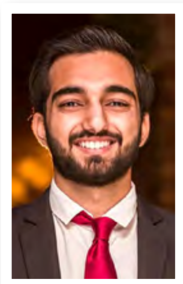
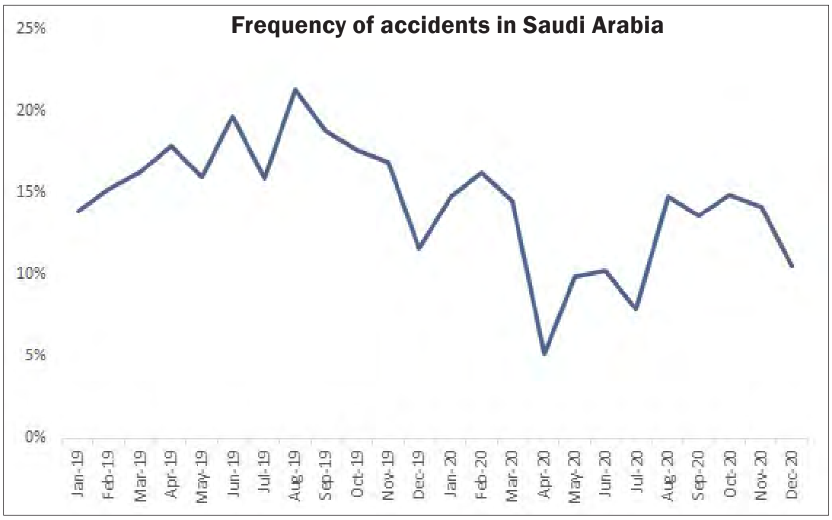
MOTOR

Changing driving patterns increase demand for pay-as-you-drive insurance model

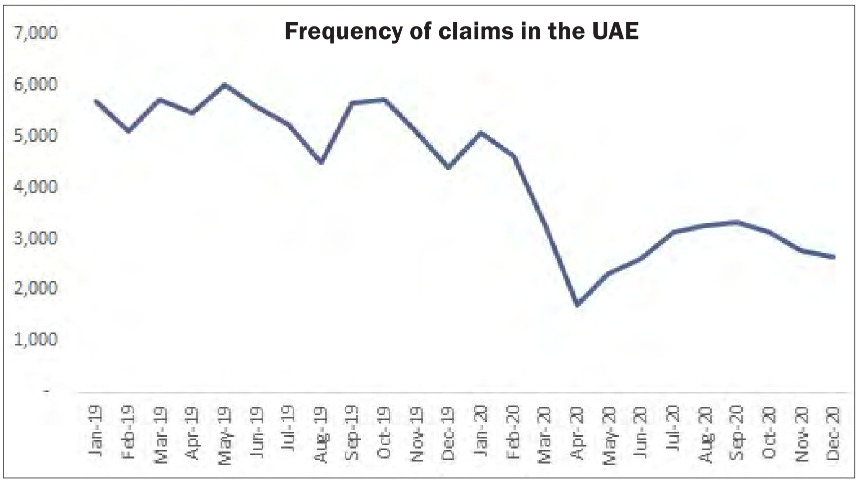
The region's motor insurance business needs to adapt through new premium models to survive the unprecedented changes in market conditions, say **Badri**'s **Messrs Ali Asghar Bhuriwala** and **Muhammad Hamza Asad**.



Government lockdowns last year to control the COVID-19 pandemic resulted in most people working or studying from home. This significantly reduced road traffic as offices and schools closed. There were fewer accidents and lower frequency of claims for insurance companies. The following graphs, compiled from Najm reports which track accidents, illustrate the frequency of accidents per month in KSA for the past two years:



The frequency of accidents fell in March and April 2020 but rose in June 2020 when the pandemic-related lockdowns started to lift. The overall frequency of accidents is still lower than pre-pandemic. Similarly, in the UAE, the frequency of claims significantly dropped during the lockdown months and despite a slight increase, the frequency has yet to recover to pre-pandemic levels. An illustration of claims frequency from a sample of insurance companies in the UAE shows a similar pattern to KSA.



