

Usage-Based Insurance Provides Strong Benefits to Insurers, But Consumer Adoption Remains Low

Written by Jessica McGregor | Published August 17, 2018 on CarrierManagement.com

Usage-based insurance (UBI) availability continues to grow for auto insurance customers, but customer adoption rates remain sluggish. According to the J.D. Power 2018 U.S. Auto Insurance Study, 42 percent of personal auto insurance customers in the United States had a UBI program available to them, up from 32 percent in 2015. However, only 10 percent of customers are active participants in a UBI program, up from 8 percent in 2015.

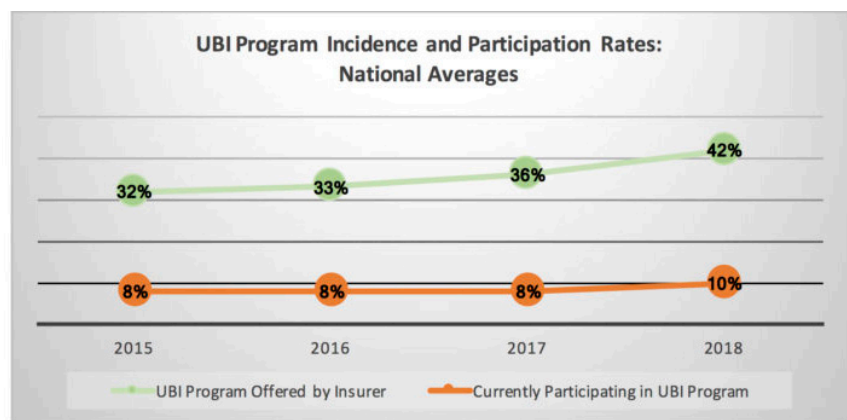
UBI programs allow for the tracking of real-time driving behavior and more precise risk assessment and policy premium assignment. However, customers are still slow to adopt, citing privacy/data sharing as their top reason

for not participating in the program despite the potential for policy discounts for participation. The government has responded to those concerns through passage of the Driver Privacy Act of 2015, and 16 states have adopted similar laws and regulations related to data privacy.

What does this all mean for further consumer adoption? What can insurers do to calm

the privacy concerns? Do UBI concerns differ by generational group?

The U.S. Auto Insurance Study has been examining trends and customer opinions related to UBI programs since 2015. The trend from 2015 to the 2018 study shows that adoption of UBI programs has increased only slightly during that time, up by 2 percentage points overall. The availability

