Effective Driver Coaching Partnered With Telematics Improves Auto Claims and Customer Loyalty
EXECUTIVE SUMMARY

Effective Driver Coaching Partnered With Telematics Improves Auto Claims and Customer Loyalty, commissioned by ADEPT Driver and produced by Aite Group, examines the current role of telematics use in auto insurance. It investigates how the use of telematics paves the way for advanced driver training to solidify the customer experience and improve insurers’ overall claims experience while providing a service that customers appreciate.

Key takeaways from the study include the following:

- Telematics systems are becoming imperative for carriers to gain data about what a vehicle is doing and how the driver is performing as well as deeper insights into their customers.

- One of the key benefits of telematics systems is the ability to provide feedback to customers about how they are driving and what actions they take that contribute to their premium.

- Consumers not only own and use devices, but they are very aware of the benefits they can gain by sharing that data, and they are interested in sharing driving data in exchange for personalized training and advice.

- Better driver training must include comprehensive visual and spatial cues, including video and audio, that can be transferred from training to the road and is proven to reduce crashes and improve customer retention in order to reinforce the telematics data.

- Current driver coaching methods only provide feedback on unsafe driving, while effective driver coaching involves addressing and treating the underlying causes of unsafe driving.

- Effective driver coaching involves validated instructional technology that measurably improves driver behavior.

- Both insurance carriers and telematics vendors need to understand the benefits of detailed driver training and be willing to partner with firms that specialize in this field to provide the best value for their customers.
INTRODUCTION

Today’s vehicle insurance market is more competitive than ever, and carriers are constantly looking for improved rating systems, better claims processing, and deeper customer engagement. Insurance companies are turning to technology to help them improve their business processes, and telematics is playing a starring role for vehicle insurance. But telematics systems alone can only do so much, and those firms looking to take the next step to manage risk need to explore ways to help their customers improve their driving. Adding a driver training program to a telematics offering can help improve the overall driving experience for insureds, reduce claims frequency and severity, and increase driver engagement.

In this white paper, Aite Group examines the expanding role of telematics systems in vehicle insurance and outlines how insurance carriers should look to take the next step and include driver education and training as part of their offerings. Aite Group outlines the case for executives at insurance companies and telematics providers to add in-depth, proven training techniques and processes to their current telematics systems to allow for a more complete driver-improvement program that will create safer drivers and reduce claims.

METHODOLOGY

Aite Group bases this white paper on its existing research on the vehicle insurance landscape, as well as the telematics ecosystem, and on a 2019 survey of 766 U.S. consumers about their preferences for using these devices and for receiving personalized advice.
TELEMATICS OPENS NEW DOORS FOR CARRIERS

Competition in the insurance industry is forcing insurance companies to rethink their approach to vehicle insurance. Losses overall are increasing, and carriers are finding more resistance to premium increases than ever before. Vehicles are smarter and safer but much more expensive to repair, creating cost pressure for even minor accidents. Meanwhile, more vehicles are on the roads, creating congested roadways, frustrated drivers, and increasing claim frequency. To properly battle these negative trends, carriers are turning to telematics for help with rating, claims, and customer engagement. Telematics systems provide carriers with data about what a vehicle is doing and how the driver is performing as well as deeper insights into their customers (Table A).

Table A: Telematics’ Impact on Vehicle Insurance

<table>
<thead>
<tr>
<th>Insurance system</th>
<th>Telematics impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better rating that makes sense</td>
<td>Telematics systems generate extensive data about how a vehicle is being driven, providing more variables for insurance carriers to create more accurate rating systems.</td>
</tr>
<tr>
<td>Deeper claims understanding</td>
<td>Many telematics systems can detect an accident when it occurs and create a detailed accident report from the data collected during the drive.</td>
</tr>
<tr>
<td>Consistent customer engagement</td>
<td>Communicating with customers to establish a relationship outside of claims and billing is challenging for insurance companies, but telematics can provide a conduit for carriers to interact with their customers about their driving on a regular basis.</td>
</tr>
</tbody>
</table>

Source: Aite Group

BETTER RATING THAT MAKES SENSE

Traditional vehicle insurance ratings have not changed much over the years, but recent technology developments have opened the door for carriers to focus more on how customers drive as well as how their driving might change over time. Telematics systems provide detailed, real-time data about drivers and vehicles that insurers can use to create more accurate rating platforms that make sense. The benefits of telematics-based rating systems include ratings based on actual driving habits, changing premiums over time as driving habits change, and instant feedback for customers to allow them to have a role in determining their premiums:

