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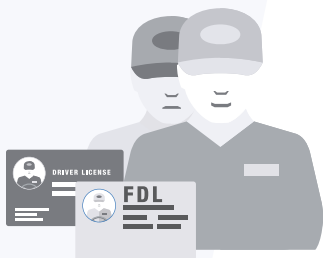
Key Factors for Appropriately Pricing Unlicensed or Foreign Driver Risk + Opportunities for Insurers



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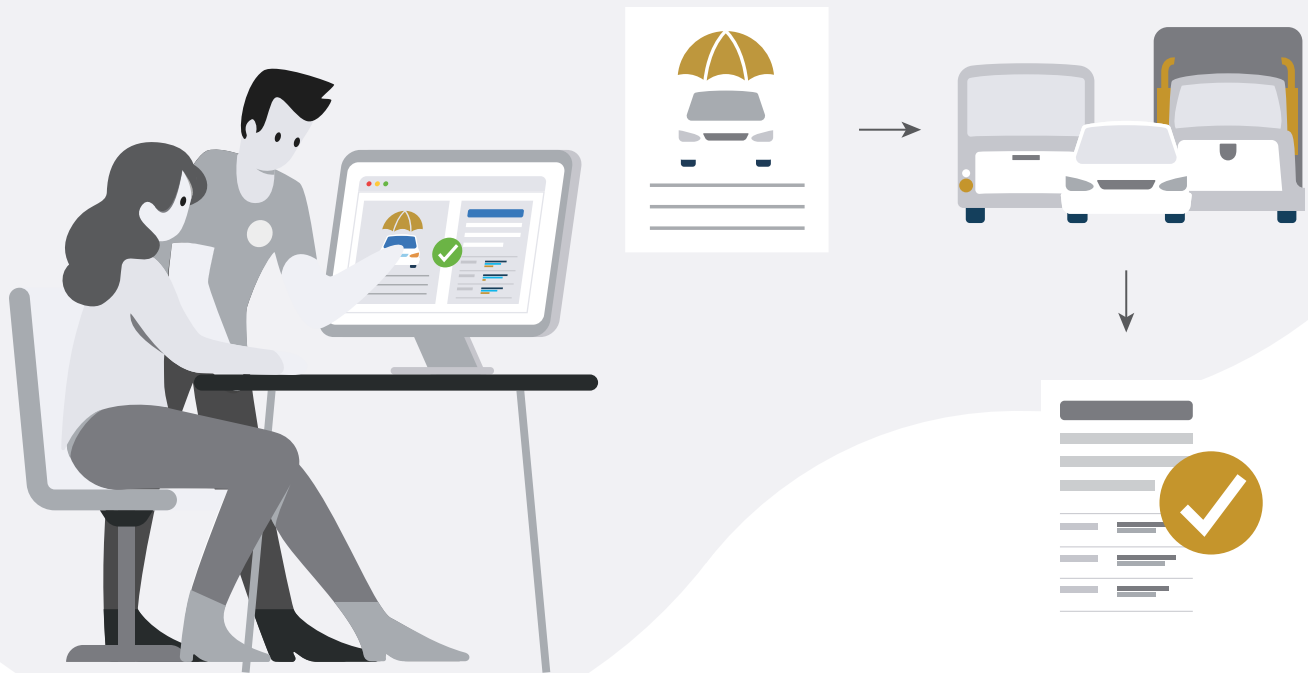
30%

of drivers **WHO HAVE A FDL**
also maintain a
U.S. DRIVER'S LICENSE

The market is changing. Pressure to exceed customer expectations, increased competition, greater diversity, and automated business processes are impacting underwriting performance. For insurance carriers targeting foreign or unlicensed drivers, these changes provide both new challenges and opportunities for pricing and assessing risk.

The number of individuals in the U.S. that are unlicensed or have a foreign driver license (FDL) have significantly increased. Up to 30% of these drivers also maintain a U.S. driver's license. Many of these drivers claim FDL simply to avoid the MVR pull and the ultimate detection of violation activity that would be uncovered, if their MVR were to be pulled.

To compete, carriers need automation and validation processes that will meet customer expectations and can help attract and retain the right customers, all while effectively pricing and underwriting driver risk. After all, there is no such thing as bad insurance risk, only poorly priced risk. Validation is the key to understanding and accurately pricing unlicensed or foreign drivers. Distinguishing among drivers allows carriers to protect against adverse selection, improve profitability, and establish a winning acquisition strategy.



The Changing Customer Experience

Customer expectations have changed, with 40% of households actively shopping their auto insurance. Seventy-five percent of consumers are beginning their journey online seeking a simple, quick, and transparent experience. In response, carriers are streamlining the application process by asking fewer questions, expediting the quote process in attempt to deliver a bindable quote. Combined, these factors are creating new insurance challenges resulting in premium leakage and higher loss ratios. Further, without processes in place to validate risk, carriers are subjected to adverse selection. The critical component to turn this risk into reward is the ability to employ rate evasion tactics and discern which drivers have a U.S. license from those that are truly the international or foreign driver.

“Combined, these factors are creating new insurance challenges resulting in premium leakage and higher loss ratios.”

