Insurance telematics in Europe: The tipping point is near, part I


Historically, the European insurance telematics market existed mainly in countries plagued with insurance fraud, car theft and high insurance costs. But experts say all that is about to change. In the first of a two-part series, Brendan McNally reports on what is expected to happen.

With all the talk recently generated by the entry of usage-based insurance (UBI) products into the U.S. and Canadian auto insurance markets, it’s easy to lose sight of the fact that the biggest UBI market is, in fact, Europe, and that the market is about to get a lot bigger.

Of the 28 countries that make up the European Union, UBI currently has a strong presence in only two of them; Italy and the United Kingdom, though it is also present to a significant, but lesser degree in Spain and Portugal. Depending on whom you talk to, this comes to a total of between two and 2.5 million cars with UBI, which may not seem like a lot. But experts say it represents an important milestone for UBI adoption to accelerate going forward.

In Italy, where as many as two million passenger cars are fitted with insurance telematics, the overall penetration level is now approaching 5%, which experts say, represents the tipping point. And once the tipping point is reached, they expect drivers to rush to UBI en masse in order to avoid having to subsidize worse drivers.

Ofir Eyal, principal management consultant of The Boston Consulting Group, explains it this way: “If you focus on the different segments, for instance, young drivers, once penetration exceeds a certain tipping point within that segment, it will mean that the non-telematics clients in the segment will be charged massive premiums as they are perceived to be a bad-risk pool. [This] will increasingly drive them to telematics."

(To get the full picture, check out our just released Insurance Telematics Report 2014 [2].)

Onward and upward with UBI

As this begins to play out in Italy, drivers elsewhere in Europe will too be offered UBI products. And, increasingly, as UBI broadens its appeal to include consumers from all walks of life, these offers will come not only from insurers but also from telematics service providers (TSPs), mobile network operators and even car OEMs. “It’s not necessarily the stereotypical young driver from the stereotypical high-risk areas of the south of Italy [any more],” Eyal says. “The distribution of telematics ‘car-parkers’ is not far off the distribution of the car-park in general in Italy.”

In both Italy and the United Kingdom, auto insurance is expensive, largely because of a historically high
incidence of insurance fraud, auto theft and risky driving. Drivers who enroll in UBI programs in these countries primarily do so to protect themselves against fraud and to get lower insurance rates by demonstrating good driving behavior.

The rest of Europe

Other European countries, where problems with insurance fraud or theft are not so great, insurance premiums have always been much lower, and so there has been little to impel drivers or insurers toward telematics. Even so, it is expected that they will too become UBI adopters on a large scale.

There are several reasons for this.

First, although each of the more than two dozen countries in the European Union might have its own regulations regarding insurance, they are all increasingly being compelled to bring their pricing and ratings mechanisms into line with those of the other members. In 2011, the European Court of Justice ruled that gender can no longer be used as a rating variable when calculating insurance risk. Similar rulings are expected regarding age and perhaps even postal codes. And this, in turn, is likely to cause insurers to start using performance-based variables, which can only be provided by telematics devices, for assessing risk.

Another reason is a pan-European initiative called eCall, which, if implemented, will require, beginning in October 2015, that all new-model passenger cars and light commercial vehicles to be fitted with a telematics device that uses 112 emergency call technology to alert emergency services in the event of a driving accident. It follows that insurance telematics solutions could piggy-back on the eCall telematics device.

Italy

Italy represents Europe’s most mature market for UBI. That it would be a near-perfect growing medium for UBI is hardly surprising given the country’s €4,797 average claims cost and a considerable claims frequency, largely due to widespread exaggeration of personal injury claims. As a result, very mild injuries (1-2% disability) account for some 15% of claims and 78% of non-severe injuries.

The first telematics systems were GPS-equipped location devices for stolen vehicle recovery, followed by forensic sensor systems for crash reconstructions. The systems have worked well. The data they produce is admissible in courts of law and the result is that Italy is beginning to finally see a reduction in insurance fraud cases.

More recently, UBI capabilities have been added on, allowing drivers to demonstrate good driving behaviors and thus earn reduced insurance rates.

United Kingdom

When British auto insurance companies began experimenting with insurance telematics, they found that Italian TSPs already had the technology in place and that it was readily adaptable to the British market. There is currently a large number of insurance telematics programs being offered to British drivers. These programs rely primarily on insurer-installed devices, but apps installed in smartphones are also gaining.

UBI penetration in the United Kingdom has not yet reached the levels it has in Italy, but the expectation is that, once it does, acceptance will skyrocket higher than the Italian market, according to Eyal.

(Return next week for part two of the series.)

Brendan McNally is a regular contributor to TU.


Links:
Insurance telematics in Europe: The tipping point is near, part II

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France and Germany

Until now, neither France nor Germany has shown much interest in UBI. Auto insurance costs are relatively low and so are incidents of insurance fraud and car theft. As useful as such systems have proven themselves to be in the Italian and British markets, they are nevertheless expensive to operate and, with insurance rates already low, there isn’t much to drive them.

