

In Support of PCI Amendment to HB 78

Usage-Based Insurance (UBI): An accurate, common sense rating alternative that benefits insurance consumers.

About UBI:

- Usage-Based Insurance (UBI) programs are optional products offered by many insurers to consumers in all 50 states today. A telematics device installed in a program participant's car measures specific (not all) driving activity, and combines the data to establish a UBI score.
- Progressive's Snapshot program measures just three behaviors: hard braking, late-night driving (soon to be weekend-night driving) and total miles driven. That information is automatically downloaded, by prior agreement with our customer, to Progressive.
- Snapshot does **NOT** gather data about locations driven, passengers in the car, whether or not the driver is smoking or using a mobile phone, etc.
- UBI is **by far** the most predictive rating approach in use today - and is more equitable than other currently state-approved measures used in insurance rating (e.g., credit history, zip code, age, historic driving record).
- UBI is more intuitive than other rating variables. Customers understand that hard braking, late night driving, and lots of miles increase the risk of an accident. Many consumers avoid these behaviors and want to be rewarded for their lower risk profile.
- Data gathered over more than **10 billion driving miles** shows that 7 out of 10 drivers can earn a lower insurance rate as a result of participating in a UBI program. For 3 out 10 drivers who demonstrate risky driving behavior, a higher rate may be justified - so that low-risk drivers are not paying higher rates to subsidize higher-risk drivers.

HB 78 could interfere with consumer choice.

- On average, approximately 80 percent of drivers earn a discount of between 1% and 20% at renewal based on data gathered during their participation in a UBI program.
- On average, approximately 20 percent of drivers earn a rate surcharge of up to 10% at renewal based on data gathered during their participation in a UBI program.
- Many insurers will surely continue to offer UBI programs in Montana if HB 78 is enacted as-is. But it will limit consumer choice by restricting the types of products and the size of discounts that will be available. And without the ability to accurately rate higher-risk drivers, lower-risk drivers will pay more for insurance when enrolled in UBI programs.

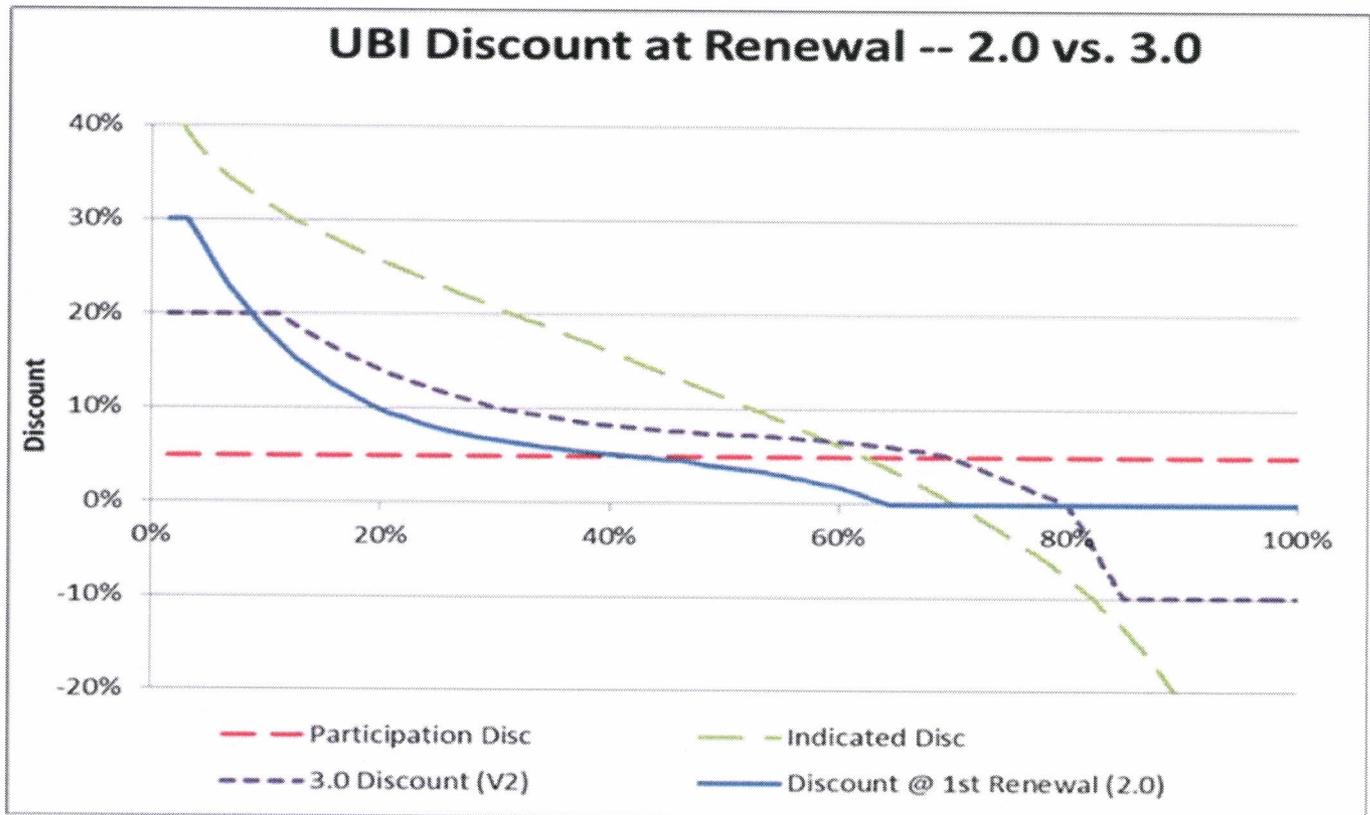
The proposed solution: Let informed consumers choose.