- **Ratings are based on actual driving habits.** Accidents do not happen to only bad drivers, and not all bad drivers receive violations. Telematics systems are designed to allow drivers and insurance carriers to see driving habits in real time as well as over an extended period. Drivers use the information to help them understand which habits lower their premiums, while carriers use the data to create more sophisticated pricing models that accurately reflect driving ability and not just demographics or luck.
• **Premiums are flexible to reflect current driving habits.** Another benefit of telematics is the ability to have premiums change as drivers’ performance changes. As drivers receive feedback about their driving habits, they should be able to correct those habits and see an improvement in their premiums. With always-on data collection, telematics provides carriers with a method to make insurance rates more responsive as drivers’ habits change.

• **Instant feedback is available for customers.** Telematics systems that track drivers provide detailed feedback about what driving habits are the riskiest and will have the greatest impact on ratings. This type of constant feedback about actual driving events enables customers to better understand the relationship between their driving habits and their rating.

**DEEPER CLAIMS UNDERSTANDING**

Claims are the largest liability for insurers, representing 65% or more of each premium dollar received. Carriers have an intense interest in managing these expenses to provide competitive rates to their customers. Unfortunately, traditional claims handling is often undermined by delays in claims reporting, misleading facts, and lengthy investigations. Telematics systems aid with all of these concerns by leveraging the data collected with some advanced artificial intelligence (AI)-driven processing power.

Most telematics systems have AI that uses the data stream from the vehicle to detect when an accident has occurred. The system then preserves the data set immediately surrounding the incident and alerts the insurance carrier. The speed of the report helps the claims adjuster gather facts quickly, ensuring that more details will be recalled about the incident and that injuries can be properly catalogued. In addition, the telematics provider can package the relevant vehicle and driver data into a detailed report about the incident, helping adjusters determine liability, probable damages, and possible injuries. Overall, the addition of telematics speeds up the claims handling process by a matter of days, which can lead to more accurate claims handling (Figure 1).

**Figure 1: Timeline Comparison of Typical Claim Handling Process Versus Telematics Process**

<table>
<thead>
<tr>
<th>Claims process using current systems</th>
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</thead>
<tbody>
<tr>
<td>Day 0: Customer contacts carrier to report event</td>
</tr>
<tr>
<td>Day 1: Investigation initiated</td>
</tr>
<tr>
<td>Day 2: Investigation continued</td>
</tr>
<tr>
<td>Days 3 to 7: Investigation concluded and claim adjusted</td>
</tr>
<tr>
<td>Day 8+: Investigation concluded and claim adjusted</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Telematics process using advanced telematics solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Day 0: Telematics detects event and notifies customer</td>
</tr>
<tr>
<td>Day 1: Investigation initiated with detailed loss data</td>
</tr>
<tr>
<td>Day 2: Investigation concluded and claim adjusted</td>
</tr>
</tbody>
</table>

*Source: Aite Group*
CONSISTENT CUSTOMER ENGAGEMENT

Insurance carriers not only provide insurance products but also want to serve as risk advisors for their customers. However, most carriers only contact customers for claims and billing, which are not always the best times to build a relationship. Most carriers trying to establish regular communication with their customers face an uphill climb and are losing the retention battle as loyalty wanes. Telematics provides a conduit for insurance companies to have regular communication with their customers outside of claims and billing. Through driver-feedback systems, gamification, and basic rewards systems, carriers can work to establish lasting relationships with their customers, as described further herein:

- **Driver feedback helps identify good and bad habits.** Telematics programs are designed to help drivers identify how they drive from day to day. This data is provided to drivers to help them realize which habits are positive influences on their ratings and which ones are negative. Feedback is intended for carriers to use to help their customers drive safer, but reality indicates that feedback alone is not enough and without an effective driver training solution, carriers may wind up eroding trust rather than building loyalty.

- **Gamification makes driving fun.** Insurance carriers using telematics systems have enough data to make driver improvement a game and allow customers to compete against family members or themselves to earn badges, coupons, or other reward items. Regardless of the reward, the awareness that customers gain about their driving habits in relation to others can serve as a valuable tool to help focus attention on improvement.

- **Any rewards system will do.** Customers participate in rewards programs in many different industries and are willing to join insurance-based programs as well. Everything from discounts to gift cards can have an impact on a customer, encouraging them not only to improve their driving habits but also to trust their insurance carrier.

