Pay As You Drive, Pay How You Drive Toward an ultra tailor-made car insurance.

Aitor Milner
CEO, ADDACTIS® Iberica
aitor.milner@addactis.com

ADDACTIS Worldwide
Risk & Insurance Solutions
+32 (0)2 526 13 10

ADDACTIS Ibérica
Risk & Insurance Solutions
+34 91 758 21 00

Argentina - Brazil - Belgium - Chile - Colombia - Costa Rica - Ecuador - France - Germany - Guatemala - Italy - Luxembourg - Mexico
The Netherlands - Panama - Peru - Poland - Senegal - Singapore - Spain - Switzerland

Introduction

ADDACTIS® Expertises' program gathers news from every business unit of ADDACTIS® Worldwide. Each consultant gives his point of view on a trend which is influencing his job.

Today, discover ADDACTIS® Iberica CEO Aitor Milner, thinking about Pay As You Drive, Pay How You Drive - Toward an ultra tailor-made car insurance.

Could you explain what is going on with Pay How Drive insurance? IoT adoption, good driving behaviour awareness…

> *PAYD represents a huge amount of information (structured or un-structured) to be analyzed with the purpose of proposing a more tailor-made premium.*

Pay-As-You-Drive (PAYD) motor policies are a new concept of insurance contracts which has started to be commercialized in many countries, amongst others in Spain. Its main characteristic is that instead of having an annual premium being established, the premium is fixed according to the number of kilometers done by the car, besides other characteristics of the risk traditionally used in pricing. Therefore, those who use the car more are going to pay a higher premium because they are more exposed to the risk of accident.

In Spain there are four main types of this sort of insurance:

- Distance-based insurance pricing;
- Mileage Rate Factor (MRF);
- Per-Mile-Premium (PMP);
- GPS-Based pricing.

More recently models have been improved so that they consider other variables additionally to the number of kilometers driven, such as driver behavior, zonification, etc. The underlying idea behind pay-as-you-drive insurance is that if you are a good driver as you use to, you shouldn't mind attaching to your car a device that collects information about your driving habits, such as how you hard you brake and whether you tend to have something of a lead foot. This represents a huge amount of information (structured or un-structured) to be analyzed with the purpose of proposing a more tailor-made premium.

What does this evolution imply for the insurers' customers relationship?

Upsell, advices, much more contact with customer through an app…

Typically, insurers promise consumers that they'll save anywhere from 20 to 50 percent; just how much depends on your insurer. Some insurers offer an immediate discount, usually 5 or 10 percent, for simply installing the device. From that standpoint and considering motor insurance directly dependent on price, we think this can reinforce relationships. However we have observed that some profiles are reluctant to provide insurers with personal data which can lead to a conflict in the case this policyholder is charged with a large amount due to his risk profile. There is no doubt that the future goes in this direction where Big Data has a relevant position.

Could insurance companies refuse to insure risky drivers with the help of predictive technology?

Definitely yes. In fact insurers are already refusing risks using traditional "a-posteriori" risk analysis.

These new sources of information will lead to a more accurate premium according to each risk profile. We do not have to lose the mutual concept behind of the insurance industry, but like GLM models in the recent past, insurers are looking for better segmentation portfolios.

Let's go further. Mobility trends are evolving and dozens of startups based on car, parking, or ride co-sharing are emerging. What position could the car insurance adopt regarding these new competitors and consumption modes?

Technology-driven trends will revolutionize how industry players respond to changing consumer behavior, develop partnerships, and drive transformational change. Insurance industry will need to change its mind as any other player in the market but with a key difference: the productive cycle is inversed in the insurance sector. That means that the industry will need to anticipate how these changes can impact the PL account before setting the risk premiums threshold. There are lots of models arising in a recurrent base to help insurers in transferring the implications of the changes in technology to insurance

> *Insurance industry will need to change its mind as any other player in the market but with a key difference: the productive cycle is inversed in the insurance sector.*

premiums in particular and dynamic solvency in general. Thus therefore until the effects of this fact are proved the industry wil have to dedicate part of their budgets to endow people and models with the technical departments.

Let's go even further. Autonomous cars are coming. A car without a driver = a car without an insurance? Does it mean that the car insurance market is coming to an end?

Self-driving cars are definitely on the way. Most accidents are caused by human error so if this factor can be minimized by taking control of the moving vehicle away from the driver, the accident rate should tumble. This fact will clearly affect the insurance sector: lower frequency rates combined with lower severity will drive to a decrease in the loss ratio of the industry. For us the key element here is to analyze the depth of these decreases. Recently Tesla was considered not guilty of the result of death of the driver of one of their self-driving cars after a long process in the court. There will be a need for liability coverage as the legal sector goes behind the technology, but the way of proceeding will necessarily need to change as manufacturers and suppliers and possibly even municipalities are called upon to take responsibility for what went wrong. We will contemplate the change on underwriting procedures, claim adjustment, claim settlement, repair cost and finally legal aspects. As we mentioned in the prior question the insurance industry will need to anticipate, assess and implement all the changes derived from the irruption of technology very soon if companies want to remain as a profitable market player.

© 2017 ADDACTIS Worldwide – All rights reserved; any reproduction without written permission from ADDACTIS Worldwide is prohibited.

ADDACTIS Worldwide
Risk & Insurance Solutions

www.addactis.com
contact@addactis.com
+32 (0)2 526 13 10

Argentina - Brazil - Belgium - Chile - Colombia - costa Rica - Ecuador - France - Germany - Guatemala - Italy - Luxembourg - Mexico - The Netherlands - Panama - Peru - Poland - Senegal - Singapore - Spain - Switzerland