Acquiring Preferred Risk Through Embedded Experiences: A Data-Driven Approach to Finding and Securing the Safest Drivers

From greater profitability to fairer and more efficient customer acquisition, leveraging mobility risk intelligence to gauge driver behavior holds great promise for auto insurers

Partner insights from

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By Elliot M. Kass

Auto Insurers Are Struggling to Capture Good Drivers

For the $311 billion auto insurance industry, growth is expected to slow in 2021.[1] But even as companies spend ever larger sums to attract new prospects,[2] they face challenges when it comes to sorting out which drivers represent the best risks. This makes finding new, profitable customers more challenging than ever.

To break this down a bit further, since 2016, the U.S. auto insurance market has been growing an average of 2.3 percent a year but is expected to rise just 0.7 percent in 2021.[3] At the same time, the industry continues to consolidate, with market share for the top four auto insurers now at 52.14 percent.[4] To continue to grow profitably, it seems that auto insurers have little choice except to try and lure the best drivers away from their competitors. But how do they even know who the best drivers are? And how do they acquire these drivers in the most cost-effective way and price their policies to be both profitable and competitive?

The challenge then is threefold:

1. To find a less costly, more efficient way of targeting prospects.
2. To find a more accurate and more relevant way of collecting data about driver behavior.
3. To acquire and then retain the best drivers by pricing policies so that they are profitable for the insurer, but also competitive and attractive to the customer.

Even as their cost of customer acquisition rises, auto insurers' ability to evaluate driver risk remains constrained. Since most insurers rely on historical data like driving records to gauge driver behavior, they have limited visibility into a driver's current performance—and this makes pricing their policies a high-wire act: set the price too low, and drivers who turn out to be bad risks will erode the business' profitability, but price them too high and the insurer loses market share instead.

> **For leading auto insurers the implications have become obvious: to achieve profitable growth, an entirely different approach to customer acquisition is needed.**

A New Way to Acquire Customers Is Needed

Today, to calculate which drivers represent the best risks, most insurers ask applicants numerous background questions, perform credit checks and search their motor vehicle and claims records for clues about how they behave behind the wheel. But this approach, while widely used and yielding some useful insights, has two significant drawbacks.

The first limitation is that the historical data they are capturing does not always provide the insurer with a complete picture of the prospect's current driving behavior. Some of the information may be dated and does not always reflect how the policyholder performs in the driver's seat. Although they are almost universally relied on, rating inputs such as driver age, occupation and gender do not consistently correlate with a prospect's level of risk.

> **Given that the 20 percent of drivers with the worst driving behaviors are responsible for more than 50 percent of all auto claims, insurers need a more sure-fire way of identifying applicants with poor driving habits that translate to higher loss costs.**

The second concern is that traditional information gathering can also beg the question of fairness: By emphasizing demographic data like age, race, and gender, an applicant can be left wondering if they were turned down because they're a poor driver—or for some other reason.

Fortunately, insurers are no longer restricted to their traditional approach to data gathering. Today, smartphone penetration and advances in artificial intelligence and digital data capture provide more accurate and cost-effective ways of evaluating driver behavior.

Leveraging Technology

Using smartphones with powerful sensors and sophisticated risk models that leverage artificial intelligence and machine learning algorithms, auto insurers can now offer prospects a digital test drive that will gauge how they behave while driving their vehicles – without the need to deploy any costly hardware. Insurers can then use the data they collect to identify the best drivers and quote their policies accordingly.

From the consumer's point of view, this is a huge plus, since they can potentially qualify for significant savings simply by opting in for a test drive through an app on their smartphone.