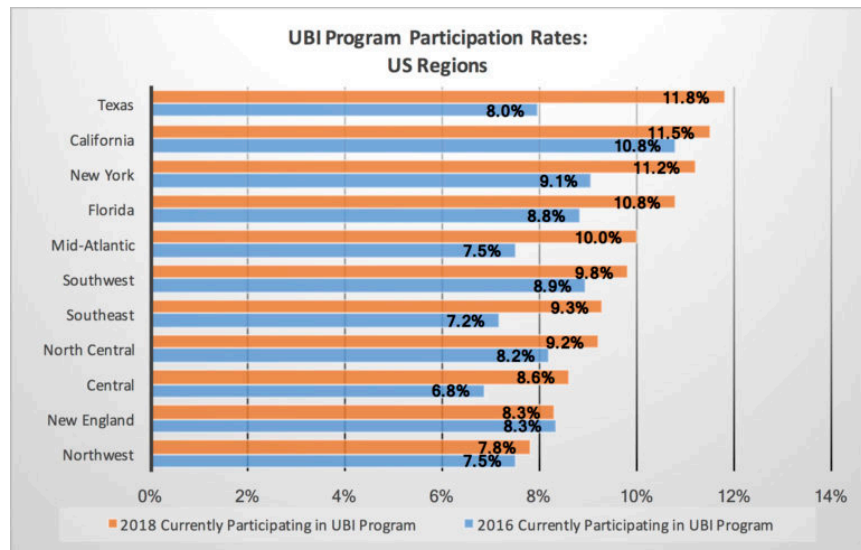


Data Source: 2015, 2016, 2017 and 2018 J.D. Power U.S. Auto Insurance Study

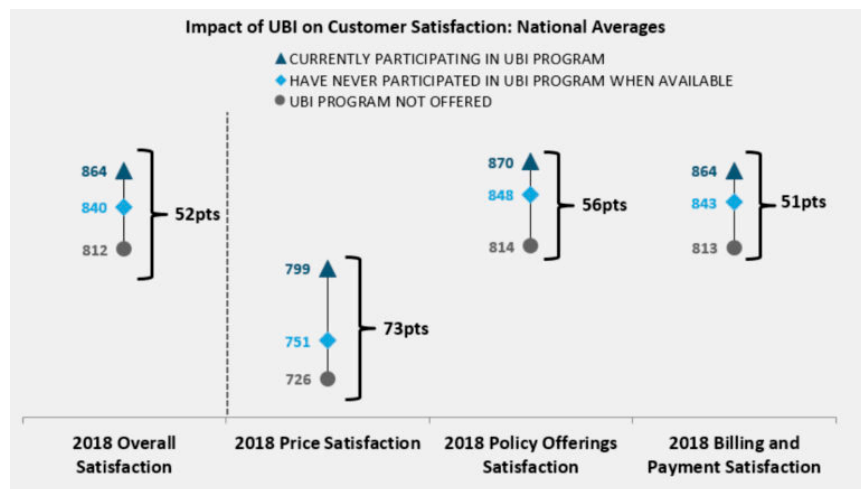
of UBI programs has steadily increased 10 percentage points from 2015 to 2018, up to 42 percent. The highest usage of UBI programs nationwide in 2018 is in Texas (11.8 percent), California (11.5 percent), New York (11.2 percent) and Florida (10.8 percent). Texas had the greatest growth in UBI participation from 2016 to 2018 (3.8 percentage points), followed by the Mid-Atlantic Region (2.5 percentage points).

Moreover, 74 percent of customers in the 2018 study indicate they received a discount as a result of their participation in a UBI program, with an average savings of \$16.51 per policy period for current participants. This holds steady from the 75 percent of customers who indicated they received a UBI discount in 2015.

Aside from the benefits associated with improved underwriting and analytics, UBI programs increase customer satisfaction among drivers who participate in them. In the 2018 U.S. Auto Insurance Study, overall satisfaction is 864 index points (on a 1,000-point scale) among



Data Source: 2016 and 2018 J.D. Power U.S. Auto Insurance Study



Data Source: 2018 J.D. Power U.S. Auto Insurance Study

drivers currently participating in a UBI program, regardless of the discount received, compared with just 812 among those who indicate a UBI program was not available and 840 among those who indicate a UBI program was available but they did not participate.

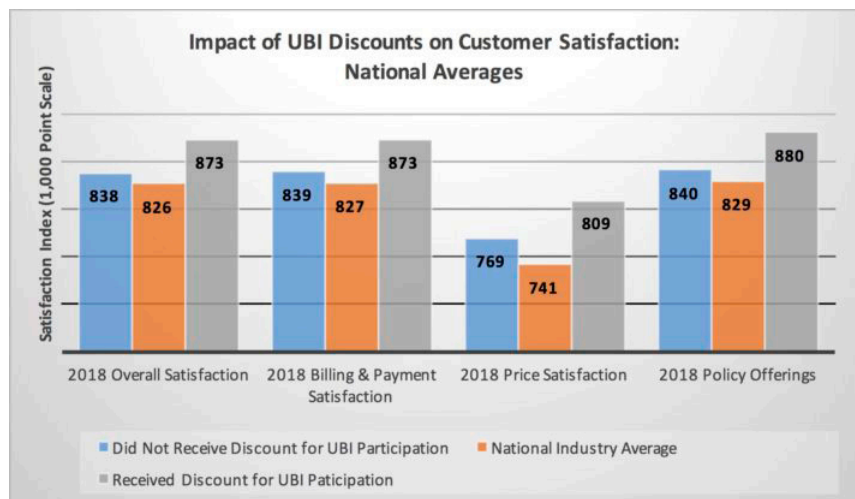
Additionally, UBI programs positively impact all areas

of the customer experience. The greatest positive effect in the 2018 study is in the Price factor (+73 points) among customers currently using a UBI program compared with those who did not have a UBI program available. Program participation can also create greater customer engagement as they become more aware

of how their actual driving behavior affects the price they pay. As a result of this, Policy Offerings satisfaction (+56 points) and Billing and Payment satisfaction (+51) have also increased for those currently participating in a UBI program versus those who do not have a UBI program currently available.

Insurers that provide a highly satisfying customer experience benefit from higher rates of customer retention, reduced costs in acquiring new customers and more word-of-mouth referrals compared with insurers that deliver a less satisfying experience. The 2018 U.S. Auto Insurance Study shows that the likelihood to renew and recommend an insurer is 9 percentage points higher and 14 percentage points higher, respectively, among customers participating in a UBI program compared to those without a UBI program available.

Additionally, UBI program customers say they are less likely to shop for insurance within the next 12 months. They also provided more positive recommendations (2.5 times more frequently) and



Data Source: 2018 J.D. Power U.S. Auto Insurance Study

more often indicate that these recommendations resulted in a friend, relative or colleague purchasing from their insurer compared with those who did not use a UBI program.