According to a research study conducted by Mercer, there will be 'at least 20% full time remote workers' even after the pandemic ends. This implies that the current scenario of fewer vehicles on the road will continue in the post-pandemic world. The COVID-19 community report by Google shows that the mobility around workplaces in the UAE (as of 2 May 2021) is still below the baseline, where the baseline is the median value for the corresponding day of the week, during the five-week period from 3 January to 6 February 2020. This is depicted in the graph below:

Mobility trends for places of work

Balancing premiums with reduced vehicle usage

With vehicle usage reduced, consumers have sought options that afford them savings on their car insurance and a relief from relatively hefty premiums. Insurance companies responded immediately with high discounts for reduced claims costs, as companies tried to procure and retain business during the pandemic. The insurance regulator in the UAE also supported the initiative by allowing discounts of up to 50% (subject to certain criteria) off the minimum stipulated tariffs. In KSA, during the peak of the pandemic, the regulator required policies issued during that period to offer complimentary coverage for an extra two months.

However, progressively, insurance companies would need to change their pricing practices to be more competitive in the market and avoid the risk of charging unsustainably high or low rates. One way of doing this is by factoring in the usage of the car while calculating premium rates. This usage-based insurance phenomenon which is alternately called 'pay-as-you-drive' (PAYD) or 'pay-how-you-drive' (PHYD) is ideal for someone who drives their car infrequently or are generally safer drivers, as it would give them protection without having to bear the cost of a standard motor insurance policy.

Traditionally, motor insurance companies used statistics based on a variety of factors to determine the premium, such as body type, make and model of the car, the age of the driver, the number of cylinders in the car, etc. These factors help calculate the rate for a standard motor insurance policy.

As for PAYD insurance, premiums are calculated based on actual usage of the car and considers both driving quality and distance traversed. In essence, the less or safer one drives, the chances of having an accident and incurring a claim reduce and hence less premiums will be charged. The usage of the car may be monitored through a 'black box' telematics device installed in the car, or through a mobile application given to the driver. The relevant data, including the distance travelled, the average speed of the car, the frequency of braking and accelerating and the region where it travels is transmitted back to the insurer. The insurance company then uses this information to adjust the premiums that are charged.

Enabling usage-based motor insurance

The PAYD insurance policy is a viable alternative to traditional motor insurance policies and is increasingly relevant given the recent changes in driving behaviours in the post pandemic world. Although this phenomenon is still nascent in the Middle East, developments to the existing pricing methodologies are inevitable.

However, to incorporate these changes, insurance companies will require some assistance from governments and insurance regulators as well, in the form of incentives or regulations to encourage insurers to offer PAYD pricing. An example is the regulatory sandbox pilot project by India's Insurance Regulatory and Development Authority (IRDAI), which consists of various products including PAYD being launched with the objective of recognising innovative ideas to foster growth in insurance sector.

A company in the Middle East currently underwrites insurance policies that give cashback discounts of up to 25% to the insureds for driving fewer kilometres. The company primarily relies on car usage to calculate premiums. This serves as a first step in the direction towards the PAYD model. A recent market study by MarketsandMarkets projected the usage-based car insurance market to grow at a CAGR of 23%, starting from $24bn in 2019 to hit $125.7bn by 2027. This underscores the market's untapped potential.

Efficient adaptation and implementation of PAYD would require accurately recording and maintaining large amounts of data. Insurance companies, particularly in the Middle East, still have a lot of improvements to make in this regard both in the form of upgrading their systems to record the data and to analyse and use this data efficiently. Other deterrents include the initial cost of installing the telematics device and privacy concerns.

Customer-centric proposition

Looking ahead, motor insurance companies in the Middle East will have to modify existing pricing methods deployed and consider car usage as a determinant of premium calculations. Despite the possible initial barriers and the operational challenges, in the longer term, PAYD would help ensure that the calculated rates accurately reflect the inherent risk that the company has taken on.

The pandemic has inadvertently accelerated digital transformation across industries and may speed up the adoption of the PAYD model in the Middle East motor insurance space.

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