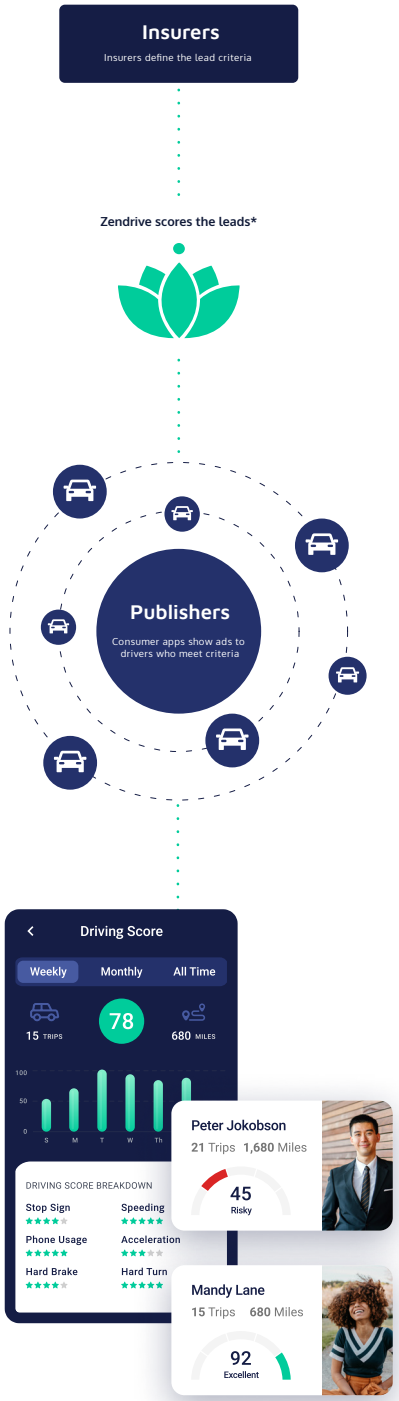
Moreover, in lieu of traditional advertising, test drives can be promoted using an embedded experience. Insurers can partner with providers of financial services and other mobile app publishers whom their target customer already knows and trusts. When they use the app to check out car prices, shop for an auto loan or some other related activity, prospects are prompted to take a test drive that could potentially lower their insurance rates inside of an app they already have and trust, and they can get started without an additional download or registration. Compared with run-of-the-mill advertising, this approach yields a much higher engagement rate, driving down the cost of customer acquisition.

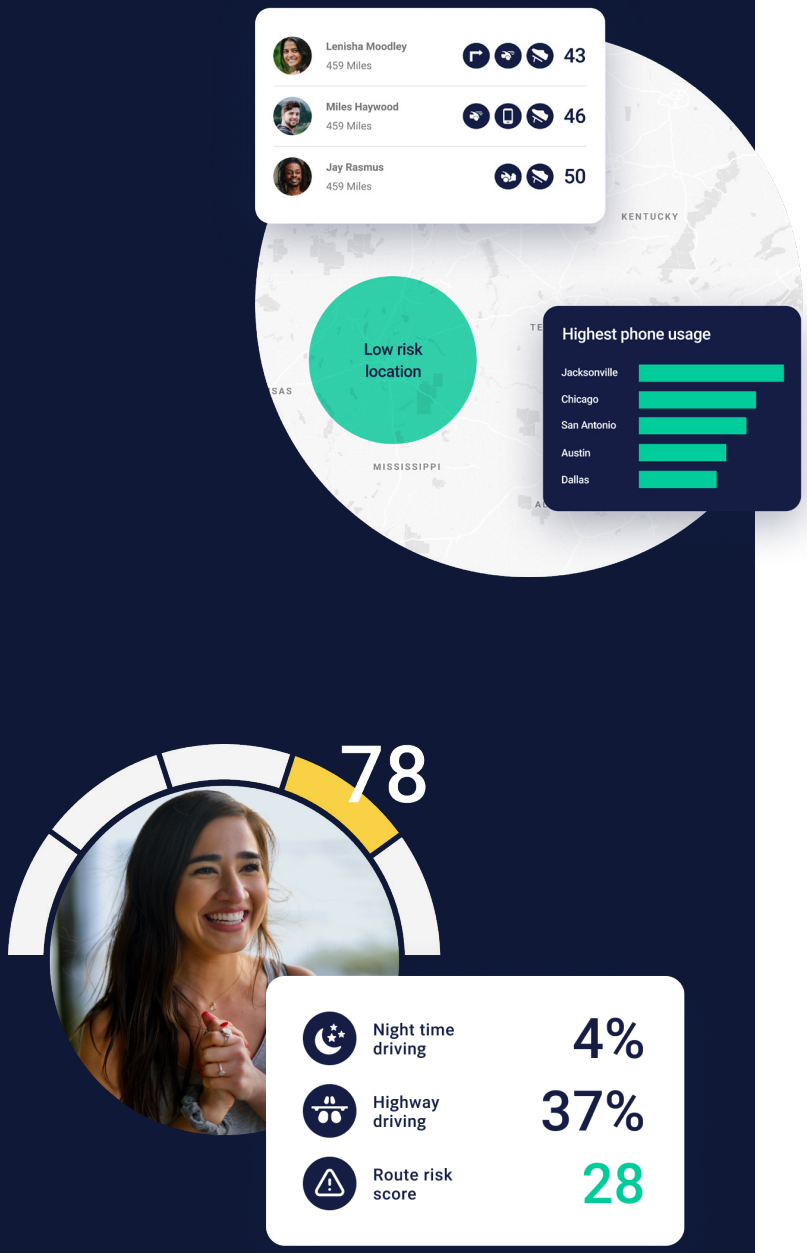
Better still, the test drives taken by the prospects yield an abundance of accurate and meaningful data about how they actually drive. If a user completes a test drive, qualifies for a personalized quote, and doesn't convert, their data can be used in future retargeting efforts. With this data, the odds of closing the best drivers go way up, since the insurer can now provide them with a highly competitive quote, confident that it's in line with the actual risk that the prospect represents.

