Insurance Telematics Report
2014

End-to-end analysis of insurance telematics – from UBI business models and latest device solutions to data analytics to consumer engagement strategies – to help build a winning strategy in a rapidly growing market

For more information, visit www.telematicsupdate.com/insurance-report
Overview

Usage-based Insurance (UBI) represents a fundamental change in the way auto insurance is underwritten, a move from proxy-based ratings models and history patterns to real-time driver behavior analysis. In time, it is expected to render traditional methods of risk assessment obsolete and profoundly transform the way risk is underwritten.

This report provides a solid overview of the milestones that helped shape UBI in 2013. And it discusses what to expect from 2014 and beyond, drawing on in-depth interviews with more than 30 insurance industry executives, Telematics Update’s regular coverage of the industry and two proprietary surveys.

One is an exclusive Telematics Update survey of international market sentiments drawing on the answers of 305 executives, the other a collaborative effort with A.T. Kearney focusing on key market drivers, impediments to growth, tracking device choices and value-added services in North America.

Leading companies that provided expert insight

[Logos of various companies such as Ford, Vodafone, LexisNexis, AT Kearney, Allianz, Telit, Microsoft, Plymouth Rock, and Telematics]
Key reasons to purchase this report

Understand UBI and how it can change your business
Learn about the benefits of Pay As You Drive (PAYD), Pay How You Drive (PHYD) and Manage How You Drive (MHYD), accurate pricing, UBI-enabled claims handling and value-added services to enhance customer experience and stay ahead of competition.

Understand key market drivers and barriers
Learn about market specifics in North America and Europe. Understand the main drivers of UBI adoption and barriers to entry. Understand how maturing telematics technologies and advances in portable devices are driving the evolution of UBI from PAYD to MHYD.

Understand paradigm shifts
Understand the paradigm shift from a race to the bottom on price – using discounts for low-mileage clients and good drivers – to value-added services. Understand UBI as a high-touch business in which customer engagement is considered essential to success.

Design a winning UBI strategy
Learn how to refine sales strategies to overcome common misconceptions about UBI, keeping in mind that, because UBI involves both a new product and new technology, successful consumer engagement is a vital – perhaps the most important – element in product design.

Pick a hardware solution to best fit your strategy
Get an in-depth look at smartphone and OBD2 dongle-based programs, and understand the role of professionally installed black boxes, hybrid systems and embedded OEM solutions.

Who needs this report

- Everybody who is anybody in the motor insurance business and wants to hold onto good risk while accurately pricing the bad one.
- Anyone who is in the data collection, processing, storage or analysis business and wants to profit from the enormous flow of driving data generated by telematics devices.
- Telematics hardware manufacturers who want to understand the business proposition of each UBI device offering and the kinds of device choices insurers are likely to be making a few years down the line.
- Telematics service providers who want to understand the shift from premium discounts to value-added services for the mainstream UBI client.
- Car OEMs who want to learn about the various business opportunities presented by providing UBI through their embedded telematics systems.
Industry reviews

“This is a very good summary of the recent past and a great insight into what’s to come from UBI: five stars out of five from me.”

Paul Stacy, director, Wunelli

“For me, the value in this report comes from the surveys, these caused us to re-examine our own analysis. The writers of this report clearly appreciate the many different business models destined to co-exist in the UBI market. Any reader will gain useful insights into UBI business trends, personal and commercial, likely to affect their business processes and retention rates.”

Christopher Carver, principal architect, Maris Group

“The 2014 Insurance Telematics Report provides good insight into the evolving world of insurance telematics, taking the discussion beyond the relative merits of telematics devices and technology to the different insurance propositions and the importance of data analytics.”

Simon Ralphs, CEO, Telematicus

“With exclusive survey data and in-depth insights provided by key industry experts, this report provides a very good quality and quantity of content.”

Jacques Amselem, CEO, Allianz Telematics

Previous report buyers
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Introduction

It is as much a hope as it is a firm belief that usage-based insurance (UBI) is on the verge of becoming a mainstream alternative to the traditional proxy-based rating system that has shaped the auto insurance industry for decades.

