AUTO INSURANCE REPORT

The Authority on Insuring Personal and Commercial Vehicles

Vol.27#21/1270 **Feb. 24, 2020**

INSIDE

Mapfre's 2007 Entry in U.S. Market Foretold Its Retreat

Mapfre is retreating from numerous U.S. auto insurance markets. It took awhile, but we can claim to have told you so.

In the fall of 2007, the Spanish insurance giant paid $2.2 billion to buy **Commerce Insurance**, the undisputed master of the then hyper-regulated **Massachusetts** auto insurance market. We argued then that the deal was as big a strategic mistake for Mapfre as it was a victory for Commerce, which could see the coming Massachusetts deregulation as an end to its market dominance. Although we suspect Mapfre's initial investment has at least been repaid, using Commerce as a platform for expanding nationally was never sound given that its skill set was very specific to one

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Insurers Use Rewards to Motivate Safer Driving, Reduce Losses

Can a free weekly latte turn a bad driver into a good one? That's the question a growing number of U.S. insurers are looking to answer following positive results from telematics-based rewards programs in the United Kingdom with **Carrot Insurance** and in South Africa with **Discovery Insure's** Vitality Drive.

The programs track drivers using a smartphone app and give rewards like coffee or **Amazon** gift cards and other perks to the best performers. Frequently rewarding good behavior like avoiding phone use gives drivers immediate positive feedback beyond a policy discount that can disappear into a driver's monthly statement. Current programs use a variety of strategies, but all share a few core elements with an ultimate goal of safer roads, fewer insured losses and the kind of customer loyalty created by ubiquitous airline and retailer rewards.

"Engaged drivers get better scores, drivers with better

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If Insurers Look Past Wyoming's Volatility, Profits Can Be Found

Jeffrey Rude is proving that despite recent history, you don't have to be a cowboy to wrangle insurance companies in **Wyoming**, a state whose auto insurance profits – especially for physical damage – can be as volatile as a bucking bronco.

Breaking with recent tradition of appointing cowboys to the job, Gov. **Mark Gordon** last year named Rude as commissioner of the **Wyoming Department of Insurance**. Rude joined the department in 2013 as a senior health policy and planning analyst, then spent the next five years as deputy commissioner. Prior to joining the insurance department, Rude was a military lawyer in the U.S. Air Force Judge Advocate General Corps (JAG) for 24 years.

Rude succeeded **Tom Glause**, who stepped down in

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scores have fewer accidents and are therefore more profitable," said **IMS** Chief Product Officer **Ed Rochfort**, who helped launch Carrot Insurance in 2012. "There is a clear causal link between those things."

Others are more skeptical of the causal connection, suggesting driving behavior is unlikely to change over the long term without an arms race of ever-increasing rewards.

IMS and its parent **Trak Global** have developed a number of telematics programs, some that offer rewards and others that use premium discounts. Rochfort said rewards programs have created higher engagement rates and better driver scores than the programs where drivers receive an initial discount with the possibility of further rate cuts. Last month, IMS announced that it was making the usage-based insurance platform on which Carrot is built available to insurance companies in North America.

Telematics vendor **TrueMotion**, which has developed usage-based insurance programs with and without rewards, has drawn correlations between rewards and improved driving, though it is too early to say definitely if rewards have proven more effective at behavior change than rate discounts, according to **Matt Fiorentino**, director of marketing.

Importantly, rewards programs give drivers an incentive to stay in continuously monitored usage-based insurance programs, he said. It's easier for an insurer to persuade a driver to share data indefinitely, and not just for a one- or three-month time period to set a rate, if they receive rewards for doing so.

Rewards also enable insurers to compete without eroding premium, said Discovery Insure CEO **Anton Ossip.** In rate-based programs, once policyholders receive a premium discount for good driving, it becomes the new baseline, he said.

"If your competitor tries to match up to that, then you have to match to their premium and eventually there's no margin left," he said.

John Bloom, VP Personal Lines, Erie Insurance

Cambridge Mobile Telematics built the underlying app technology for Discovery Insure, which plans to license the insurance model underpinning Vitality Drive to U.S. carriers in the near future, Ossip said. The company pitches the model as a value for the insurer in the form of lower claims, which can be shared with customers in the form of rewards and with society in the form of fewer accidents.