What happens to customers who did not receive a discount from participating in a UBI program?

Overall satisfaction and scores in all factors are lower among participating customers who did not receive a discount compared to those who did. However, the scores among participating customers who didn't receive a discount are still higher than all factor and overall scores for the national average.

Overall satisfaction falls 35 points among customers participating in a UBI pro-

gram when a discount was not received, but this is still 12 index points higher than the study national average. It may be that despite a discount not being received, the policyholders still felt a sense of control over their policy through their participation in the program, raising their overall satisfaction and factor satisfaction.

Price is consistently one of the lowest-scoring aspects of the customer experience across the industries J.D. Power evaluates. For personal lines auto insurance customers, price is often viewed as completely out of their personal control, and UBI programs give at least some of that control back to them. In a highly competitive market, UBI programs have the potential

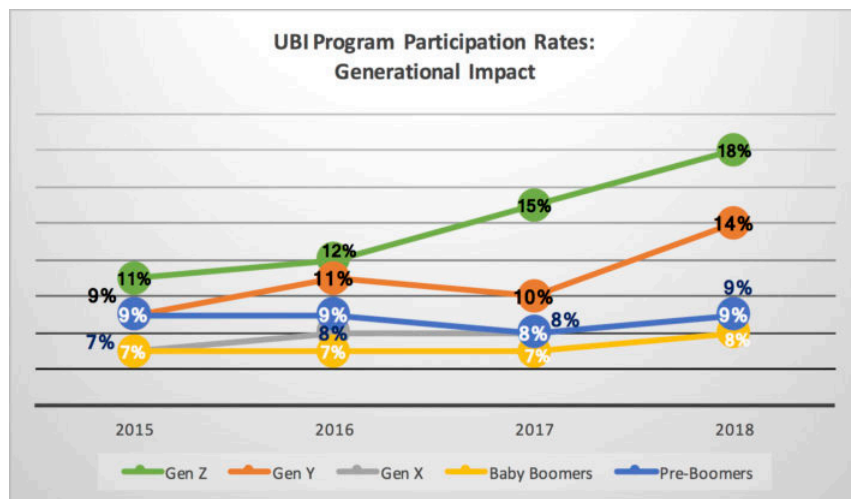
to be a brand differentiator for different generational groups, particularly Gen Y (those born 1977-1994) and Gen Z (those born 1995-2004).

Gen Z customers are most likely to use UBI programs (18 percent), as younger consumers are more willing to share their personal data and are less concerned with privacy than are older customers.

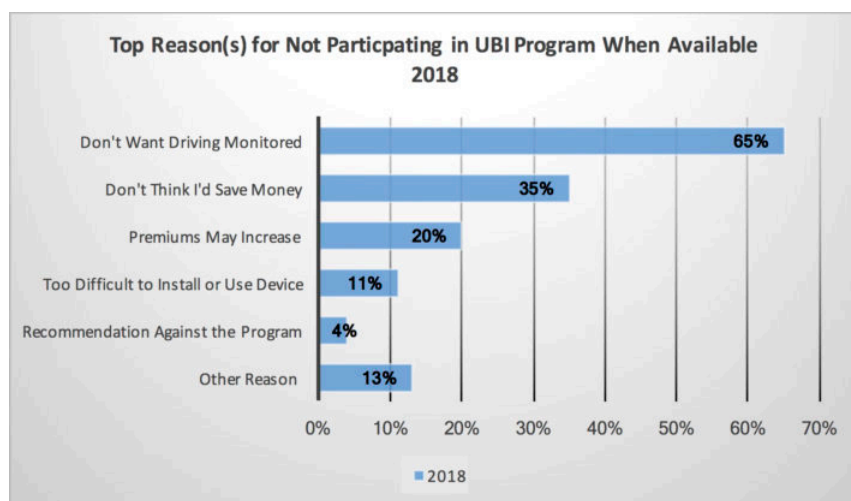
Gen Z and Gen Y customers are increasingly utilizing UBI programs, with usage growing rapidly since 2015, while utilization rates among baby boomers (born 1946-1964) and pre-boomers (born before 1946) have held relatively stable over time.

Insurers looking to improve UBI utilization rates need to account for these generational differences in adoption rate and customer segmentation profiles when targeting prospects.