This report provides a broad overview of the events and changes that took place in insurance telematics in 2013 in both national and regional markets, business models, technologies and ecosystems, and what we are likely to see in 2014 and beyond.

This report also illustrates how these events and changes have influenced the thinking of insurance industry executives when it comes to business models and the potential benefits of UBI for both insurers and the insured.

In addition, it shows how maturing telematics technologies and advances in portable devices are driving the evolution of UBI from the mileage-based Pay As You Drive (PAYD) models to the highly interventionist Manage How You Drive (MHYD) model.

Though there is no unanimity yet on UBI, there is an industry-wide sense of urgency. Even insurers who are not known for their expedience are rolling out UBI products and turning small pilots into full-scale projects, as no one wants to be the last insurer in that would mean being left fishing a pool of some very bad drivers.

It is not just the traditional insurers who are emerging with UBI products, either Independent brokers are also adding UBI to their product portfolios, while dedicated UBI brokers are preparing to join on the assumption that mass-market adoption may be just around the corner.

Much needs to be done, however, before that becomes a reality. Insurers will, for example, need to invest in new infrastructure or outsourcing contracts to get a solid handle on the 4GB to 5GB of data a standard UBI policy generates per policyholder per year. And they will need to continue refining their sales strategies as most consumers, even in the prime UBI markets, remain unfamiliar with both UBI and telematics, which makes them vulnerable to misconceptions, such as that their privacy will be compromised.

On the other hand, the fact that UBI can provide a higher customer value proposition that promises fair and equitable pricing based on individual risk is widely viewed as a factor that will help UBI grow.

One of the biggest trends of 2013 was the shift from a race to the bottom on price – using discounts for low-mileage clients and good drivers – to value-added services for the mainstream client to protect price and attract new UBI clients.

Another interesting trend has been what might be termed industry convergence, as players from within and outside the industry spot potentially lucrative business opportunities and find new roles to play. For example, the broker insurethebox is assuming a position normally occupied by a telematics service provider and providing UBI solutions to Tesco, the UK’s largest retailer.

In addition, Microsoft and IBM are helping store and analyze the enormous flow of driving data generated by telematics devices, and telematics service providers at the center of the insurance telematics ecosystem are being joined by mobile network operators who recognize that UBI can increase average revenue per user. Furthermore, insurance service providers such as LexisNexis and Towers Watson now have end-to-end UBI solutions in place and are competing directly with wireless service providers such as Verizon.
These ecosystem disruptions will likely go on for many years until UBI has found a firm market footing and its business propositions have become more clearly defined.

Perhaps most importantly, UBI is transforming the industry from a transactional marketplace, with little contact between insurer and policyholder, to a high-touch business in which customer engagement is considered essential to success. This already has insurers and brokers using non-traditional methods of engagement, such as social media and smartphone apps, to attract and retain consumers.

Meanwhile, the device debate is still raging, though the ubiquity of smartphones is increasingly hard to overlook. This report goes some way to try and make sense of the business proposition of each device offering and what insurers should be focusing on.

One thing that we can say with certainty, however, is that the UBI conversations within the halls of insurance companies are becoming more frequent and more articulate, and a growing number of carriers are beginning to realize that 2014 may be the year to do something.
No two UBI programs are put together the same way. However, sooner or later, along the journey from conception to implementation a decision has to be made about what type of tracking device to use. And this is a crucial decision as different devices deliver different value. This chapter discusses the various tracking devices in use and what types of situations they are best suited for.

There are five broad tracking device categories when it comes to UBI:

- Professionally installed black box (Aftermarket black box)
- Self-installed onboard diagnostics device (OBD2 dongle)
- Smartphone
- Embedded OEM solution
- Hybrid

Although the biggest recent trend in UBI involves smartphone-based solutions, the OBD2 dongle and the professionally installed black box are expected to play a dominant role over the next six months, as our survey shows. The smartphone is then expected to take the lead, only to be overtaken by embedded OEM solutions in the two- to five-year timeframe.