Here's how this acquisition model typically works:

1. By partnering with a publisher, the insurer can connect with potential customers while they are using an app to engage in activities that are related to auto insurance—like car shopping or managing their cash flow. This makes it far more likely that they will be intrigued by the possibility of saving on their auto policy and will accept the insurer's offer to take a digital test drive.
2. During the test drive, machine learning and AI-powered algorithms turn the raw sensor data collected by the driver's smartphone into a score, which evaluates and measures the driver's behavior. Data points such as drive time, distance driven, driving speed, driving behaviors, and distracted driving are gathered and calibrated based on the insurer's specific requirements.
3. The scores from the different trips taken during the test period are cumulated to create an overall driver risk score. This is then used to qualify or disqualify the driver for an offer that is discounted based on the degree of risk indicated by their score.
4. If the customer qualifies for an offer, they can request a quote on a special insurer landing page where they can typically save between 10 to 40 percent.
5. Because the discounts are unique and compelling, the conversion rate from lead to policy tends to be higher than standard campaigns, which reduces the insurer's marketing costs.

By approaching prospects when they are most receptive and making use of real-time analytics to evaluate their driving skills, smartphone-centric mobility risk intelligence creates a win-win-win for all involved: The app publisher earns high-margin revenue while offering its app users a valuable benefit; consumers get discounted auto policies that are priced based on how they actually drive; and the insurer converts more leads at a lower cost—and can expect to retain these preferred customers that are priced more accurately for a longer period of time.





Using Digital Test Drives to Attract the Best Prospects

Smartphone-centric embedded experiences have already been deployed by some forward-looking insurers in partnership with leading online publishers, and together they are reaping the benefits. The partnership between Progressive Insurance and Credit Karma is a case in point.

Best known for pioneering free credit scores, Credit Karma is a consumer technology platform with more than 110 million members in the U.S., Canada and the U.K., including almost half of all U.S. millennials. In late 2020, the company was seeking to expand the scope of its auto insurance offerings, which it saw as an excellent growth opportunity, given the strong interest on the part of its heavily millennial customer base. Credit Karma members have traditionally turned to the service to access their credit scores, receive financial wellness tips and to search for credit and loan products—activities that are all heavily intertwined with the process of tracking overall financial health.

Recognizing the possibility of helping its members save more on auto insurance with a data-driven digital test drive experience that would strongly appeal to tech-savvy millennials, Credit Karma opted to partner with Progressive and Zendrive to create Karma Drive. Karma Drive gives Credit Karma members in 42 states the opportunity to complete a digital test drive and qualify for exclusive savings based on their driving score.

As an added benefit, Credit Karma members also receive feedback from their driving tests, which can make them more aware of and help them improve their driving behaviors. The response has been enthusiastic, and since the offering was rolled out earlier this year, hundreds of thousands of Credit Karma users have already opted in for the Karma Drive experience.

An Appealing Offer

Explaining the offering's allure, "For many of our members, a vehicle is their largest and most costly asset," says Rory Joyce, head of Credit Karma Auto.

> **"Karma Drive delivers on our vision to bring transparency, fairness and accuracy to our members' auto expenses with an easy opportunity to potentially save money on their auto insurance. Plus, it might even help them become more aware of ways to be a safer driver."[5]**

Using the app, Credit Karma members can initiate their 30-day test drive, during which they will receive continuous real-time feedback on their driving. To begin the trial, all that's needed is for the member to drive with their mobile phone on and location services enabled; no additional software or telematics device is required. Once the trial ends, the member is notified of whether they qualify for a discount and the extent of the savings they can expect to receive. Unlike many other usage-based discounts, which can only be obtained after a policy is purchased, with Karma Drive members are told how much they can save prior to purchasing a policy.

Jim Haas, the lead for usage-based insurance at Progressive, says that the Credit Karma and Zendrive partnership was a perfect fit for the insurer. "It's a way for consumers to find out ahead of time if they are eligible for a discount and get it immediately, with not a lot of effort by them," he explains.[6]

The data from Credit Karma remains anonymous until a prospect starts the quote process, Haas notes, adding that the model Progressive uses to score the test drive data remains proprietary and invisible to Credit Karma.