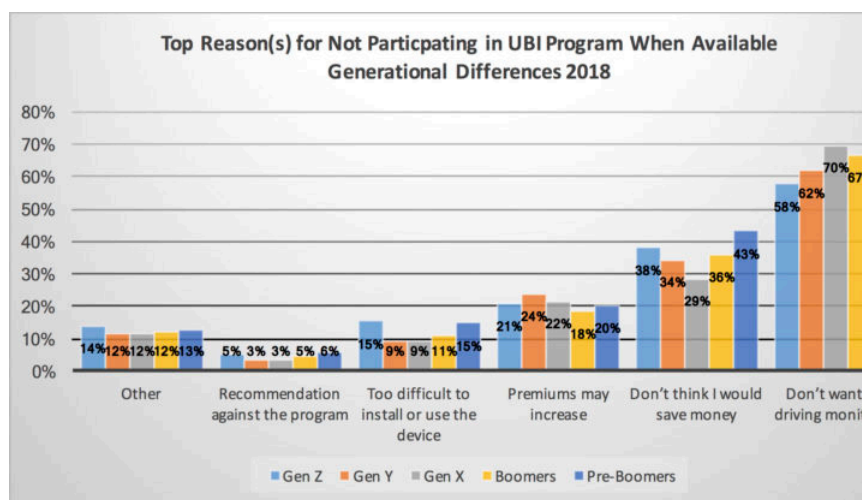
As mentioned, privacy concerns continue to constrain the use of UBI programs by customers. The top three reasons for not participating in a UBI program when available, for all generation groups, are privacy and pricing related:



Data Source: 2015, 2016, 2017 and 2018 J.D. Power U.S. Auto Insurance Study



Data Source: 2018 J.D. Power U.S. Auto Insurance Study

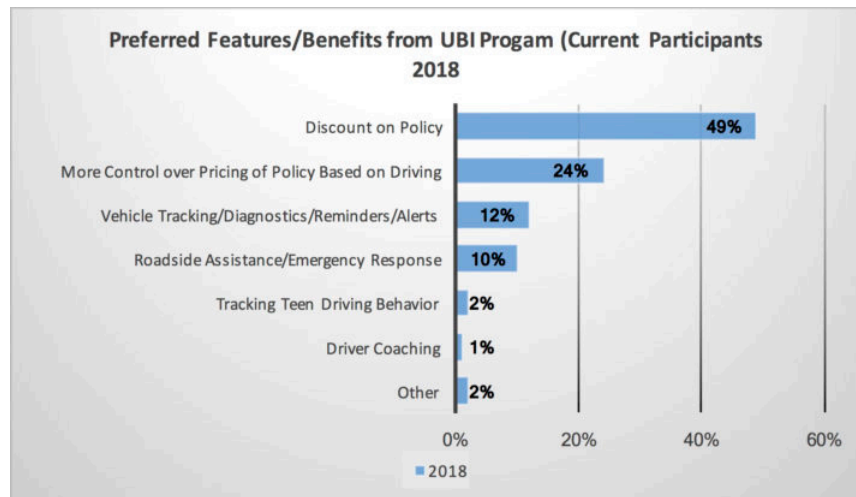


Data Source: 2018 J.D. Power U.S. Auto Insurance Study

“didn’t want my driving monitored” (65 percent); “didn’t think it would save me money” (35 percent); and “premiums may increase” (20 percent). Data sharing/privacy is less of a concern among Gen Z customers, with only 58 percent citing “didn’t want my driving monitored.”

For those participating in a UBI program, the single most important feature/benefit for nearly half of participants was Discount on Policy (49 percent), followed by More Control over Pricing of Policy (24 percent).

Among customers with an insurer that did not currently offer a UBI program, 54 percent indicate they will participate should their insurer offer it in the future. The main reason cited for future possible UBI participation was the potential discount on the policy (51 percent). The other main features and benefits that would influence someone to sign up for a UBI program in the future also include a guarantee that premiums would not increase as a result of participation (34 percent) and roadside assistance and



Data Source: 2018 J.D. Power U.S. Auto Insurance Study

emergency response capabilities (25 percent).

As insurers expand their UBI offerings and encourage customers to participate in them, privacy and data sharing will continue to be a concern, but slightly less so among Gen X and Gen Z customers.

A recent 2017 UBI Adoption Accelerator white paper by LexisNexis Risk Solutions noted that consumers are becoming more comfortable with technology permeating all areas of their lives and are more willing to share certain data and information with these companies. The LexisNexis white paper also noted that safety was cited as one of the main benefits of advanced driver-assistance systems (ADAS) and connected car fea-

tures by consumers, and that drivers with ADAS had more favorable UBI opinions.

If insurers can focus on the numerous safety benefits in addition to the premium discounts that result from UBI programs, consumers with ADAS and connected cars may be more likely to participate in UBI programs. A recent J.D. Power Cyber Insurance Spotlight Survey found that of consumers with smart technology in their home, 45 percent also had some type of connected car technology in their vehicle(s) and 13 percent were planning to purchase a vehicle with connected car technology in the next 12 months, making this a prime opportunity for insurers and UBI programs. [CM](#)

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