“In those two countries, it’s more difficult,” says Vincent Pavero, product manager at iMetrik Solutions. “They have a lower margin to pay for such technology. This is why today we don’t have massive deployments of UBI like we have in the U.K. and Italy. Of course, all insurance companies in Germany and France are looking at UBI and telematics, and are looking at finding new ways to bring telematics to the market.”

Also, in France, privacy concerns are a hindrance, according to Ofir Eyal, principal management consultant of The Boston Consulting Group. “There was a situation where customer privacy was breached quite a few years back, and the insurance regulators are still very touchy about the handling of telematics data," he says. “We see very low level activity in France regarding UBI.”

Still, Francisco José Jiménez Bonilla, head of insurance telematics for Telefónica Digital, sees Germany as a viable market for UBI, though not an easy one to penetrate. “There are a lot of factors including that, in Germany, the legal environment tends to ultra-protect the consumer," he says. "There are a lot of laws to comply with, and data privacy and security [are] crucial there. The other interesting thing is that there is not a big difference between the premiums that young people and other drivers pay.”

Generali, for its part, considers both Germany and France “two of the key European countries where telematics can play a significant role in the insurance business,” according to Andrea Jurkic, head of marketing strategy, insurance development, Generali Group. But Generali has yet to launch a UBI product in either country. “We are working to design the correct strategy in order to serve local customers in the most appropriate way due to the different economics figures compared to the Italian market where our telematics presence is already significant and profitable,” Jurkic says.
(For an in-depth coverage of European insurance telematics, check out our brand-new Insurance Telematics Report 2014 [2].)

The value of value-added services

Pavero believes the key to bringing French and German drivers aboard UBI is to include it in a telematics package that focuses on value-added services. “You can’t just bring mileage metering because it’s not profitable,” he says. What drivers want, he says, are systems monitoring, knowing which components are nearing a breakdown, and the ability to automatically contact repair facilities.

(In November 2013, Telefónica’s German subsidiary signed a deal with Sparkassen DirektVersicherung (part of Germany’s largest financial services group) to launch an insurance telematics product for Germany. The product includes a range of value-added services, including accident notification, stolen vehicle tracking as well as driver behavior monitoring and feedback.)

The role of German OEMs

Eyal agrees, adding that he expects these value-added services to come through infotainment systems provided by OEMs, possibly to the detriment of insurers. “We’ve been chatting with a lot of insurers recently about their concerns about some of the things that have been happening in the OEM space,” he says. “The reason is that a lot of the OEMs are investing heavily in telematics infotainment in their cars … and the infotainment systems are becoming now a differentiating factor for the OEM.”

Eyal notes that, in Germany, drivers tend to stick with OEMs for repairs and maintenance and that OEMs have a reputation for ruthlessness when they see a market they want. In 2005, a single banking group had 60% of the new car loan market in Germany. But then OEMs got into the car loan business, and the banking group quickly found its market share cut down to 10%, according to Eyal.

The same might happen if OEMs get into car insurance. “We don’t necessarily believe OEMs will launch their own insurance companies, but they will team up with insurers to offer white label insurance products,” Eyal says. “And from a buyer behavior point-of-view, it makes perfect sense. You buy a car, and you’re offered a turn-key price; €75,000 and you get the whole thing, and that includes the insurance.”

Other UBI drivers

Still, others believe that the danger of the UBI market being overrun by OEM-installed infotainment systems is overblown. Pavero points out that the average car on the road in Europe is nine years old. And so, even if OEMs are able to put themselves into a first position by selling cars with UBI already installed, they would need years to get its technology into all the cars.

According to Pavero, it won’t be car OEMs to put UBI into European cars but Europe’s insurance giants operating in multiple markets. Think companies like Generali, Axa and Allianz. “In the U.S., despite its appearance, it is really many, many smaller markets,” he says. “State Farm in Maryland is not the same company as State Farm in Texas. Each state is kind of a small market. France and Germany are major markets with the biggest insurance companies there serving them.”

Pavero continues: “Those companies are thinking, How can I do a unique rollout with all our
markets at the same time? How can we sell UBI in ten countries at once? … That’s the game changer. We’re going to see in the coming months insurance companies rolling out international variants of the same UBI technology.”

The Google wild card

A much bigger potential game changer, however, could be the looming, still-undefined role of Google. Although the Internet giant has never come out and said that it wants to be a UBI player, it keeps growing its reach in telematics. Its acquisition of Waze last year gave it the technology to track cars, Eyal says, adding that Google has also invested heavily in driverless cars, geofencing and GPS technology.

In January, Google went a step further when it announced the forming of a global alliance — the Open Automotive Alliance (OAA) — that will work toward open innovation in the automotive space and make it easier for mobile app designers to create individual apps that work across the automotive segment. Audi, GM, Honda, Hyundai and Nvidia have joined the alliance.

Eyal’s understanding is that following its acquisition of Waze, Google has been having conversations with different insurers about potential services they might offer around tracking and GPS devices. “So all indications point to their involvement in the telematics industry,” Eyal says. “What isn’t clear is what parts and what role in the value-chain they might be interested in taking.”

(For the first part of the series, see Insurance telematics in Europe: The tipping point is near, part I [3].)

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