

EXAM 6 – UNITED STATES, SPRING 2019

1. (2.5 points)

a. (1 point)

Identify four potential societal benefits of usage-based insurance.

b. (1.5 points)

Describe three concerns regulators might have with usage-based insurance.

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## SAMPLE ANSWERS AND EXAMINER'S REPORT

<b>SPRING 2019 EXAM 6US, QUESTION 1</b>	
<b>TOTAL POINT VALUE: 2.5</b>	<b>LEARNING OBJECTIVE: A1</b>
<b>SAMPLE ANSWERS</b>	
<b>Part a: 1 point</b>	
Any four of the following: <ul style="list-style-type: none"><li>• Less traffic congestion</li><li>• Lower infrastructure costs</li><li>• Less pollution or reduced emissions from driving less</li><li>• Safer driving or less accidents</li><li>• More insured drivers or less uninsured drivers</li><li>• Lower insurance premiums</li><li>• Overall decreased costs to policyholders which benefits society in general</li><li>• Non rating variables get less weight (age, sex, credit score)</li><li>• More socially equitable premium</li><li>• Reduce the subsidy between low and high mileage drivers</li><li>• Can eliminate subsidies between drivers</li><li>• Improve rate equity / less subsidization</li><li>• It could allow insureds such as lower income, young, seniors, or urban residents who typically drive less miles to be charged less, lowering income inequality</li><li>• Better tracking stolen vehicles</li><li>• Easier recovery in cases of car theft</li><li>• Enhanced claim experience, data and details about the accident are available</li><li>• Better claims handling</li><li>• Faster settlement of claims</li><li>• Devices may help prevent fraud</li><li>• Mitigate the risky behaviors of young drivers by educating them</li><li>• GPS technology in some telematics devices helps emergency vehicles locate vehicles in trouble</li><li>• Quicker emergency response to accidents</li></ul>	
<b>Part b: 1.5 points</b>	
Any three of the following: <ul style="list-style-type: none"><li>• Data privacy of the insured, how it's collected, stored, reported and possibly shared or sold</li><li>• Privacy of data issue, concern that insurer uses UBI data only when beneficial to insurer</li><li>• Concern about data ownership and consumer privacy of data - who owns the data and how do the insurers use it</li><li>• Concerns of data security and breaching/hacking of personal data, insurer may also share data with third party that misuses data</li><li>• Costs of UBI devices/large data sets may be passed on to consumers in the form of higher premiums</li><li>• The black box rating algorithm is not easy to regulate and verify</li><li>• Will the rating be another black box? Insured cannot understand directly how their data and driving is impacting their premium</li></ul>	

## SAMPLE ANSWERS AND EXAMINER'S REPORT

- Unfairly discriminatory against protected classes that might live in urban areas and drive in risky/far areas for work at night
- Discrimination against low income insureds that operate old cars that can't use device or can't afford a device
- High cost of technology may reduce competition among insurers and drive smaller companies out of business
- Consistency in how data is gathered, especially if insureds have cars requiring different devices

### EXAMINER'S REPORT

Candidates were expected to understand usage-based insurance telematics and the regulatory implications. For usage-based insurance the candidate should be able to demonstrate knowledge regarding societal benefits by providing a list and regulator concerns with some description.

#### Part a

Candidates were expected to list 4 potential societal benefits of usage-based insurance (UBI).

Common mistakes included:

- Giving answers that were individual not societal benefits.
  - Encourages drivers to drive less. This by itself is not a societal benefit. The societal benefits are achieved because of driving less, such as reducing accidents.
  - Parents are better able to monitor their child's driving behavior. The societal benefit is the youth's safer driving and potentially due to educational benefits that UBI provides. Just monitoring is not the benefit.
  - The price will be more actuarially fair.
- Insurers less likely to go insolvent. This may be a benefit to society but not necessarily an outcome of UBI.
- Giving an answer that was a result of UBI and created a societal benefit but was not itself a societal benefit.
  - Less fuel used or less miles driven. These lead to less accidents or less pollution or for less fuel used improved national security due to less reliance on foreign oil.

#### Part b

Candidates were expected to describe three unique areas where regulators may have concerns regarding usage-based insurance (UBI).

Common mistakes include:

- Responses regarding general regulator concerns without tying it back to UBI, such as just stating "actuarially sound rates".
- Candidates also did not receive credit for describing what UBI is, such as rates differing based on mileage driven; this does not describe a concern that a regulator may have.