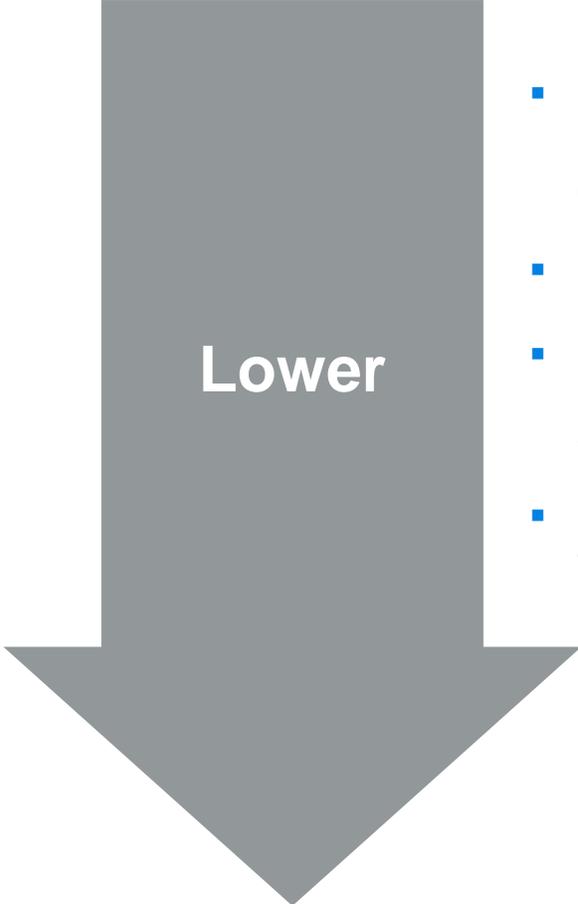
RESULT: 20-40% reduction in frequency



Source: Azuga

Claims with telematics

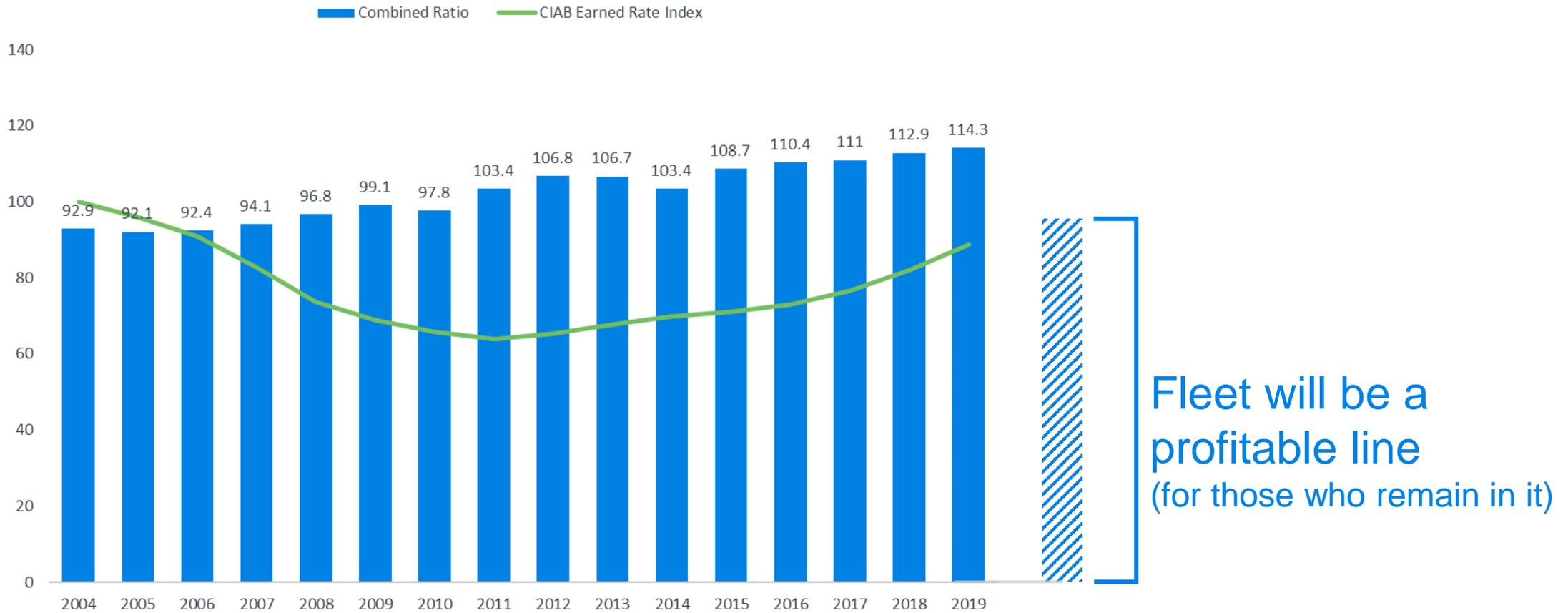
Milliman claims consulting client case study



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



Q&A

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

James Barber | james.barber@milliman.com

Peggy Brinkmann | peggy.brinkmann@milliman.com

Data reliance and limitations

- The views expressed in this presentation are personal to the presenter, and not the views of Milliman, Inc., or any of its global subsidiaries.
- Your results will vary based on your portfolio



Thank you