3.1 Professionally installed black box

The professionally installed black box (black box for short) is one of the most secure and reliable solutions on the market. It is widely used across Europe and enjoys particular popularity in Italy and in the United Kingdom, which both suffer from high rates of car theft and fraudulent insurance claims.
The black box can be used in all business models (PAYD, PHYD, MHYD), but it is most popular with PHYD and, due to cost reasons, not much used with PAYD.

In the United Kingdom, a professional installation and de-installation of the black box costs around £90, easily doubling the hardware costs of a UBI solution. Nonetheless, it is money well spent in a place like Italy, which, at €4,797, has the highest average cost per claim in Europe.

(Progressive first piloted UBI using professionally installed black boxes but decided against them, fearing that high costs of the devices would inhibit adoption.)

Table 15: UBI hardware outlook, all regions (details)

<table>
<thead>
<tr>
<th></th>
<th>Aftermarket black box</th>
<th>OBD2 dongle</th>
<th>Smartphone</th>
<th>Auto OEM factory-installed hardware</th>
<th>Hybrid</th>
<th>I don’t know / not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Next 6 months</td>
<td>35.2%</td>
<td>40.1%</td>
<td>31.7%</td>
<td>6.3%</td>
<td>6.3%</td>
<td>14.3%</td>
</tr>
<tr>
<td>6 months to 2 years</td>
<td>23.3%</td>
<td>38.3%</td>
<td>45.3%</td>
<td>18.8%</td>
<td>15.7%</td>
<td>12.2%</td>
</tr>
<tr>
<td>2 years to 5 years</td>
<td>9.4%</td>
<td>14.3%</td>
<td>31.0%</td>
<td>59.6%</td>
<td>20.9%</td>
<td>18.5%</td>
</tr>
</tbody>
</table>

**Number of respondents** 287

*Source: Telematics Update, 2013, multiple answers allowed*

Table 16: UBI hardware outlook, North America and Europe (details)

<table>
<thead>
<tr>
<th></th>
<th>Aftermarket black box</th>
<th>Smartphone</th>
<th>OBD2 dongle</th>
<th>Auto OEM factory-installed hardware</th>
<th>Hybrid</th>
<th>I don’t know / not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>North America</td>
<td>Europe</td>
<td>North America</td>
<td>Europe</td>
<td>North America</td>
<td>Europe</td>
</tr>
<tr>
<td>Next 6 months</td>
<td>22.9%</td>
<td>45.5%</td>
<td>35.4%</td>
<td>39.8%</td>
<td>56.3%</td>
<td>30.9%</td>
</tr>
<tr>
<td>6 months to 2 years</td>
<td>12.5%</td>
<td>30.1%</td>
<td>47.2%</td>
<td>50.4%</td>
<td>41.7%</td>
<td>39.8%</td>
</tr>
<tr>
<td>2 years to 5 years</td>
<td>6.9%</td>
<td>16.3%</td>
<td>38.9%</td>
<td>31.7%</td>
<td>16.7%</td>
<td>16.3%</td>
</tr>
</tbody>
</table>

**Number of respondents, North America** 144

**Number of respondents, Europe** 123

*Source: Telematics Update, 2013, multiple answers allowed*
“People have to realize insurance is a low-margin business,” he adds. “Profit goals are a 4% underwriting profit. We think this is a favorable tradeoff. People send back the device, and we can reuse it. There’s no cost to customers to have the device for those six months, and the device averages four or five years in service. Some customers take better care of it than others, but each device definitely goes to multiple drivers.”

For more from Pratt, see:

- Q&A: Insurance telematics and intellectual property
- Q&A: Progressive on UBI – keeping it simple

Emerging markets such as Canada and Australia are also adopting OBD2 technology. However, in Europe, only a handful of OBD2 products are available, with Allie from Allianz being one of them.

