

EXAM 6 – UNITED STATES, FALL 2019

1. (2.25 points)

For telematics-supported Usage-Based Insurance (UBI) programs in personal lines auto insurance:

a. (0.75 point)

Briefly describe a potential benefit for:

- i. The insurer**
- ii. The consumer**
- iii. Society**

b. (1 point)

Describe two concerns a consumer advocate might have about the application of UBI data.

c. (0.5 point)

Briefly describe one benefit and one drawback of using smartphones to gather UBI data.

SAMPLE ANSWERS AND EXAMINER'S REPORT

FALL 2019 EXAM 6U, QUESTION 1	
TOTAL POINT VALUE: 2.25	LEARNING OBJECTIVE: A1
SAMPLE ANSWERS	
Part a: 0.75 point	
Candidates must provide one answer from <u>each</u> list.	
<i><u>Sample Responses for Insurer Benefits:</u></i>	
<ul style="list-style-type: none">• Better segmentation• More granular data• Reduce claim costs• More efficient claim handling• More accurate data• Product differentiation• Improved brand awareness• More accurate pricing allows the insurer to grow• Improved retention of best risks• Improved profitability• Better communication channels with insured• Reduce moral hazard• Competitive advantage• Attract better customers• Quick access to more data for pricing and claim adjusting• New revenue stream from UBI program• Improve customer's driving habits	
<i><u>Sample Responses for Insured Benefits</u></i>	
<ul style="list-style-type: none">• Lower rates• More control over insurance rate• Feedback on driving habits• Rates are more fair• Reward better driving habits• Better driving habits• Premium reflects driving habits• Rates more affordable• Insurance more available• Better/faster claims processing• Ancillary functions, such as finding a stolen car using GPS• Better response time in accident• Enhanced safety• Insured pays premium based upon usage• Non-driving variables get less weight (age, sex, credit score)• More communication with insurer	
<i><u>Sample Responses for Societal Benefits</u></i>	

SAMPLE ANSWERS AND EXAMINER'S REPORT

- Less traffic congestion
- Lower infrastructure costs
- Less pollution or reduced emissions from driving less
- Safer driving or less accidents
- More insured drivers or less uninsured drivers
- Lower insurance premiums
- Overall decreased costs to policyholders which benefits society in general
- Non-driving variables get less weight (age, sex, credit score)
- More socially equitable premium
- Reduce the subsidy between low and high mileage drivers
- Can eliminate subsidies between drivers
- Improve rate equity / less subsidization
- It could allow insureds who typically drive less miles to be charged less, lowering income inequality (such as lower income, young, seniors, or urban residents).
- Better tracking stolen vehicles
- Enhanced claim experience, data and details about the accident are available
- Faster settlement of claims
- Devices may help prevent fraud
- Mitigate the risky behaviors of young drivers by educating them
- GPS technology in some telematics devices helps emergency response locate vehicles in trouble
- Expand availability of affordable insurance
- Easier recovery in cases of car theft
- Better claims handling
- Quicker emergency response to accidents

Part b: 1 point

Sample Responses - Any two of the following:

- There may be a disproportionate impact for low income individuals who cannot afford usage-based insurance (UBI) devices.
- Penalizing drivers for where and when they drive as a function of work and housing segregation.
- Black box model that consumers don't understand
- Failure to achieve meaningful loss mitigation because of a black box approach by insurers of collecting data for rating.
- Limited regulatory intervention due to black box model
- Data privacy concerns (one of the following):
 - There are data privacy concerns if the insurer does not use UBI data solely for loss mitigation and pricing.
 - Data privacy concerns – the insurer may sell the private data to a 3rd party
 - Data privacy concerns – how will the insurer prevent misuse of the private data?
- The insurer might only use the UBI data to benefits themselves, and not when it would be to the benefit of the insured.

SAMPLE ANSWERS AND EXAMINER'S REPORT

- UBI devices are expensive, and that cost may be passed onto consumers through higher premiums.
- UBI data is not consistently formatted between companies and an insured may not be able to transfer their specific data when they move companies.
- There is a lack of regulation for UBI models and insurers might take advantage of this.
- Consumer may be concerned about the collection of accurate data and how inaccuracies could impact their premium.

Part c: 0.5 point

Candidates must provide one advantage and one disadvantage:

Sample Responses for Advantages:

- Most people have smartphones
- Cheaper cost to insurer
- Large data storage capacity
- Easy to install/get access
- Minimal installation costs to consumer
- Phone has all the needed sensors already
- Smartphone can do some data processing
- Compatible with any vehicle
- Superior communication abilities
- Able to monitor distracted driving
- Phone is portable
- User acceptance
- Insurer has more opportunities to interact with the insured through their phone and this may increase retention.
- Updatable software

Sample Responses for Disadvantages:

- Data quality could be poor OR less reliable OR not as accurate
- Accelerator/GPS/other sensors may not be calibrated
- Not everyone has a smartphone
- Insured might not bring phone OR phone can be turned off
- Unable to differentiate passenger and driver
- Requires cellular data usage (increased cost to consumer)
- Gyroscopes need to be adjusted
- Rural areas may not have sufficient signal for insureds to participate
- Requires user to download app and keep it up to date
- Different smartphones record data differently, which could create inconsistencies in data from different types of phones
- Can't be used to track down a stolen car since that phone won't be in the car

EXAMINER'S REPORT

SAMPLE ANSWERS AND EXAMINER'S REPORT

Candidates were expected to understand telematics-supported usage-based insurance, the impacts it has on various stakeholders, and the advantages/disadvantages of various technologies.

Part a

Candidates were expected to list 1 potential benefit of UBI for each stakeholder (insurer, insured, and society).

Common errors include:

- Stating a potential benefit for the insurer is the ability to write more business
- Stating a potential benefit for the insurer is that UBI is a low-cost way to collect data

Part b

Candidates were expected to describe 2 potential concerns from consumer advocates.

Common errors include:

- Identifying concerns that are pervasive in insurance, rather than specific to UBI programs.
 - Privacy concerns – The insurer has private data, and how are they preventing that from being hacked
 - The rating model may not consider how city and rural driving is different
- Identifying a concern without providing enough relevant detail or why it would be a concern from a consumer advocate.
- Providing two responses that were not sufficiently distinct
 - “Privacy Issues” and “The insurer may not use the data solely for loss mitigation and pricing” (see above)
- Stating that UBI could raise rates for high risk drivers

Part c

Candidates were expected to list 1 potential benefit and 1 potential disadvantage of using smartphone technology for UBI programs.

Common errors include:

(Advantage):

- Providing advantages that were accurate for most/all usage-based technologies
 - Provides location data
 - More accurate pricing because of big data
 - Consumer rates can be updated more often
- Providing advantages that conflict with commonly accepted disadvantages
 - More accurate than other devices

(Disadvantage):

- Stating that smartphones are easily manipulated without providing a specific example. Other UBI data collection devices would be subject to manipulation by the insured.
- Providing disadvantages that apply to most/all UBI technologies
 - Invasion of privacy