Given the benefits of telematics systems to vehicle insurance carriers, it is not surprising that more carriers are implementing these systems in their regular underwriting and claims processes. However, integrating these systems into current processes is just the first step for carriers that want to continue to build customer loyalty and create safer drivers with fewer claims. Even though many telematics systems provide driver feedback and coaching, these systems only identify the symptoms of unsafe driving while failing to properly evaluate and treat the underlying causes. Carriers must look beyond traditional telematics data and think about how to create a better driver. A telematics program that fails to use the data it develops to improve the crash avoidance skills of its insureds is a missed opportunity for the carrier and its customers.
DRIVER SAFETY AND BEHAVIOR

One of the most important features telematics vendors provide involves identifying how a driver is performing and reporting that back to the driver and the insurance company. Most vendors include features focused on detecting at least one main driver behavior that increases risk and providing information about it. Telematics systems monitor distracted driving, tired driving, or aggressive driving, and they provide reports and feedback designed to increase awareness about that behavior.

By reviewing the data provided by the telematics system, vendors create a driver feedback scheme based on the most recent activity and provide feedback for the driver, owner, and carrier to increase awareness of the risky activities. The feedback may be a simple rating with an overall score or may include lists of actions that contribute to risky driving.

Figure 2 shows the process of continuous feedback, training, and review that driver-feedback systems create.

Figure 2: Driver Behavior Monitoring Cycle

While these systems provide constant feedback for the driver, carriers may feel that the level of interaction is too much and that customers do not want to have this level of interaction with their insurance company. However, Aite Group research has shown not only that customers are willing to use these types of systems but also that many will actively seek out a program like this.¹

HOW WILL CUSTOMERS RESPOND?

Today’s insurance customers are more tech-savvy than ever before, and they understand how trading access to personal data can benefit them. Aite Group surveyed 766 U.S. consumers about their smart device usage, understanding of data, and willingness to share that data with insurance carriers for various benefits. Consumers not only own and use devices but are very aware of the benefits they can gain by sharing that data. When presented with an option to share driving data with their insurance company in exchange for only personalized advice, a majority of respondents who use smart driving devices indicate that they are moderately, very, or extremely interested (Figure 3).

Figure 3: Interest in Personalized Advice Programs by Users of Smart Driving Devices

![Chart showing interest levels](chart.png)

Source: Aite Group survey of 766 U.S. consumers, Q1 2019

The key questions for an insurance carrier are how providing advice differentiates it from its competition and whether customers will be interested in switching to get the benefits of customized advice. Based on survey results, 71% of respondents who use smart driving devices and are at least a little interested in an advice program would consider switching or would switch outright (Figure 4).

Telematics provides a path to more accurate and responsive ratings, faster and more accurate claims handling, and deeper customer engagement. Customers not only desire personalized driver feedback but will also consider changing companies for this kind of program. But what kind of personalized advice provides the best combination of driver training, customer engagement, and improved bottom line?

Knowing exactly what driving actions are responsible for increased risk is beneficial, but to really change behavior and create a better driver, carriers must look at augmenting telematics systems with proven training and reinforcement systems that focus on the causes of risky behavior. Building a better driver requires a better driver training system.
BUILDING A BETTER DRIVER

Telematics systems are designed to provide feedback for drivers in the form of warnings, scorecards, messaging, summaries, etc. This kind of feedback is definitely an improvement over the current trend of no feedback at all. However, this type of system only identifies the symptoms of risky driving behavior. The best system for insurers to use when building a better driver is one that identifies and treats the causes of risky driving and improves driving skills, reducing accidents and violations in the process.

Driver-behavior feedback systems in telematics suites are designed to inform drivers of what specific activities increase risk and lead to higher rates. These nuggets of information do not address the need for drivers to practice and to learn proper techniques; they fail to provide proven learning techniques to reinforce better driving habits. To ensure that drivers receive the best training, insurance carriers will need to combine their telematics-based feedback systems with a more comprehensive education and training system designed to help drivers focus on crash avoidance techniques and retain the lessons learned.