Despite being self-installed, OBD2 dongles allow insurers to collect a broad range of information, including distance traveled, harsh braking/acceleration incidents and other vehicle-related information. They are also capable of supporting the full range of UBI business models. The ease of installation and lower

Figure 17: SWOT analysis of OBD2 dongle

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Proven technology with an estimated 2 million OBD2 devices in use in both the United States and Europe</td>
<td>• Not hard-wired into the vehicle, so can be tampered with or accidentally dislodged</td>
</tr>
<tr>
<td>• Easy to install</td>
<td>• Although self-installed, involves fulfillment – administration and logistics overhead required to deliver the device to the consumer and to ensure its return</td>
</tr>
<tr>
<td>• Easy to transfer to another vehicle</td>
<td>• Competition from other OBD2 aftermarket devices</td>
</tr>
<tr>
<td>• Generates high-quality and reliable data on driving style and location</td>
<td>• Has been known to interfere with a vehicle’s systems, resulting in repair costs and voided warranty</td>
</tr>
<tr>
<td>• Turns on with the ignition</td>
<td>• Industry sentiment that the technology may become obsolete in 12 to 18 months</td>
</tr>
<tr>
<td>• Data security is high as it comes directly from the vehicle’s ECU</td>
<td></td>
</tr>
<tr>
<td>• Value-added services and FNOL can be part of the solution</td>
<td></td>
</tr>
<tr>
<td>• Low cost of the device – no installation or de-installation cost</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Can be used to bundle other value-added services</td>
<td>• Smartphones</td>
</tr>
<tr>
<td>• Suitable for emerging UBI markets</td>
<td>• Embedded OEM solutions</td>
</tr>
<tr>
<td>• Low cost</td>
<td>• Hybrid solutions</td>
</tr>
<tr>
<td></td>
<td>• Changes in vehicle technology</td>
</tr>
</tbody>
</table>

Because it is hard-wired into the vehicle and hidden out of sight, the black box is the UBI solution that is the hardest to tamper with, which comes in handy when dealing with young drivers and enforcing the very low mileage allowances – averaging only about 135 miles per week – some European insurers are imposing on them.

FNOL is a key component for many European UBI solutions, and here too the black box is best because it is fixed to the chassis and therefore provides very accurate information for forensic crash reconstructions.

3.2 Self-installed onboard diagnostics device (OBD2 dongle)

OBD2 dongles are typically self-installed by the policyholder, and they are the preferred tracking device in the United States, where automotive insurance margins are low and where they provide one of the cheapest, yet most reliable solutions.

To protect its margins, Progressive goes as far as to require customers to send the device back after six months so that it can be reused with another driver. “It’s benefits versus costs, a way to balance the desire for measuring enough driving behavior to get an accurate picture, but also balance expense,” Pratt says.48


Source: Telematics Update
costs are major drivers of adoption.

However, the OBD2 dongle is not without its challenges. The more complicated PHYD and MHYD continue to struggle with inconsistency of diagnostics codes generated by different vehicles, and a proliferation of aftermarket devices that plug into the car’s onboard diagnostics port makes for tough competition, as there is only one OBD2 port per car.

For more on the OBD2 solution crunch, see:

Magic bus: The fight for the OBD2 port

3.3 Smartphone

Despite initial doubts over data reliability, the smartphone is fast becoming the UBI solution of choice. Typically, a smartphone-based UBI solution is downloaded as an app and relies on the phone’s GPS, accelerometer and gyroscope to collect and verify driving information.

Compared with the professionally installed black box or OBD2 dongle, there are many advantages.

There are no device, installation or data connectivity costs to the insurance carrier. Thanks to the smartphone’s computing power, more data processing can be done on the handset, which reduces data handling and storage costs. In addition, the fact that the smartphone has a screen gives policy providers the ability to interact with customers through a rich, real-time user interface, rather than relying on simple audible and visual cues, or asking customers to go online later.

