NAIC Risk Classification Meeting
September 2010

Usage Based Insurance
Usage Based Insurance

The concept is to determine a customized insurance rate based on actual data from the vehicle.

**How much?** Mileage. To some this is “pay as you drive”.

**How?** Fast acceleration; Hard braking; Turning; Cornering.

**When?** Time of day or night.

**Where?** Territory; Road type. Progressive does not measure. No GPS.

Driving data is integrated with traditional rating factors: claims history; vehicle make and model; financial stability; demographics.
Usage Based Insurance – Why do it?

- It changes the way insurance is priced.
- It’s more fair.
- New product and services which gives consumers choice.
- It has the potential to reduce negative stuff in our lives.
Usage Based Insurance – Who benefits?

- Safe Drivers
- Personalized
- Low Usage
- Parents of teens
- Greens
Usage Based Insurance – Challenges?

- Technology
- Consumer acceptance
- Profitability
- Regulation
- Intellectual property
UBI = Telematics

1999

2004

2007

2009
How Does It Work

**USAGE-BASED INSURANCE**

Customers install sensor in OBD slot

Customer driving data automatically uploads via wireless transmission

Data collected on Progressive's server and posted online for secure access

Customers access driving data online, creating positive changes in driving behavior
UBI Evolution

<table>
<thead>
<tr>
<th>Year</th>
<th>Program</th>
<th>Device Type</th>
<th># PIFs</th>
<th># States</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>Autograph</td>
<td>Big Box (Hard Wired)</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>2000</td>
<td>TripSense</td>
<td>Data Logger</td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>2004</td>
<td>MyRate</td>
<td>Wireless 1.0</td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td></td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>2008</td>
<td>SnapShot</td>
<td>Wireless 2.0</td>
<td>&gt;100,000</td>
<td>23 by August</td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
New Business and Renewal offer:
• Never pay more than traditional product.

• No surcharge.

• No tech fee (embedded in rate).

• Discount only after device install.

• 0% to 30% usage based discount:

• Lock in the discount for the future terms, until re-audition.

• Partial monitoring model. All return device after first term.

• $50 device non-return fee.
Advertising

- Familiar concept which helps explain a transformative pricing approach.
Quoting and Sales

Snapshot Discount: Savings in a snap
Your safe driving could save you up to 30% more on car insurance

Sign up for Snapshot today

Great Discounts for Everyday Drivers
With our discounts, things you do daily—like driving safely and paying in full and on time—could help you save on car insurance.

Compare Auto Insurance Quotes
MyRate Program

Current Discount
$43.00 (7%) savings 2005 Toyota Corolla Ce/4d

Projected renewal discount
$31.00 (5%) savings 2005 Toyota Corolla Ce/4d

MyRate Vehicle(s)
2005 Toyota Corolla Ce/4d Last device contact 08/10/2010

Increase MyRate savings
See which factors could improve and increase the discount.

Keep your e-mail up to date.
You can change your e-mail address on your E-mail Preferences page.

Keep an ID card available at all times.
We provide a way to order ID cards when proof of coverage is necessary.
**On-line Reports**

**Your Trip Speed Chart**

**All Trips Taken on Thursday**

- **Low Risk Times**
  - Weekdays: 9 a.m.-3 p.m., 6 p.m.-9 p.m.
  - Weekends: 6 a.m.-9 p.m.

- **Medium Risk Times**
  - Weekdays: 4 a.m.-9 a.m., 3 p.m.-6 p.m., 9 p.m.-12 a.m.
  - Weekends: 4 a.m.-6 a.m., 9 p.m.-12 a.m.

- **High Risk Times**
  - All days: 12 a.m.-4 a.m.
Available in 23 states as of August 2010
1. Eligible customer signs up for the program – optional; participation discount

2. Simple, easy process: customer self-installs device; wireless transmission of data

3. Transparency: customer views trip history and detailed driving reports online - Includes the projected discount for their next policy term

4. Opportunity for significant discounts: at renewal, the rating factor is calculated based on trailing 6 months of data.
   – Maximum discount amount is 30%
   – majority of policies receive a discount; and average discount is 10%- 15%.

5. UBI classification levels, rating factors and actuarial support for our rating factors.

6. Key requirement is trade secret protection of the algorithm. We have proprietary knowledge derived at considerable expense. Glad to share with DOI.
Next Gen: Motional Axes of the Car

- **Z axis** (upward)
- **Y axis** (lateral)
- **X axis** (forward)

Determine 3-D accelerations in vehicle from device
## UBI in the USA

### U.S. Competitive Landscape for Usage Based Insurance

<table>
<thead>
<tr>
<th>Years of Experience</th>
<th>Market Test (with employees and existing customers, not affecting rates)</th>
<th>Mass Market Offerings (Launched product)</th>
<th>Segmented Offerings (Launched product for teens)</th>
<th>Other Offerings (Commercial, asset recovery, etc.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 2 Years</td>
<td>THE HARTFORD (~500)</td>
<td>State Farm (~500)</td>
<td>SafeCo Insurance (~1,000)</td>
<td>GEICO (Powersports)</td>
</tr>
<tr>
<td></td>
<td>AAA</td>
<td>Erie Insurance (~500)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>UNIGARD</td>
<td>TRAVELERS (~3,000)</td>
<td>21st Century (~4,000)</td>
<td>Liberty Mutual (~commercial)</td>
</tr>
<tr>
<td></td>
<td>MetLife</td>
<td>Allstate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2-5 Years</td>
<td></td>
<td>GMAC Insurance (~20,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>American Family (~2,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; 5 Years</td>
<td></td>
<td>PROGRESSIVE (~100,000)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: AT Kearney