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Real time, real business

Insurance is about making risk real. In this sense, it has always had information at its heart. Now advances in technology – especially digital wireless communications – are giving us new sources of information that can help us make insurance products and services ever more relevant to actual needs.

As Matt Hatton discusses in this month's guest article, car insurance products based on telematics are the business of the future – and the future has arrived. The ability to stream real-time data about a driver's performance enables insurers to craft products that are much more closely related to need. Instead of a generic profile, we get a detailed physical record of actual values. And everybody benefits.

Soon, telematics products are likely to be the norm. At that point, customers will begin asking why their other insurance products are not similarly tied to reality. They are going to agitate for some more of that customer-centricity business has been talking about for years. Just as online banking and flight booking raised expectations about service levels in other commercial areas, so telematics will prompt demands for more personalised service right across the insurance landscape. To be ready for this, organisations need to stay serious about the vital role of clean, reliable, standards-enabled data. ■

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Usage-based insurance is on its way – are you ready?

There is increasing pressure in many countries for the introduction of usage-based insurance



Matt Hatton,
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There is increasing pressure in many countries for the introduction of usage-based insurance (UBI), sometimes referred to as pay as you drive (PAYD) or pay how you drive. For many younger drivers insurance premiums based on their standard risk profile are unaffordable. Therefore, allowing insurance to be based on actual usage will give safe younger drivers more affordable insurance. In the developing world, where cars are starting to become affordable for an emerging middle class, lower insurance premiums based on UBI will also be invaluable.

Rewarding good behaviour

UBI can take the form of a simple measure of mileage, rewarding drivers who drive fewer miles. Alternatively it can cross-reference GPS data with vehicle readings to look at time of day, location and speed, all of which are good indicators of risk. It could also take advantage of complex algorithms based on GPS data to measure factors such as acceleration and harsh braking to determine dangerous patterns of behaviour. In the latter two examples the insurance can be provided in real time, with a direct feedback to the driver of how driving behaviour is affecting insurance.

Driving segmentation

There is a further, rather unusual, impetus for UBI in the EU. In March 2011 the European Court of Justice ruled insurers will no longer be able to take the sex of the applicant into account when setting premiums. The ruling came into effect last month. The impact on the insurance industry is substantial: the ruling has taken away one of the main methods of segmentation. Furthermore, there is also the potential for age-based segmentation to be prohibited at some time in the future. The reduced effectiveness of statis-

Is this the future? Keeping track of good driving habits, resulting in lower premiums for drivers



tical risk profiling will push insurers in the direction of insuring based on actual usage.

There have been a number of experiments with PAYD insurance in the past. Norwich Union (now part of the Aviva group) ran trials of UBI in 2004 with 5,000 motorists. A commercial service was launched in October 2006. The policy adjusted payments based on time of day, type of road and mileage. For instance, Norwich Union had adaptive pricing based on the fact rush-hour driving is 50% more likely to result in an accident than at evening or weekends, motorway driving is 10 times safer than on urban roads and serious accidents are more likely to occur at night. Pricing was based on a variable price per mile in all these different circumstances. In 2008 the company abandoned the service, quoting a lack of take-up.

A maturing market

Fast-forward a few years and there are now a number of insurers, mostly specialist firms, with a PAYD business model. UK insurer insurethebox started in 2010 with its after-market Clear Box, a GSM/GPRS/GPS device from Octo Telematics. Users start with 6,000 miles and can top up in increments of 250 miles. Unused miles can be rolled over to the next renewal. Users who drive safely (as determined by time of day, speed, accel-

eration, braking, types of roads used and so on) are rewarded with up to 100 bonus miles each month. Users are also rewarded with extra miles for shopping online with insurethebox's retail portal. Other examples include Iceland's Have A Good Drive and MiDriveStyle from MiWay in South Africa. The latter combines car insurance with a vehicle tracking service.

Big names make their mark

In the US, more and more insurers are launching products. Companies such as Allstate (DriveWise) and Liberty Mutual are now offering UBI products. Furthermore, there is definite evidence of the emergence of an ecosystem, with significant moves by major organisations, which bodes well for future growth. This includes:

- In June Ford and US insurer State Farm expanded their Drive Safe & Save programme by tapping into connectivity from Ford Sync;
- The UK's largest vehicle recovery firm (and insurance broker), the AA, launched its UBI product, Drivesafe last February; and
- TomTom has developed a special UBI device, the Pro 3100.

The technical specifications of these PAYD devices depend on the form of service being provided. There is a trend towards embedding connectivity into UBI devices to provide a constant track on the activity of the

driver. In most cases it will be done via a cellular connected after-market device plugged into the OBD2 port, but gradually UBI will evolve to run as an application on a car's vehicle platform where this is embedded (eg, GM's OnStar), or maybe even via a smartphone application where car connectivity is based on smartphone integration (eg, Ford Sync).

Real-time goes primetime

UBI is a market that has flattered to deceive. It is the perennial "next big thing" of machine-to-machine communication. The view from Machina Research is growth would be relatively modest and adoption limited in 2012 but will start to take off this year. There is little doubt UBI will come to dominate insurance – the question is always "when?" Doubtless many of the moves highlighted above will significantly help with the evolution, with major companies increasingly backing UBI. In total, Machina Research forecasts there will be 330 million drivers making use of a real-time UBI service by 2020, up from just a few million in 2012. ■

This article is based on Machina Research's recent report, Machine-to-Machine Communications in the Automotive Sector 2011-20. See www.machinaresearch.com for more details.