Several U.S. insurance companies have also recently launched rewards programs. **Plymouth Rock** offers a Road Rewards program to drivers in **Massachusetts**, **New Hampshire**, **Connecticut**, **Pennsylvania** and **New Jersey**. **Erie Insurance's** new rewards program, YourTurn, is currently available in eight states. **The Hanover** offers the SafeTeen program, powered by TrueMotion, which also developed the app for **Progressive**'s Snapshot insurance program. Snapshot gives drivers an upfront premium discount for safe driving habits.

"Our goal is to use telematics to educate people on their driving behaviors, and ultimately make them better drivers," said **Jon Bloom**, Erie's vice president for personal lines. "That's why YourTurn is a rewards-based program rather than an upfront discount like many other carriers have implemented."

Some programs offer rewards but do not use the telematics data as rating factors for pricing, while others place rewards on top of usage-based pricing. At Carrot, for example, a customer's driving score is one of the factors used to calcu-

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late the renewal rate, and the company reserves the right to cancel or nonrenew drivers with low scores.

The **Allstate** Rewards program, launched in 2015, sits on top of the usage-based Drivewise and Milewise programs that give rate discounts based on how they drive or how much they drive. Allstate Rewards is an extra perk intended to drive customer engagement and excitement with the insurance company, said **Laurie Pellouchoud**, a vice president in Allstate's product strategy group. It also gives customers a way to see how well they are driving and motivates them to drive more safely.

Allstate Rewards tracks two factors: hard braking and speed. Drivers earn points by completing challenges, such has driving three consecutive days without hard braking or exceeding 80 mph. The points can be redeemed for gift cards, prize drawings or other rewards. Pellouchoud said correlations can be drawn between rewards and safer driving, but the company stops short of making causational claims that directly tie rewards to a reduction in accidents or lower losses. She said Allstate measures success in the program by the level of engagement Drivewise and Milewise users show. By that metric, it's been a success, she said.

More important than the kind of incentive for safe driving is the quality and sophistication of the telematics data used to inform pricing, according to **Gina Minick,** director of insurance products for **Arity,** the telematics vendor that is a subsidiary of Allstate Corp. (though separate from the insurance company). A telematics program that offers rewards but does not bake driving and associated claims data into its pricing is unlikely to see the desired benefits.

Insurance companies have seen that telematics programs with good driving incentives create better drivers, but Minick is unconvinced that rewards programs uniquely sustain better driving without successive increases in the amount of reward provided.

"From our research, the stakes continue to become higher over time," she said.

Telematics vendors that designed the long-running programs in the U.K. and South Africa contend that finding the right level and frequency of rewards does indeed create the long-term behavioral change and lowers losses.

Ryan McMahon, vice president of insurance and government affairs at Cambridge, said rewards programs also allow insurance companies to engage with multiple drivers in a household, like teens, who might be covered by a parent's policy but never think about the insurance bill. If there is a monthly rate discount, teens would lack the awareness needed to improve their driving without a direct incentive to do so.

> ***Customer engagement with a rewards program also adds a level of stickiness by adding touchpoints with the customer.***

The same dynamic exists for commercial auto, he said, where fleet operators can encourage individual employees with telematics-based rewards.

The trick is finding a rewards bounty that is suitably generous to motivate and engage drivers enough to improve their behavior while not cutting too deeply into company margins.

"If you can match the frequency of incentives to behavior, then you can achieve behavior change," McMahon said.

Carrot, in the U.K., spends about 2% of its annual premium on rewards, and Rochfort said that results in about a 7% combined operating ratio improvement.

Trak Global launched Carrot as an MGA in the U.K. in 2012 as a lab to test its telematics technology. It figured if it had its own insurance product, it could correlate claims and telematics data to quickly improve its software.

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State Market Focus: WYOMING

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May 2019 to become chief operating officer of the **Professional Rodeo Cowboys Association** in Colorado Springs, **Colorado**. Glause's years as a rodeo competitor inspired his son, now a college rodeo coach, to become a professional bull rider.

Glause said his experience as the Wyoming insurance commissioner prepared him well for his current job at the Professional Rodeo Cowboys Association.

"I went from regulating insurance companies to regulating cowboys, and there is a lot of similarity," he said. "There is an element of risk associated with both of them."

Glause's predecessor, **Tom Hirsig**, a former **Allstate** agent and real estate developer, was once a champion steer roper. He left the Insurance Department in 2012 to become CEO of Cheyenne Frontier Days, a festival celebrating the city's Old West roots that includes what is said to be the world's largest rodeo.