WHAT DRIVER TRAINING LOOKS LIKE

To effectively address risky driving behavior, the main causes of vehicle accidents must be understood:

- **Speed control:** Exceeding posted speed limits as well as driving too fast for current traffic or conditions
- **Space management:** Maintaining enough space around the vehicle to provide an opportunity for action, such as sudden stops or lane changes
- **Risk perception:** Identifying the most likely risky elements around you as you drive, such as speeding or tailgating vehicles
- **Visual search and memory:** Understanding what is going on in the environment around the vehicle and remembering it
- **Hazard recognition:** Taking time to recognize hazards, such as construction, weather, or other environmental issues
- **Lifestyle issues and distracted driving:** Paying attention to driving and what is going on around the vehicle

These categories of risky driving behavior are the cause of most accidents. Any program that intends to address increased losses and risky driving behavior must start with these factors to effectively improve crash avoidance. Fortunately, telematics systems can help insurers identify the riskiest drivers and provide feedback designed to help raise awareness. Unfortunately, just notifying drivers of their risky habits does not address the cause and fails to emphasize the need to correct those behaviors to become a better driver. For insurance carriers to focus on reducing claims frequency and build better drivers, they must focus on providing better training tools to their customers.
Better driver training must include comprehensive visual and spatial cues for drivers that can be transferred to the road in order to maximize effectiveness and improve retention. Video and audio are the most effective tools to help drivers retain training and understand the link between the training and driving in a live situation.

Driver training is not “one-size-fits-all,” since drivers have differing levels of skill and experience as well as physical limitations. Customization is a must to ensure proper training and development. Drivers also change over their lifetimes, and appropriate training must conform to the unique challenges each driver faces. Youthful drivers lack experience and tend to get distracted easily while mature drivers may not enjoy the same reflexes they once did. Adult drivers regularly face commutes and traffic that can create other challenges.

**YOUTHFUL DRIVERS**

Youthful drivers present significant risks for insurance companies, and traditionally, the only way to account for the added risk was to increase rates significantly until drivers were older. With the addition of telematics, carriers have the ability to monitor youthful operators and determine appropriate driver risk and the need for additional reinforcement to become better drivers. Telematics can identify the risky drivers, while targeted driver training that focuses on the causes of the behavior leads to improvement.

Targeted training includes a set of proven features that help an inexperienced driver learn to identify risks and reduce distractions and then carry those learnings to the road. Comprehensive training systems include a variety of features to ensure lesson retention and improve driving:

- **Curated content:** Real-life examples and accurate content are important to ensure realism and drive home lessons learned in the process.

- **Video-based instruction:** Video of actual driving experiences trains drivers to see the world around them as they drive and recognize common hazards and risks.

- **Realistic simulations:** Realistic driving simulations present situations that a student will recognize, which makes the entire process more engaging and increases retention of the material.

- **In-car exercises:** Video training is reinforced with in-car exercises to ensure transition of skills from the video to the road.

- **Measurement system:** Constant measurement and feedback ensures that lessons are understood and that the participant is continuing to progress.

Youthful drivers presented with this type of learning system dramatically improve their driving skills and reduce their risky behaviors. Studies have shown that youthful drivers who complete a program as outlined above will reduce accident frequency by an average of 28% and up to 49%,
bodily injury by as much as 51\%^{3}, and traffic violations by an average of 54\% and up to 67\%.^{4} These metrics of driver behavior change are missing in most current driver-coaching applications paired with telematics.

The impact of this training on the drivers is significant, but the impact on insurance carriers is also huge. Diminishing crash frequency and severity reduces exposure, cuts expenses, and creates customer trust, while curtailing violations helps maintain rate consistency and increase retention.

With regard to effective training improving retention, one recent study of policyholders adding teen drivers showed that of those whose teen completed comprehensive training, policy retention after one year was nearly 97\% versus an industry average of 90\%, and after four years, 86\% of those insureds were still with the company compared to only 65\% on average for the industry.\(^5\) These are policyholders who survived perhaps the largest premium increases of the policy life.

**MATURE DRIVERS**

Drivers over the age of 60 present a growing segment for carriers to think about and a different challenge from youthful operators. This segment of customers is large and growing, and it is a main focus for the insurance industry. These customers are concerned about losing their driving privileges but may not be aware as their risky driving habits increase. Driver training systems for this category of drivers should include the following:

- **Targeted training:** Training needs to focus on the risk factors most commonly associated with this type of driver, such as space awareness, visual awareness, and hazard awareness.

- **Age effects on driving:** Drivers aware of how age affects driving are more likely to notice and take corrective steps when it occurs.

- **Self-regulation:** A system can be in place to help drivers recognize the limits of their skill and know when to restrict or reduce driving (at night, in the rain, etc.).

- **Reinforce driver testing:** As more states regulate mature drivers, training should help them understand testing for both written and on-road exams.