Understanding Foreign and No License Risks

With an increasing number of foreign or no license drivers in carrier books, and with loss ratios climbing, carriers suspected a portion of their books were being impacted by rate evasion tactics. Their suspicion was that these individuals were falsely claiming an FDL or no license in order to hide driving behaviors that would increase their insurance premiums.

A study conducted by SambaSafety in partnership with our carrier customers confirmed there is a large population of drivers that are falsely claiming foreign or no license. Many are doing so to avoid detection of previous violation or accident experience, while others to hide identity, fraud, or more serious criminal behavior. Regardless of the motive, this subset of drivers presents both risk and/or opportunity if effective underwriting methods are employed.

The Data

Participating carriers presented SambaSafety with more than one million foreign or no license drivers in California and Texas. The SambaSafety Data & Analytics team assessed these individuals against our driver database with two goals:

- 1 | **Determine if their claims of FDL or no license were true.**
- 2 | **If their claims were false, why they didn't acknowledge their U.S. license.**

Findings revealed that nearly 1/3 of drivers alleging to hold only an international or no license in California did indeed have a U.S. license. Additionally, it concluded that this population presented higher driving risk when compared to the average driver in the state. One metric used to measure driving risk was the rate of violations in the last seven years. The study population in California had a violation rate of 33%, which was eight points higher than the average. The analysis also identified these individuals as being 150% more likely to have had a major violation in the last three years. Most of all, rates of alcohol and/or drug-related citations for this group were 22 points higher than the state average.



33%

of drivers alleging to hold only **AN INTERNATIONAL OR NO LICENSE IN CA** did indeed have a **U.S. LICENSE**

The results for Texas drivers were quite different from that of California licensees. The study initially judged the Texas study population against the same driving risk metrics used for California-violation rates, frequency of drug and alcohol, etc. The data indicated these individuals weren't incurring violations at a greater clip than the average Texas driver as with the California results. Given this, a deeper assessment was directed toward the type of activity recorded on their driving records. Results of this found that the top three most cited events in the state were accidents, speeding and an invalid license status. This deviates from the average Texas driver, who struggles with speeding, failure to obey, and reckless driving citations. These findings are significant because accidents and invalid licenses lead to a higher increase in insurance premiums. Regardless

of the nuances of any state, the data shows, 30% of individuals claiming foreign or no license have one.

A recent carrier book analysis, where V Identify identified 33% of drivers have or had a previously held a U.S. license, uncovered serious traffic, crash, and criminal activities.

Equally important to the larger study the loss analysis performed on this group of drivers with participating carriers. Loss analysis for the study found drivers falsely claiming FDL or no license had a 23 to 25 point higher loss ratio than all other drivers, including the legitimate foreign drivers on their books.

WHAT ELSE ARE THEY HIDING?

Traffic Rateable Activity **17%**

Drivers with Crash in Prior 5 Years **31%**

Average Crash Per Driver **1.3%**

Individuals Fagged with Hit & Run **10%**

Drivers with Felony or Serious Criminal Activity **8.5%**

Drug Related **48.20%**

Theft & Fraud Related **17.40%**

Assault Against Another Person **12.70%**

Violence Against Community **10.40%**

Serious Traffic **7%**

Miscellaneous **4.30%**

“...identify foreign drivers, automate the violation activity purchase and deliver a full underwriter solution, instantly, and without an MVR purchase.”

Insights Into Action

How then can carriers turn these insights from the study into action? The most obvious action is to validate claims of FDL and/or no licenses as there's an almost one in three chance that someone is doing so to hide issues on their driving record. Validating that the individual is who they say they are is a key step in making intelligent pricing decisions and mitigating against higher loss ratios. Lastly, data shows that risk varies by state, and therefore it's important to look at a variety of factors when assessing driving risk.

On the other hand, there are opportunities as well. First, the true FDL is potentially a better risk. Demographics are changing, and the population is growing. Validation is key to understanding and pricing the unlicensed or foreign driver. If carriers can validate or distinguish between the drivers with a license and those without, this then becomes a potential competitive advantage to gain traction in what some would consider a profitable segment.

For example: An additional carrier study containing more than 130,000 foreign or no license drivers, found loss ratios for the true foreign driver were relatively low at 4.2%. This would indicate an opportunity to price more competitively with the foreign driver. In contrast, the drivers claiming FDL or no license that actually hold a U.S. driver license had loss ratios that averaged 29.9%.

Second, there isn't a blanket approach when it comes to an FDL or new driver. It is critical to understand these drivers. How do carriers assess driver risk without sacrificing the customer experience? Remember, there is no bad risk, only poorly priced risk. It is important to get a deeper application insight and remain competitive.

Solutions do exist. V Identify will allow customers to identify foreign drivers, automate the violation activity purchase and deliver a full underwriter solution, instantly, and without an MVR purchase. To learn more, go to sambasafety.com/volta.



Since 1998, SambaSafety® has been the pioneer and leading provider of driver risk management software in North America. Our mission is to guide our customers including employers, fleet managers and insurance providers to make the right decision at the right time. By collecting, correlating and analyzing motor vehicle records (MVRs) and other data sources, we identify driver risk and enable our customers to modify their drivers' behavior, reduce accidents, ensure compliance, and lower costs — ultimately improving driver and community safety.

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