Despite appearances, rodeo is not a prerequisite for the insurance commissioner's job. Rude's experience with horses is limited to holding his

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Wyoming Personal Auto Insurers

Groups Ranked by Total 2018 Direct Premium Written (000)

Group Name	2018 Premium	Mkt share 2018	Loss Ratio 2018	2017 Premium	Mkt share 2017	Loss Ratio 2017	2016 Premium	Mkt share 2016	Loss Ratio 2016
State Farm Mutual	$94,449	22.9%	57.0%	$94,390	24.1%	63.6%	$90,412	24.2%	79.7%
Progressive Corp.	$59,070	14.3%	68.3%	$54,498	13.9%	58.5%	$52,518	14.0%	66.4%
Farmers Insurance Group	$47,826	11.6%	67.3%	$47,277	12.1%	58.9%	$46,488	12.4%	75.0%
Mountain West Farm Bureau Mutual	$42,127	10.2%	81.1%	$38,093	9.7%	76.5%	$36,215	9.7%	69.6%
Berkshire Hathaway/GEICO	$36,174	8.8%	72.7%	$32,878	8.4%	68.1%	$30,187	8.1%	69.0%
USAA Insurance Group	$28,554	6.9%	97.0%	$25,560	6.5%	108.8%	$22,730	6.1%	111.1%
Liberty Mutual	$27,955	6.8%	64.4%	$25,238	6.4%	61.0%	$22,526	6.0%	54.4%
Allstate Corp.	$20,016	4.8%	62.5%	$18,926	4.8%	64.6%	$18,789	5.0%	68.6%
Nationwide Mutual Group	$11,036	2.7%	60.5%	$12,398	3.2%	46.7%	$13,229	3.5%	64.8%
American National Insurance	$7,102	1.7%	84.9%	$5,014	1.3%	95.4%	$3,692	1.0%	126.5%
Sentry Insurance Mutual	$6,408	1.6%	58.0%	$6,045	1.5%	46.2%	$6,076	1.6%	35.5%
Hartford Financial Services	$6,240	1.5%	52.7%	$6,638	1.7%	51.8%	$7,197	1.9%	60.3%
QBE Insurance Group Ltd.	$4,778	1.2%	74.2%	$4,600	1.2%	60.4%	$4,584	1.2%	70.8%
MetLife Inc.	$4,678	1.1%	57.4%	$4,924	1.3%	65.9%	$4,946	1.3%	69.2%
Markel Corp.	$3,342	0.8%	37.3%	$3,107	0.8%	41.3%	$3,531	0.9%	40.7%
CSAA Insurance Exchange (NorCal)	$1,773	0.4%	72.9%	$1,799	0.5%	77.2%	$1,609	0.4%	73.2%
California Casualty	$1,371	0.3%	63.1%	$1,392	0.4%	83.2%	$1,444	0.4%	75.2%
Acuity Mutual	$1,313	0.3%	95.9%	$1,246	0.3%	70.1%	$1,047	0.3%	53.7%
Horace Mann Educators Corp.	$1,264	0.3%	46.7%	$1,088	0.3%	66.1%	$988	0.3%	56.9%
Chubb Ltd.	$1,248	0.3%	41.9%	$1,165	0.3%	47.1%	$1,087	0.3%	20.3%
American Family Insurance Group	$1,043	0.3%	69.6%	$394	0.1%	72.5%	$3	0.0%	14.7%
Badger Mutual Insurance Co.	$884	0.2%	76.2%	$639	0.2%	79.7%	$449	0.1%	94.7%
Statewide Totals	$413,225		67.8%	$391,809		65.8%	$374,169		72.6%

Source: S&P Global Market Intelligence and the *Auto Insurance Report* database.
Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

State Market Focus: WYOMING

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young daughter atop one some 20 years ago, and he seems to be doing just fine.

"He's retired JAG, and the leadership preparation in the armed forces is amazing," Glause said. "He also has good experience in the department. He is well positioned for the commissioner role."

The biggest challenge for auto insurers in Wyoming and the regulators who oversee them is the increasing propensity for severe hail and the impact on physical damage losses. "The insurers know what they are up against," Rude said.

For the decade ended 2018, the auto insurance physical damage business in Wyoming generated an average annual loss of 1.3%, with losses of 8%, 0.3% and 10.7% in the last three years of the decade. While the 2019 results are not in, given last year's severe hailstorms, we expect the average annual loss to increase. Only **Colorado** has worse physical damage profits over time.