- **Medication and driving:** Training must address the impact of various medications on driving ability and help drivers understand when it is OK to drive and when to stop.

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The method for evaluating mature drivers is not that different from the one for evaluating youthful operators, but the focus of the training changes to the problems most identifiable with more mature drivers. The most impactful categories for mature-driver training include the following:

- **Visual awareness**: Driver’s ability to identify and remember objects from blind spots, mirrors, and main viewing areas
- **Hazard detection**: Locating and identifying hazards during drives
- **Gap awareness**: Identifying and avoiding risky or unsafe gaps between vehicles

For insurance carriers, these customers are often long-term insureds with strong relationships with the company. Providing a system to keep them on the road and driving safely not only protects the insurance company’s bottom line but also strengthens the bond between the carrier and the customer.

**TRADITIONAL DRIVERS**

Generally, insurance companies have not offered drivers who are between youthful operators and mature drivers additional training and evaluation. However, this segment is the largest group of drivers, and they are driving the most; carriers would be remiss to ignore them. Ultimately, these drivers generate the most premium and can produce the most pressure on claims. Insurance companies must be aware of how this group drives and ensure that the drivers are as safe as possible.

Even with the experience of these drivers, they will face many of the same issues that youthful operators do, and their training should reflect that. Seven main categories can provide a comprehensive training program for adult drivers to make sure they retain the skills they learned when starting to drive and stay sharp as the environment around them changes:

- **Speed and space management**: Training to measure speed tendencies as well as gap management between vehicles is necessary.
- **Gap analysis at intersection**: Maintaining a safe distance between stopped vehicles and while waiting for traffic is important.
- **Lane changing and merging**: Increased commuting and travel creates a need for reinforcement of these skills.
- **Hazard detection and divided attention**: A key element of safe driving is the recognition of hazards while driving.
- **Visual awareness**: Drivers should be able to identify and remember what is going on around them.
- **Risk perception**: Drivers should notice the main risks around them.
- **Lifestyle issues**: Distracted driving and other issues while driving are key causes of accidents.
With this group of drivers representing such a large portion of any insurance carrier’s book of business, the importance of safe driving should be obvious.

**WHAT NEXT?**

The use of telematics is increasing and creating more data for insurance carriers to use when evaluating risk. The advantage of this is more accurate ratings based on how customers drive, faster claims reporting, better claims reports, and deeper customer engagement. The next step for insurance companies is working to build better drivers and make sure those drivers feel a connection to their carrier.

For carriers to identify the best training system, they must look beyond basic telematics solutions and find education and training programs that focus on the causes of risky driving behavior. An effective training system must include real-life examples with targeted audio and video to reinforce the activities most likely to cause risky driving as well as create a strong retention system to help translate the learned skills to actual driving.

The solution is for carriers to focus on pairing a telematics solution that works for them with a proven training solution that addresses the causes of risky driving and is shown to reduce accidents. While telematics firms excel at collecting and reporting data that identifies the symptoms of risky driving behavior, they would benefit from partnering with established firms that specialize in driver training for a complete end-to-end data collection, reporting, and training system in one package.
CONCLUSION

For insurance carriers:

- Telematics systems provide detailed data about the symptoms of risky driving, but for carriers to build better drivers, they will need to look beyond the symptoms and help drivers see the causes of their risky driving and deliver effective training targeting those causes.

- To ensure that drivers receive the best training, insurance carriers need to combine their telematics-based feedback systems with a more comprehensive education and training system that treats the causes of risky driving and addresses the unique needs of different customer groups while reinforcing safe driving behavior.

- Each driver is unique with driving habits that change over time, and carriers must seek out driver training programs that provide flexible options targeting different segments of a driver’s life cycle.

- Consumers not only own and use devices but are very aware of the benefits they can gain by sharing that data, and carriers should understand that offering driver-feedback programs will encourage consumers to switch.

- Carriers should focus on finding a telematics solution that works for them and integrate that with an effective training solution that addresses the need for improved driver safety to create the most value for the carrier and the customer.

- Carriers looking to improve overall claims experience must ensure that any telematics offering is paired with effective training to reap the most improvement in frequency and severity as well as create safer drivers.

For telematics firms:

- Consumers are willing to share data about how they drive as long as they receive some benefit, and telematics firms need to be prepared with options for carriers to maximize this.

- To provide the best service for carriers, telematics vendors need to actively seek out the best driver coaching programs to maximize the benefits of the feedback provided by their service.
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