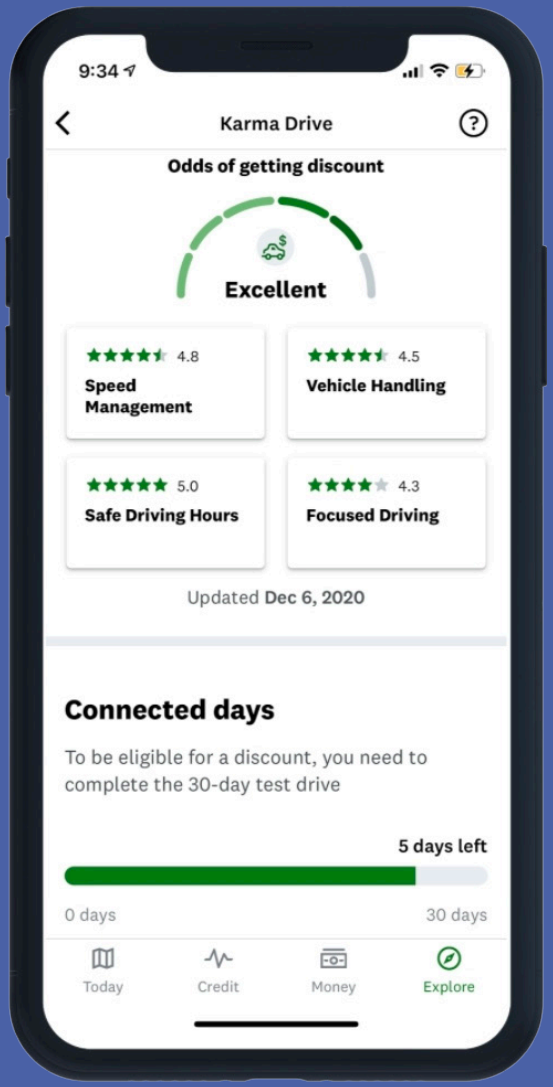


Image source: Credit Karma.

Smartphone-Centric mobility risk intelligence: Helping Insurers Grow Profitably

For auto insurers, there are numerous advantages to employing an embedded digital test-drive strategy for customer capture.

In 2019, the top four auto insurers spent over $5 billion on advertising—an increase of 41 percent since 2017. The embedded test drive model offers ***much greater efficiencies*** over this traditional approach to advertising. By partnering with an app publisher that provides complimentary services and has earned the trust of its audience, the insurer can engage with prospects at no cost and in a context where they are inclined to pay attention.

> **Since these potential customers are typically interested in saving and comfortable with mobile apps and data sharing, the insurer is well-positioned to recruit them for a digital test drive and convert them into a qualified, preferred-risk lead.**

Given the high likelihood that they will convert to policy, this marketing strategy significantly ***reduces the insurer's cost of customer acquisition.***

The use of smartphone-centric mobility risk intelligence allows for ***more comprehensive driving measures*** and yields more relevant data than insurers can obtain from standard questionnaires and background checks. This richer data set gives an insurer the wherewithal to discern who are the truly low-risk drivers. Once the insurer knows this, it can ***price its policies more competitively*** to attract this low-risk group.

> **The end result is more conversions within this preferred set of customers, who tend to drive more safely and have fewer accidents. This is likely to lead to fewer claims payouts, more profitable policies, greater customer satisfaction and less customer churn.**

Over time, attracting and retaining low-risk drivers leads to a virtuous cycle. By weeding out bad risks, ***the insurer reduces its frequency of claims and improves its loss ratio.*** This in turn allows it to price its policies even more competitively, enabling it to capture an even greater percentage of the most valued customers. And so the cycle repeats itself, yielding more profitable growth with each go-round.

Auto insurers who move swiftly to adopt a smartphone-centric mobility risk Intelligence-based strategy will achieve a first-mover advantage. Parked alongside their traditional approach to customer capture will be a sleek next-generation model for new policyholder acquisition that can help them reduce their claims costs by better managing their risks. Those who continue to rely exclusively on traditional marketing vehicles may continue to be weighed down by the poor driving risks that raise their cost of claims and undercut their margins.

Sources

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ABOUT ZENDRIVE

Zendrive's mission is to make roads safer through data and analytics. Its award-winning Mobility Risk Intelligence (MRI) platform — powered by 200 billion miles of data gathered from hundreds of millions of drivers across the globe — helps insurers, automotive OEMs, consumer apps, fleets, and telcos understand and mitigate mobility risk in real-time, reducing the likelihood of collisions by 49%. The platform provides leading insurers like Progressive, MiWay, Sura, and AXA the ability to acquire preferred risk, provide UBI and BBI discounts, automate claims, and build advanced risk models with the help of its industry-leading score. The company has been recognized as one of Fast Company's Most Innovative Companies and won the 2017 Best Startup in San Francisco award.

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