Liability profits save the day. In 2018, Wyoming led the country with a 19% auto liability profit margin. The average annual profit margin for auto liability for the decade ended 2018 was 13.9%. Helped by liability, the average annual total profit for the decade was 6.0%, ranked 24th in the country.

Wyoming is one of the nation's smallest markets, with $413.2 million in premium in 2018. Only **Vermont** and the **District of Columbia** are smaller.

The number of 2019 hail occurrences was down from 2018, but 2019 saw the second most occurrences in the past four years, according to the Insurance Department. There were significant storms in Gillette, Cheyenne and Glendo.

In Wyoming, insurers are not required to file rates or forms, so regulators don't have a precise handle on rate trends. Rude said in conversations with the industry, auto insurers have pointed to increasing cost of repairing more complex vehicles as a driver of higher rates

State Farm decreased rates more than 3%

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Wyoming
Auto Insurance Profit Margins
Ten-Year Summary, Percent of Direct Premiums Earned

Line of Business	2018 Total Profit	2017 Total Profit	2016 Total Profit	2015 Total Profit	2014 Total Profit	2013 Total Profit	2012 Total Profit	2011 Total Profit	2010 Total Profit	2009 Total Profit	Avg Total Profit
Personal Auto Liab	19.0	12.9	11.7	12.8	12.9	15.2	16.7	12.5	15.0	10.4	13.9
Personal Auto Phys	-8.0	-0.3	-10.7	7.3	0.9	-0.1	12.2	-21.0	-2.7	9.2	-1.3
Personal Auto Total	4.2	5.8	-0.2	9.9	6.7	7.4	14.4	-4.1	6.1	9.8	6.0
Comm. Auto Liab	18.3	12.9	20.9	18.8	19.9	17.4	18.4	4.2	14.8	10.7	15.6
Comm. Auto Phys	-4.3	6.3	0.0	13.1	5.3	6.8	4.5	-6.6	-1.1	11.5	3.5
Comm. Auto Total	10.0	10.4	13.4	16.8	14.5	13.6	13.6	0.4	9.2	11.0	11.3
Total All Lines*	0.0	12.2	6.3	18.3	12.1	14.2	11.0	1.0	7.1	10.2	9.2

*Auto; Home, Farm & Commercial Multiperil; Fire; Allied; Inland Marine; Med Malpractice; Other Liability; Workers Comp; All Other

Note: Profit calculations are by *Auto Insurance Report* using data from the National Association of Insurance Commissioners. Calculations are estimates, some based on national averages.

State Market Focus: WYOMING

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in 2018 and another 4.8% in 2019, said spokeswoman **Kelly Pargett**. While State Farm remains the No. 1 personal auto writer with 22.9% of statewide premium, its business grew a mere 0.1% in 2018, compared with statewide growth of 5.2%. Among the state's largest auto insurers, No. 10 **American National** group grew fastest, increasing premium 29.4% in 2018.

In 2018, the Wyoming revised the state regulation governing aftermarket parts. Regulators updated the definition of a non-original equipment manufacturer and clarified the provision barring insurers from directly or indirectly requiring consumers to pay any difference in price if the consumer elects to use OEM repair parts.

The definition was updated "out of concern that the regulation would become antiquated, since only parts made out of plastic and sheet metal were specifically identified in the prior definition," according to an email response to questions by the Insurance Department staff. "The applicability of the term non-OEM was intentionally made broader to include composite and other materials now being used on the exterior of automobiles."

Both the regulatory and legislative environment in Wyoming are favorable for insurers, according to **Lyn Elliot**, assistant vice president for state government relations with the **American Property Casualty Insurers Association**.

One recurring concern is the prospect for adding a corporate income tax in Wyoming. Lawmakers have proposed a corporate and personal income tax to reduce the state's overreliance on the boom and bust of mineral taxes. However, as in the past, the legislation this year failed to advance. AIR

Wyoming Commercial Auto Insurers

Groups Ranked by Total 2018 Direct Premium Written (000)