What also helps is the fact that the smartphone is almost ubiquitous. According to comScore, smartphone penetration of the U.S. mobile market exceeded 65% in December 2013 and has continued climbing.52

Case study: Autoline’s smart smartphone move

In June 2012, Autoline made a part of history by launching – in collaboration with MyDrive Solutions – Europe’s first smartphone-based UBI product. Initially, the Northern Irish insurance broker considered using a professionally installed black box. But it quickly realized that such a solution would be too expensive.

“We are an insurance broker, so we live on the commission rather than the premium, and we just couldn’t make [black boxes] stack up financially,” says Caroline Currie, Autoline’s sales director (Insurance Telematics Europe 2013). “It’s as simple as that. At the time, [a black box] was £400, plus the cost of fitting it.”

Prices of black boxes have come down considerably since. Still, the smartphone remains a much more affordable solution – despite the fact that Autoline provides each policyholder with a charging cradle to prevent battery drainage and minimize false positives, which occur when the phone moves around.

To advertise the product, Autoline courted local TV and media coverage, leased roadside billboards and even enlisted the help of local driving schools and instructors. It also drove customer engagement through strategies such as family contests where children compete against their parents to determine the safest driver.

Now, Autoline’s focus is on evolving the product from a pure discount and reward proposition to FNOL and other value-added services, such as breakdown call. The strategy is clearly working. According to Currie, the average claims frequency across Autoline’s telematics book is almost half that of the standard motor book.

For a full interview with Currie, see:

Video: Making driving scores cool to your drivers


Methodology

Project definition
Telematics Update engaged in extensive consultation with the insurance industry and the broader UBI ecosystem to define research gaps and provide the most up-to-date, informed analysis of industry trends and needs. All research was guided by the input of an advisory panel of industry consultants to ensure that the report focused on real-world industry needs and objectives. Where appropriate, insights gleaned from these interviews are supported by survey data and publicly-available secondary research.

Report approach
Telematics Update realizes that the state of the industry is in considerable flux. Companies are putting forward new business models and new products all the time. At this point, it is impossible to say which of these approaches may prove most competitive. In fact, it is precisely this uncertainty about the relative advantages of alternative approaches being pursued that has led us to create this report at this time. We have attempted to capture sentiment and consensus on issues; where considerable debate continues about optimal business strategies and forecasts, among other issues, this report sets out competing points of view, to allow readers to get a clear sense of possibilities.

Figure 25: Breakdown of TU’s November 2013 survey by primary business of respondent

Source: Telematics Update, 2013, percentages may not add up to 100% due to rounding
Table 24: Breakdown of TU’s November 2013 survey by primary business of respondent (details)

<table>
<thead>
<tr>
<th>Primary Business of Respondent</th>
<th>Response (%)</th>
<th>Response count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurer</td>
<td>27.1%</td>
<td>82</td>
</tr>
<tr>
<td>Telematics service provider</td>
<td>17.2%</td>
<td>52</td>
</tr>
<tr>
<td>Consultant / Analyst</td>
<td>15.5%</td>
<td>47</td>
</tr>
<tr>
<td>App / Software developer</td>
<td>8.6%</td>
<td>26</td>
</tr>
<tr>
<td>Hardware / Device manufacturer</td>
<td>6.6%</td>
<td>20</td>
</tr>
<tr>
<td>Wireless carrier</td>
<td>4.3%</td>
<td>13</td>
</tr>
<tr>
<td>Insurance broker</td>
<td>3.0%</td>
<td>9</td>
</tr>
<tr>
<td>Automotive OEM</td>
<td>3.0%</td>
<td>9</td>
</tr>
<tr>
<td>Other</td>
<td>14.9%</td>
<td>45</td>
</tr>
</tbody>
</table>

Number of respondents: 303

Source: Telematics Update, 2013, percentages may not add up to 100% due to rounding

**Industry sentiment**

This report provides a solid overview of the milestones that helped shape UBI in 2013. It also discusses what to expect from 2014 and beyond, drawing on in-depth interviews with more than 30 insurance industry executives, Telematics Update’s regular coverage of the industry and two proprietary surveys.

