

CELENT

BUILDING A FIRST-TO-MARKET PAY AS YOU DRIVE OFFERING

March 30, 2021

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EXECUTIVE SUMMARY

What does it take to become a first to market, pay as you drive offering? CAA's MyPace™ product provides the answer.

It all started with an idea. In a focus group, policyholders stated they wanted more control over how much they pay for insurance.

From that, Matthew Turack, President of CAA Insurance, identified the need to create a program that would allow policyholders to control costs and pay for kilometers driven through a simple reloadable system.

Multiple groups within CAA Insurance worked together to create an innovative structure for the cost and automated billing framework for the CAA MyPace automobile payment plan. CAA Insurance also worked closely with provincial regulators to gain approval for this innovative payment plan offering.

CAA MyPace depends on a carefully integrated exchange of data from the vehicle to a CAA integration platform, and then to Guidewire PolicyCenter and Guidewire BillingCenter.

Because CAA MyPace was a novel insurance offering, CAA Insurance undertook a range of promotion activities before and after its launch. The company also is tracking multiple dimensions: growth, conversion of existing policyholders, and reach into the CAA Auto Club membership.

CAA MyPace is a model of product innovation based on meeting the needs of today's consumers.

THE IDEA

In a focus group, policyholders stated they wanted more control over how much they pay for insurance. And the idea was born.

CAA Insurance (CAA) is a company within CCG (CAA Club Group). CAA Insurance offers automobile, home, and other personal lines of insurance. The company prides itself on understanding its policyholders' needs. It came to the realization that as its policyholders go through various life stages, and circumstances are constantly changing, their traditional automobile policy had remained essentially unchanged over the years and may not meet the changing needs of consumers.

In focus groups, policyholders said they wanted to be able to control how much they are paying for insurance. They wanted to control of the relationship between the distance they drive and how much they pay for insurance.

Matthew Turack, President of CAA Insurance, identified the need to create a program that would allow policyholders to control costs and pay for kilometers driven through a reloadable system.

This realization started CAA down a path that led to the design and launch of CAA MyPace, Canada's first pay as you drive insurance plan. This report describes the development of CAA MyPace, its successful launch, the positive market reception, and the technology that brings it all together.

THE PRODUCT

Multiple groups within CAA worked together to create an innovative structure for the cost and automated billing structure for the CAA MyPace automobile payment plan. CAA also worked closely with provincial regulators to gain approval for this innovative offering.

Product Design

After a significant amount of actuarial and statistical analysis, CAA settled on a ground-breaking design that is easy to explain and simple to use.

Essentially the premium for a CAA MyPace policy has two components: a base rate, and an incremental charge for every 1,000 kilometers (km) driven, up to 9,000 km. To calculate each amount, CAA starts with the premium for a standard personal auto policy for a policyholder with a given risk profile.

For example, assume the annual premium for a standard policy for a given policyholder is \$1,100. A base charge is calculated to be \$200. Then the remaining \$900 is divided into 9 equal distance-driven charges of \$100 per 1,000 km. Table 1 illustrates the annual CAA MyPace premium for such a policyholder who only drives 5,000 km during the policy year.

Table 1: Illustrative CAA MyPace Premium Calculation

Component	Charge
Base charge	\$200
Distance driven during policy period	5,000 km
Distance driven premium	\$500
Total annual premium	\$700

Source: Celent

So, by driving only 5,000 km during the year, this CAA MyPace policyholder has saved \$400 from the premium that would be paid on a traditional CAA policy. (Note: There is no additional charge if the kilometers driven during the year are over 9,000.)

While several US insurers offer pay as you drive policies, some of those policies calculate premiums with a crucial difference: a monthly charge, plus a charge for distance driven in a month. The premium billed for those policies could fluctuate

significantly from month to month—possibly creating household budget and cash flow challenges.

Regulatory Issues

Before it could launch CAA MyPace, CAA had to obtain approval from its Ontario regulator, FSRA (The Financial Services Regulatory Authority of Ontario). Because certain CAA MyPace pricing and billing features were new, FSRA wanted reasonable consumer protections built into the billing process.

A key communication process emerged from these discussions: advance notification to CAA MyPace policyholders that they were approaching the next 1,000 km threshold and that their credit card would be charged for the next level of usage. This communication went through multiple channels: email, SMS messaging, a CAA MyPace portal, and a CAA MyPace mobile phone app.

Emails are sent automatically when a policyholder is getting close to reaching the 1,000-kilometer threshold, at which time CAA will automatically load the next 1,000 kilometers. Policyholders must sign up for email notifications with an option of also receiving SMS messaging.