- HB 78 is broadly interpreted as a measure to protect consumer information. It defines telematics devices and declares that the data gathered by and stored on these devices belongs to the consumer. **We do not oppose these provisions.**
- But under **Sec. 3(3)**, information gathered from a telematics device cannot be reflected in the driver's insurance rate, unless the data is used to provide a discount or otherwise reduce the driver's rates.
- We want drivers to know what they are signing up for. And we want this accurate, fair tool that tells insurers what kind of driver we are insuring - **by measuring their actual driving habits** - to be used accurately and fairly for all participating drivers.
- The Committee has before it an amendment that reflects these goals. It makes only ONE change in the bill, as explained here:
 - o **Current effect:** An insurer that offers a voluntary UBI program to consumers and uses the data gathered by a telematics device to provide a discount or other favorable treatment to the participant - but not to surcharge, increase rates or otherwise adversely impact the participant's rates - will be exempt from any requirement that the insurer's telematics agreement be reviewed and approved by CSI in advance.
 - o **Added effect:** An insurer that offers a voluntary UBI program to consumers and uses the data gathered by a telematics device to provide a discount or other favorable treatment to the participant – but also informs the participant that the information gathered by the telematics device may result in a rate surcharge or increase – must submit the insurer's telematics agreement to be reviewed and approved by CSI in advance.

We urge legislators to adopt this change, to protect consumer choice in auto insurance products and allow insurers to measure risk and set rates accurately. Please support the proposed insurance amendment to HB 78.

An example of UBI performance, discount-only vs. discount/surcharge

- A leading company recently saw its agency customer acceptance of UBI increase more than 100% when it moved to a UBI model that provided discounts for participants whose data demonstrated lower risk, but also allowed surcharges for drivers whose data demonstrated riskier driving behavior.
- The chart below shows the indicated discount (green dashed line). About 3 of 10 drivers deserve a surcharge (about 2 in 10 deserve a 10% or greater surcharge). The purple dashed line is how one carrier structured its program's renewal discount/surcharge model. The blue solid line shows the performance of a discount-only model.
- Fewer drivers earn a discount in the discount-only model, because more lower-risk drivers are subsidizing higher-risk drivers.



Common Questions About Usage-Based Insurance (UBI) Products/Programs

- *Sometimes I have to brake for deer/wildlife in my rural area. Will that spike my score?*

We get it – sometimes you have to stop fast. Hard brakes are measured as part of the driver's UBI score. However, everyone has an occasion to brake hard because traffic lights change as you approach them, animals run out in front of the car, etc. Isolated hard braking events are expected. But it is fair to say that regular and frequent hard braking as a trend suggests higher-risk driving behaviors (excessive speed, inattentive driving) that will be measured and could have an impact. Drivers in rural areas may have less of these due to less congested roadways.

- *I don't have great cell coverage in my area. Can I still participate?*

No reception? No problem. The telematics device you agree to install in your car when you join Progressive's Snapshot program will store information and send it to Progressive when it enters a good cell area. This is a regular occurrence in areas like ND, SD, WY, etc. It is becoming less of an issue though because cellular coverage areas continue to improve.

- *Some drivers have to travel long distances or late at night regularly. Does usage-based insurance unfairly penalize long-distance or nighttime drivers?*

Drive time is only part of the picture. Night driving – particularly weekend nights - is more risky than daylight driving because visibility is decreased and there are likely to be more risky drivers (tired/intoxicated) on the road. Progressive's Snapshot (UBI product) looks at three different factors – hard braking, time of day and mileage. Measuring a blend of factors means a safe driver should not be adversely affected by late night or long distance driving. (Driving late at night will only be considered "high risk" on weekends with Progressive's new algorithm.) And typically, only the very-lowest mileage drivers see much difference in their UBI score – which only makes sense, because low vehicle miles traveled reduces exposure to accidents.

- *Many insurers consider consumer credit scores in their underwriting/rating. How does a consumer's credit impact Snapshot scoring?*

Driving data is the most accurate predictor of driving behavior. Usage-based insurance products like Snapshot show great promise for most drivers, but especially for drivers whose credit history is preventing them from receiving the lowest insurance rates. Because of the proven correlation between credit history and risk of claims activity, traditional credit-based products can prevent some insureds from getting lower rates. By participating in Snapshot, customers can show that their driving habits are better than their credit information can predict – and reduce their insurance rates. Two drivers with identical Snapshot UBI scores will likely see lower rates – but the driver with a less impressive credit score will save even more using UBI data.