One, conducted in November 2013, is an exclusive Telematics Update survey of international market sentiments drawing on the answers of 305 executives. The other, conducted in August 2013, is a collaborative effort with A.T. Kearney focusing on key market drivers, impediments to growth and value-added services in North America.

Compared with last year’s report, Insurance Telematics Report 2014 introduces a number of new or expanded

**Figure 26: Breakdown of TU’s November 2013 survey by job function of respondent**

*Which of the following categories describes your job function best?*

Source: Telematics Update, 2013, percentages may not add up to 100% due to rounding
Table 25: Breakdown of TU’s November 2013 survey by job function of respondent (details)

<table>
<thead>
<tr>
<th>Subject</th>
<th>Response (%)</th>
<th>Response count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management / Strategy</td>
<td>40.0%</td>
<td>122</td>
</tr>
<tr>
<td>Business development</td>
<td>17.0%</td>
<td>52</td>
</tr>
<tr>
<td>Product development</td>
<td>12.1%</td>
<td>37</td>
</tr>
<tr>
<td>Market research</td>
<td>5.2%</td>
<td>16</td>
</tr>
<tr>
<td>Actuary</td>
<td>6.6%</td>
<td>20</td>
</tr>
<tr>
<td>Marketing / Customer engagement</td>
<td>3.9%</td>
<td>12</td>
</tr>
<tr>
<td>IT</td>
<td>3.9%</td>
<td>12</td>
</tr>
<tr>
<td>Claims</td>
<td>1.3%</td>
<td>4</td>
</tr>
<tr>
<td>Underwriting</td>
<td>1.3%</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>8.5%</td>
<td>26</td>
</tr>
</tbody>
</table>

Number of respondents 305

Source: Telematics Update, 2013, percentages may not add up to 100% due to rounding

- It pays a great deal more attention to the many new entrants to UBI – be they car OEMs, mobile network operators or the tech giants of Microsoft, IBM and SAS – and what new roles they are carving out for themselves.
- It features greatly expanded sections on consumer engagement with new chapters on gamification, social media and other savvy marketing tools.
- It deepens last year’s insights into established UBI markets and provides new information on up-and-coming markets.
- Canada features particularly prominently, not only as a new UBI market but also as a country that is breaking important new ground when it comes to the role of independent insurance brokers in UBI and efforts to extend UBI to motorcycles.
- As there continues to be no unanimity on business

Figure 27: Breakdown of TU’s November 2013 survey by country

In what countries are you predominantly active?

Source: Telematics Update, 2013, up to three answers allowed
models, hardware choices and value creation, these too are discussed in great detail.

Finally, the report includes more than two dozen links to stories, Q&As and audio interviews in Telematics Update’s online database.

**Key methodology statistics:**
- Peer reviewed by 4 industry experts
- 30+ executive interviews
- 6-month research project
- A month of editing, fact-checking and refinement
- Two industry surveys

Table 26: Breakdown of TU’s November 2013 survey by country (details)

<table>
<thead>
<tr>
<th>Country</th>
<th>Response count</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>146</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>90</td>
</tr>
<tr>
<td>Italy</td>
<td>28</td>
</tr>
<tr>
<td>Canada</td>
<td>36</td>
</tr>
<tr>
<td>Germany</td>
<td>45</td>
</tr>
<tr>
<td>CIS (Russia)</td>
<td>16</td>
</tr>
<tr>
<td>Other</td>
<td>115</td>
</tr>
<tr>
<td><strong>Number of respondents</strong></td>
<td><strong>305</strong></td>
</tr>
</tbody>
</table>

Source: Telematics Update, 2013, up to three answers allowed

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About Telematics Update

Telematics Update is the reference point for automotive telematics, mobile and web industries. By providing industry-focused news, events and reports, it aims to enable dialogue throughout the industry and drive telematics forward. For more information about Telematics Update, please visit [http://analysis.telematicsupdate.com](http://analysis.telematicsupdate.com).
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