How Long It Took to Create CAA MyPace

Once the concept was created, a CAA multi-disciplinary team worked to bring the plan quickly to market. The development timeline for CAA MyPace began in September 2017, saw a New Business release in May 2018, and a renewal release in 2019.

THE TECHNOLOGY THAT MAKES CAA MYPACE WORK

CAA MyPace depends on a carefully integrated exchange of data from the vehicle to a CAA integration platform. The data is then sent to Guidewire PolicyCenter and Guidewire BillingCenter.

Sourcing and Processing the Data

To make CAA MyPace work, CAA had to source, process, and communicate accurate information on kilometers driven. It solved these challenges through well-designed exchanges of data, and related triggered activities, among several Guidewire and OCTO systems.

1. CAA provided CAA MyPace policyholders with a dongle to be plugged into a vehicle's OBD-II port. Policyholders could install the dongle themselves or if help was needed, they could go into a CAA Store. On the very rare occasions where the policyholder experiences difficulty installing the device and is unable to go to a CAA Store, CAA will dispatch a light service vehicle to their home to help with installation.
2. The dongles (provided by OCTO) capture the number of kilometers driven and transmit that information either by a Bluetooth or cellular connection to a CAA integration platform.
3. That information is transmitted at specific kilometer intervals to Guidewire PolicyCenter's rating engine.
4. As soon as the next 1,000 km interval is reached, PolicyCenter messages Guidewire BillingCenter and an automatic payment for the next 1,000 kilometers is processed.
5. The same distance-driven data is transmitted to CAA MyPace policyholder portals and mobile apps (also provided by OCTO)—where it is accessible in essentially real-time.
6. The portal and/or mobile app also alerts the CAA MyPace policyholder at selected intervals **before** the next 1,000 km level is reached, such as 750 km, 900 km, and 950 km. CAA sends a confirmation to the policyholder when the 1,000 km payment is made.

How it works.

CAA MyPace is a payment plan that provides the best way to control and manage your auto insurance premiums.

There are four easy steps to use CAA MyPace:

1. Enroll in CAA MyPace and pay your base rate plus your first 1,000 kilometers rate.
2. Install the CAA MyPace device in your car.
3. Download the CAA MyPace App to your smartphone. You can monitor your usage at any time by logging in to your CAA Account online by [clicking here](#) and/or via the CAA MyPace mobile app.
4. Drive. We'll automatically reload your next 1,000 kilometers for you.

It's that easy. And you're always backed up by CAA's reputation for great customer service.

Source: CAA promotion

PROMOTING THE LAUNCH

Wrapping a GO Train . . . and Other Promotions

Because CAA MyPace was a novel insurance offering, CAA undertook a range of promotional activities before and after its launch. These included:

- Physical advertisements aimed at commuters using public transportation (i.e., people who did not drive their vehicles to work), for example, at Union Station in Toronto and posters in bus shelters.
- Wrapping a GO Transit car with CAA MyPace advertising.
- Online, digital, television, radio, and print advertisements.
- Targeted direct marketing to CAA Members (who were not current CAA Insurance policyholders).

Figure 1: CAA MyPace Physical Advertisements



Source: CAA

Table 2 and Table 3 show the number of impressions in CAA’s multichannel advertising and promotional campaign.

Table 2: Traditional Media Channels and Impressions

Traditional Media	Impressions
Print and digital ads	386,000
Newspaper ads	2.2 million
Subway car posters	149.6 million
Digital billboards	62 million
GO Train Wrap	12.2 million
Traditional radio	4.5 million
Digital radio	952,000
Television commercial	8.4 million

Source: CAA

Table 3: Social Media Channels and Impressions

Social Media	Impressions
Facebook and Instagram	21.3 million
Social video	4.6 million
Native and banner ads	21.7 million
YouTube	16.9 million
Other Internet video	56.5 million

Source: CAA

At the time of the product launch, CAA had over 2,000 inquiries already on hand to follow up.

Looking back, CAA Insurance’s Turack stated he would have invested more in the prelaunch promotion, expanded the demographic reach, and promoted the message that there is no downside to the CAA MyPace program.

CAA MYPACE INITIATIVE HAS OUTSTANDING RESULTS

CAA is tracking multiple dimensions of its new product: growth, conversion of existing policyholders, and reach into the CAA Auto Club membership.

As Table 4 shows, CAA MyPace grew rapidly during 2019, its first full year of operation. Even more impressive was the product's 2020 growth: 300% year-over-year. This growth also reflected the unforeseen impact of the COVID-19 pandemic on commuting and other vehicle use patterns.