Group Name	2018 Premium	Mkt share 2018	Loss Ratio 2018	2017 Premium	Mkt share 2017	Loss Ratio 2017	2016 Premium	Mkt share 2016	Loss Ratio 2016
Progressive Corp.	$12,464	13.1%	47.7%	$8,815	10.0%	76.9%	$7,464	9.0%	44.4%
Travelers Companies Inc.	$10,789	11.3%	48.5%	$10,161	11.5%	40.0%	$9,214	11.1%	35.1%
Old Republic Insurance	$7,350	7.7%	42.8%	$7,132	8.1%	71.2%	$6,628	8.0%	39.5%
Liberty Mutual	$7,064	7.4%	61.2%	$7,425	8.4%	58.2%	$7,700	9.3%	80.6%
Nationwide Mutual Group	$6,472	6.8%	61.3%	$6,345	7.2%	36.3%	$6,681	8.1%	42.1%
EMC Insurance	$5,841	6.1%	57.1%	$5,281	6.0%	88.4%	$4,719	5.7%	58.6%
Zurich Insurance Group	$5,085	5.4%	108.0%	$7,694	8.7%	17.4%	$5,999	7.3%	-11.2%
W. R. Berkley Corp.	$3,173	3.3%	47.5%	$2,395	2.7%	76.1%	$2,294	2.8%	79.3%
Berkshire Hathaway Inc.	$2,990	3.1%	50.1%	$2,978	3.4%	21.2%	$2,592	3.1%	27.2%
Acuity Mutual Insurance	$2,900	3.1%	107.8%	$2,165	2.5%	55.2%	$1,589	1.9%	45.1%
Farmers Insurance Group	$2,441	2.6%	64.5%	$2,737	3.1%	38.6%	$2,648	3.2%	50.4%
Cincinnati Financial Corp.	$2,117	2.2%	66.4%	$1,566	1.8%	36.2%	$1,196	1.5%	37.3%
Mountain West Farm Bureau Mutual Ins	$2,095	2.2%	177.2%	$1,999	2.3%	77.9%	$1,953	2.4%	126.1%
Chubb Ltd.	$1,959	2.1%	42.3%	$1,923	2.2%	137.6%	$1,582	1.9%	75.6%
Munich Re	$1,709	1.8%	65.4%	$1,992	2.3%	43.4%	$1,671	2.0%	57.9%
Statewide Totals	$95,103		59.8%	$88,148		59.8%	$82,750		53.5%

Source: S&P Global Market Intelligence and the *Auto Insurance Report* database.
Loss ratio = incurred losses/direct premium earned and does not include dividends or loss adjustment expense.

Focus: WYOMING

Wyoming Snapshot

Regulator: Commissioner Jeffrey Rude
Rate regulation: no filings required

Size of personal auto market: $413.2 million (2018 DPW) Rank: 49th

Average policy expenditure: $678 (2016)
Rank: 46th
Auto Insurance Report PAIN Index rank: 45th (2016)
Property Insurance Report HURT Index rank: 22nd (2017)

Auto registrations: 193,523 (2017)
Truck registrations: 592,555 (2017)

Vehicle miles traveled (VMT): 10.44 billion (2018)
Traffic fatalities: 1.06 per 100 million VMT; U.S.: 1.13 (2018)

Vehicle thefts: 145.2 per 100,000 residents; Region: 310.4 (2018)

Liability defense: modified comparative fault, 51% bar

Minimum Insurance Requirements:
BI: $25,000/$50,000 • PD: $20,000

Safety Laws
Texting ban for all drivers
Graduated licensing
Secondary seat belt law
Motorcycle helmets required for riders under 18

Demographics
Population: 578,759 (2019 est.)
Change 2010-2019: +2.7%, U.S.: +6.3%
Median household income (avg. 2014-2018): $62,268; U.S.: $60,293
Population density: 5.8 per square mile; U.S.: 87.4 per square mile (2010)

Sources: S&P Global Market Intelligence; NAIC; U.S. Dept. of Transportation; NAMIC; U.S. Census; Insurance Institute for Highway Safety; FBI; Matthiesen, Wickert & Lehrer

***REWARDS** Continued from Page 3*

Carrot policyholders install the telematics app on their smartphone. It tracks hard braking, acceleration, speed, cornering and, more recently, distracted driving – mostly by detecting phone use. After the trip, drivers can check their performance and progress toward the next reward on the app.

The company initially had to rely on a black-box dongle in the car's onboard diagnostic port to collect telematics data, which slowed its ability to add customers. The ubiquity of smartphones and the development of the app-only model played a large role in the expansion of its customer base, according to Rochfort.

He and his team tweaked the program as they learned what worked. For example, at launch, customers earned rewards on a quarterly basis, but that was too infrequent to be effective.

