

2. (2 points)

a. (1 point)

Provide one argument for and one argument against the claim that telematics-supported usage-based insurance (UBI) will increase the availability and/or affordability of personal automobile insurance.

b. (1 point)

Identify four driving behaviors that may result in a higher premium in a rating program that uses UBI.

Common errors in this section included:

- Using credit scores to accept or deny applicants. This is not a regulator action.
- Stating that insurers can charge a fine for using credit scores
- Stating that the prior approval process can be used
- Stating that proxy variables can be used

QUESTION 2

TOTAL POINT VALUE: 2

LEARNING OBJECTIVE: A1

SAMPLE ANSWERS

Part a: 1 point

Reasons For

- Since UBI allows the insurer to price premiums more accurately, insurer will be willing to write more insurance and take more risk. This increases the availability of insurance.
- Because insureds can lower their premium by driving less, insurance will become more affordable and they will be able to purchase it.
- It will make pricing more accurate for insurers which allows them to apply more correct rates which will make them financially strong. This will increase competition and cause premium to go down for many insureds (those who are saver than average drivers).
- Younger drivers will be able to receive feedback to improve their driving and reduce their premiums. This will increase affordability for a higher risk driver.
- Drivers have control over the frequency of driving. They can choose to drive less miles which should translate directly to a realized reduction in premium. This improves affordability of personal auto insurance.
- Drivers can choose where and how often they drive. They are more conscious about driving too much and will save money by driving less.

Reasons Against

- Insured will not be able to afford telematics device installation and will choose not to purchase insurance
- It may require policyholders to have a newer car or a smart phone, thus those of lower-income will not benefit from greater affordability of personal auto insurance.
- UBI requires companies to invest in expensive equipment so this cost will eventually pass down to the customers which makes total insurance go up. Insurance is now less affordable.)
- The use of telematics could unfairly penalize insureds in low income/urban areas, because of more dangerous locations and driving times. This could make insurance unaffordable to them
- The drivers who drive more will not see more affordable premiums because their rates won't be subsidized by drives who drive less.

Part b: 1 point

Any 4 of the following:

- Driving at night, time of day the driving happens, or Driving during high traffic hours
- Speeding

- Hard braking or sudden braking
- High number of mileage, long commutes
- high number of trips
- Rapid acceleration
- Making sharp turns, accelerated turns, or hard cornering
- Making more left turns than right turns or vice versa
- Swerving
- Driving location
- Using cell phone when driving, texting while driving, or using a hands free device.
- Driving in cities or urban areas, driving in high risk areas i.e. urban or theft-prone areas;

EXAMINER'S REPORT

Candidates were expected to understand how telematics-supported usage-based insurance functioned and the regulatory implications of this system

Part a

Candidates were expected to understand how telematics could increase the availability and/or affordability of personal auto insurance.

Common errors in providing an argument for increasing the availability or affordability included:

- Not linking cause (telematics) to effect (affordability). For example "Better risks gets lower premium" does not describe how telematics will identify better risks
- Telematics will make the rates more actuarially sound
- Arguments that addressed availability of Telematics itself but not availability of Personal Auto Insurance as a whole.
- Good drivers would no longer be subsidizing the bad ones.

A common error in providing an argument against the thought that telematics would increase the availability or affordability of insurance

- The implementation of the device is voluntary. Aggressive drivers will not be willing to install the device. It will not increase the availability as it will appear that all drivers are "good".

Part b

The candidates were expected to be able to identify driving behaviors that might result in a higher premium for the use of telematic-supported UBI

A common error was to use slightly different wording to describe similar behaviors and present them as two separate answers. For example:

- Miles driven AND time spent driving
- Driving in dense urban areas AND driving in high frequency areas
- Time of day AND driving during high congestion times

Another common error was to list behavior already reflected in rating or behavior that cannot be measured by telematics:

- Frequent accidents (that is already in the rate)
- Garaging location of vehicle (already in the rates)

- Driving under the influence (UBI can't detect this)
- High number of speeding tickets (already in rates and UBI can't detect this)
- Different drivers -i.e. Parents and several of their children. (UBI can't detect this)
- Driving carelessly (UBI can't detect careless driving in and of itself; a specific behavior needs to be exhibited in order for it to be detected)

Another common error was listing behavior that is related to UBI rating factors but is really a measure of miles driven, not risky behavior

- Lots of braking activity (it is quick and sudden braking that leads to higher premium, not frequency of using brakes)
- Frequency of lane changes (UBI might detect swerving at high speeds or sudden braking or acceleration, but normal lane changes are not a risk factor)

QUESTION 3

TOTAL POINT VALUE: 2

LEARNING OBJECTIVES: A2, A3

SAMPLE ANSWERS

Part a: 1 point

Identify any two of the following and provide a brief description for each.

Sample answers for Duplication

- Multiple states review the same insurer which minimizes the risk of not catching errors
- Both domiciliary state regulators and other state regulators that an insurer operates in will review financials of insurer to reduce regulator fallibility, or human error.
- Other states' regulators might catch insurers acting in concert or a mistake due to human error previously missed due to their authority to review & license any insurer conducting business in their state.

Sample answers for Peer Review

- Organizations like NAIC constantly review regulators' work to ensure no errors are made.
- The NAIC FAD helps the regulator to identify the potential financial-issued insurer.
- The NAIC's FAD performs continuous financial monitoring on significant insurers, and the NAIC accreditation process ensures that states regulatory system meets standards.

Sample answers for Peer Pressure

- If one state finds a company in need of additional scrutiny or other action, it will motivate other states to do the same. This prevents regulatory inaction.
- Non-domiciliary DOI's can pressure the domiciliary DOI to take action if necessary. This helps to eliminate regulatory forbearance.

Sample answers for Diversity of Perspective

- Influence from a multitude of state regulators allows for centrist solutions to regulation, as opposed to extreme views of over- or under-regulation.
- Having to have many state regulators compromise on solutions reduces the chance of regulatory capture and also results in less extreme outcomes.