Table 4: Four CAA MyPace Metrics

Metric	2019	2020
Year-Over-Year change in new CAA MyPace policies	110%	300%
Percent of CAA MyPace policies issued to existing CAA policyholders (i.e., issued to policyholders switching to CAA MyPace)	22%	28%
Percent of CAA MyPace policies issued to policyholders new to CAA Insurance	78%	72%
% of CAA MyPace policies issued to members of the CAA Club	75%	75%

Source: CAA

One of the major questions for any insurer considering a Usage Based Insurance (UBI) program is whether it would shift policyholders from traditional policies into UBI policies. CAA's two-year experience shows that shift was responsible for roughly 20% to 30% of new CAA MyPace policyholders. When asked about this pattern, the

CAA Insurance President said that if a customer deserves to pay a lower premium, CAA should only charge that lower premium.

Conversely, 70% to 80% of CAA MyPace policyholders are new to CAA Insurance.



On a net basis, CAA Insurance revenues have grown as new customers' premiums have more than compensated for reduction in premium from existing customers switching to CAA MyPace. We are proud, in the current climate of the pandemic, that CAA MyPace has provided policyholders the safety they deserved as well as the financial savings they were seeking when not using their vehicles as they did in the past. CAA MyPace is about meeting the changing needs of the policyholder and adapting to those needs through innovative product offerings.

Matthew Turack, CAA Insurance President

Lastly, roughly three-quarters of CAA MyPace policies were issued to CAA Auto Club members. This broad reach into the Auto Club membership reinforces the value of the relationship between CAA Insurance and the CAA Auto Club programs.

LESSONS LEARNED AND CONCLUSIONS

CAA's MyPace is a model of product innovation based on the needs of consumers in their day-to-day environment.

Lessons Learned by CAA

First, listen to your customers. CAA did—and heard, “We want the freedom to pay only for the distance we need without changing our driving habits.”

After hearing and responding to this primary lesson, CAA also learned to:

- Assemble a team that can creatively design a product that gives your customers what they have described.
- Work with trusted technology firms.
- Establish a cooperative relationship with the regulatory agency.
- Invest in getting the word out to prospective customers.
- Keep your messaging clear and simple, and avoid insurance jargon.
- Consider variations on your initial theme. For example, CAA may consider a version of CAA MyPace for drivers who typically driver over 9,000 km in a year.

Conclusions

While “pay how you drive” telematics programs have been established for years, CAA MyPace illustrates the untapped potential for “pay as you drive” usage-based insurance programs. The impact of the COVID-19 pandemic on vehicle usage has heightened demand for this type of coverage.

A product that blends pay-as-you-drive and pay-how-you-drive (currently being tried by some US insurers) might spur growth of both kinds of programs

If some insurers are changing the value propositions of their products in ways that reduce revenue or margins, other insurers must either follow or find new value propositions to maintain their revenue and margins.

LEVERAGING CELENT'S EXPERTISE

If you found this report valuable, you might consider engaging with Celent for custom analysis and research. Our collective experience and the knowledge we gained while working on this report can help you streamline the creation, refinement, or execution of your strategies.

Support for Financial Institutions

Typical projects we support related to policy administration systems include:

Vendor short listing and selection. We perform discovery specific to you and your business to better understand your unique needs. We then create and administer a custom RFI to selected vendors to assist you in making rapid and accurate vendor choices.

Business practice evaluations. We spend time evaluating your business processes, particularly in policy administration, rating, and claims. Based on our knowledge of the market, we identify potential process or technology constraints and provide clear insights that will help you implement industry best practices.

IT and business strategy creation. We collect perspectives from your executive team, your front-line business and IT staff, and your customers. We then analyze your current position, institutional capabilities, and technology against your goals. If necessary, we help you reformulate your technology and business plans to address short-term and long-term needs.

Support for Vendors

We provide services that help you refine your product and service offerings.

Examples include:

Product and service strategy evaluation. We help you assess your market position in terms of functionality, technology, and services. Our strategy workshops will help you target the right customers and map your offerings to their needs.

Market messaging and collateral review. Based on our extensive experience with your potential clients, we assess your marketing and sales materials—including your website and any collateral.

RELATED CELENT RESEARCH

[Risk Personalization in Auto Insurance – The Rise of the Machines](#)
September 2020

[iúnigo: Dynamic Pricing Optimization for Auto Insurance](#)
March 2021

[Aon-CarrierHQ: Small Fleet Advantage Risk Retention Group - the First Telematics Driven Insurance Product](#)
March 2021

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