"They would be really interested that first month and drop off a little bit in the second month," Rochfort said. "Then as the quarter date came around and they could see that pot of money and think about getting the reward from us, then their engagement would start to come back up."

Now rewards arrive on a weekly basis, which has been "transformative" in maintaining driver engagement by making the app more game-like, he said.

Carrot driver scores fall into a classic bell curve, he said, with a tenfold difference between the scores of drivers at the top and the bottom, with most falling in the middle.

Those at the middle and top receive rewards, and those at the bottom receive "intervention" messages encouraging them to slow down or look at their phone less while driving. Interventions have proven successful, Rochfort said. Half of drivers don't need a second corrective nudge. The pattern stays true for drivers who receive a second and third message, with half of each group never requiring another. The biggest

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changes in behavior come from drivers at the bottom of the scale with the most room for improvement.

When Trak Global acquired IMS in December 2018, Carrot added distracted driving to the behaviors it tracks. Rochfort said the metric is too new for the company to provide statistical results. Of the other features it has tracked for years, hard braking was the most predictive of losses. A close second was speeding, particularly on city roads rather than on highways or interstates.

In the future, Rochfort said, Carrot will correlate claims and distracted driving. It will also provide additional layers of context and data to the telematics results, such as whether a quick turn was at a roundabout or right angle – an important distinction in the U.K. – as well as other context like weather and road surface. Carrot also plans to learn whether distracted driving at night is correlated with more claims than it is during the day, or distracted driving on the freeway versus an urban road, or between familiar or unfamiliar roads to add further complexity to the driving score algorithm.

TrueMotion, which has tracked distracted driving for a longer period, says it is the No. 1 predictor of accidents and claims. It's also a behavior that can be more easily changed, unlike the number of miles a person has to drive, or when they do the majority of their driving, which can depend on work schedules or other factors out of the policyholder's control, Fiorentino said. Drivers understand that if they don't touch their phone while driving, they'll earn points and rewards.

TrueMotion uses the phone's sensors to detect when someone is swiping and typing on the screen, as well as when they make handheld phone calls. It detects hands-free phone calls using the vehicle's Bluetooth, and it measures passive phone use, like maps and music, as well as phone use when the phone is in a mount, according to Fiorentino. Drivers can edit trips in the app, if, for example, they think the tracking might penalize them because a passenger used their phone, but TrueMotion monitors how often drivers edit trips to ensure honest edits.

Fiorentino said that distracted driving is so predictive that he expects insurers will use it in the future as a core rating factor in usage-based insurance, not just for rewards.

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MAPFRE *Continued from Page 1*

state structure that was going away.

Mapfre has worked hard in the United States. It invested in establishing its brand, and expanded into new markets. It hired significant talent to run the operations. But the company never found a firm footing, perhaps because it was standing on the wrong foundation.

In a conference call with analysts earlier this month, Mapfre executives explained that they have lost confidence in their ability to grow in most U.S. markets.

After chopping operations in **Indiana**, **Kentucky, Tennessee**, **New York** and **New Jersey** in 2018 and withdrawing from commercial lines in almost all states, the company is now eyeing reductions in **Arizona**, **Pennsylvania** and **Florida**. Meanwhile, premium volume in personal auto has declined in **California**, **Connecticut**, **Oregon** and **Ohio**.

What remains? Predictably enough, the only place where Mapfre has flourished following its acquisition of Massachusetts specialist Commerce has been in Massachusetts. Although the market has been partially deregulated, and competitors such as **Geico** have been on the rise, the legacy Commerce operation remains the largest writer in the state, with 23.3% of the personal auto market in 2018. That is down from the high water mark of 31.9% in 2007, the year Mapfre wrote its big check. (Email us for a copy of AIR 11/17/07 to read one of our favorite stories.) AIR

REWARDS *Continued from Page 8*

The exact messaging and rewards strategies vary by program and by culture, and they require careful attention to tone. Carriers that white-label Carrot's platform can tailor messages sent to drivers, a function that's "one of the most sought-after items among the U.S. insurers we've already spoken to," said **Brian Halk**, IMS senior director of marketing.

In Carrot's early days, messaging was too "preachy" about safe driving, Rochfort said, so the company rewrote the interventional nudges. Good drivers receive messages encouraging them to check the current value of their rewards pot or their progress towards the next safe-driving reward.

"We want to drive engagement, we want them to see their drivers score, and think about the relationship between the reward value and their driving performance and to keep that high in their consciousness," he said.

In South Africa, Discovery Insure applies only positive reinforcement; it does not send nudges to bad drivers. Ossip, the CEO, said there is a tricky balance between encouraging good driving without sounding like "Big Brother."

Discovery Insure began as a health insurance company almost 30 years ago, applying behavior incentives to wellness before opening its auto insurance business with a similar strategy. It launched its auto rewards program, Vitality Drive, in 2011.

"We've seen a real shift in driving behavior when people join our program," Ossip said.

According to figures provided by Discovery Insure, Vitality Drive policyholders improve their driving behavior by 15% on average after joining the program. And drivers who actively engage in Vitality Drive have a 60% relative lower lapse rate. Discovery Insure has also occasionally opened the Vitality Drive program to non-customers for contests, and the results showed that its customers' driver scores were 10% better.

Anton Ossip, CEO Discovery Insure

Driving behavior is tracked by the Vitality Drive phone app, which is validated by a small electronic wireless sensor tag affixed to the vehicle's windshield. McMahon at Cambridge said the tag acts as a ground-truth data quality check against the thousands of phone models in circulation that could provide varying readings.

The rewards program extends beyond driving telematics: policyholders can earn rewards points by taking online road-safety tests and by having a mechanic give their vehicle a safety inspection. But driving behavior is the biggest points generator in the program.

Drivers who accumulate enough points can receive up to 50% in cash back on their monthly gas purchases through partnerships with **Shell** and **BP**. The company has found success changing behavior by balancing the longer-term monthly rewards, like fuel discounts, with more frequent weekly rewards like coffee gift cards.

Discovery Insure is also offering policyholders **Uber** ride discounts to discourage night driving.

The strategy is targeted to sidestep the human behavior known as "hyperbolic discounting," where a person will discount the value of a reward promised too far in the future, said **Ilan Ossin**, head of telematics at Discovery Insure.

"If I promise to give you $1 million if you don't do something in 50 years, people are going to ignore it," he said. "So you need to create some immediacy, but you need to create the right balance as well."

Rewards programs also give the policyholder

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an incentive to keep the app permanently and receive something in return for providing data indefinitely, enabling insurers to leverage telematics in their claims processes. For example, the Vitality Drive app sends the insurer an alert immediately after a collision. The company's 24/7 emergency call center then contacts the policyholder to check on their well-being and dispatch emergency services if needed, Ossin said. Immediate responsiveness provides a safety benefit and increases the speed of Discovery Insure's claims processes by providing information from the accident, meaning the company can begin processing the claim immediately rather than a day or two later.

Ossip and Ossin said the wireless tag does require some upfront work, overhead and communications with potential customers about the benefits of the program. But it's a gigantic improvement over 2011, when, like Carrot, they had to rely on a black-box dongle. Back then, Discovery Insure had to send installers to the policyholder's vehicle to install the box.

"Technology has advanced to the point where it's really cheap to deploy," McMahon said.

The technology can also work without the wireless tag, and Erie Insurance decided to forgo it in its YourTurn program. Bloom said that during the pilot, the company experimented with the app-plus-tag, and found that some customers struggled with the hardware during the activation process.

"We also found that data coming from the phone is accurate enough for the purpose of providing rewards," he said.

Erie's program offers rewards to drivers every two weeks. Based on average premiums, drivers have an opportunity to earn 15% to 20% back in rewards annually. The company expects the program to create better drivers with the benefit of increasing customer retention.

"It's something they might not want to give up if they are thinking about moving to another company," he said.

Regulators in **New York** and **North Carolina** did not approve the rewards program. New York regulators believed the program violated its rebating laws, and they had concerns with the accuracy of phone-only telematics, according to Bloom.

Tom Considine, CEO of the **National Conference of Insurance Legislators** (NCOIL), said telematics rewards programs likely won't violate rebating laws in most states, though there are a few exceptions, such as Erie's experience in New York. Most states set a $25 threshold for rebates, and gift cards and other similar rewards will likely fall below that limit, he said. Many insurance commissioners are gravitating toward loosening rules for rebates overall, he said. Also, NCOIL drafted model legislation in the last year to reform rebating laws to allow for more value-added devices offered by insurers, like water sensors or telematics instruments, as well as to increase the rebate dollar threshold. AIR

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Subscription Rate: $1,187 per year by mail, or contact the editor for information on enterprise-wide electronic delivery.