



Strategy | Digital | Technology | Operations

The Digital Insurer

Insurance telematics:
A game-changing
opportunity
for the industry

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Summary

In spite of high levels of industry and media attention, insurers still face a challenging course of strategic, technological and regulatory obstacles to realise the potential benefits of telematics¹ and to make mainstream usage-based insurance a reality.

Positive self-selection bias and lower premium rates will drive initial customer uptake. However, insurers will need to offer additional sustainable value to incentivise the mass market. This will determine whether or not telematics becomes a disruptive industry force.

Accenture believes that location-based value-added services will drive broad-based adoption.

Unless insurers seize the opportunities to understand and engage with their customers on a personalised level, through tailored products, pricing and services, other players and other industries will step in.

In Accenture's view, telematics is a game-changing opportunity for insurers to fundamentally change consumer perceptions and to reshape the global motor insurance industry, dramatically altering every aspect of the insurance value chain.

Insurers that do nothing will be left behind when the tipping point is reached.

There are several important success factors for insurers to bear in mind when developing a telematics strategy. These include the need for:

1. Quick and agile pilots that enable continuous improvement
2. A detailed understanding of the source of sustainable ROI in the short- and long-term
3. Clearly developed and flexible propositions that will engage different customer segments, and drive value for end-customers, agents and brokers
4. Recognition that telematics is only the starting point, not the final destination.

¹ The use of wireless devices and "black box" technologies to capture real-time motoring information



Telematics: in the headlights

Telematics is one of the key issues currently under the spotlight in the motor insurance industry. It has the potential to fundamentally change motor insurance propositions and impact all areas of the business, from improved risk selection and pricing, reduced claims and improved fraud detection, to an entirely new set of services resulting in higher levels of customer retention.

It is a sector that is currently receiving a considerable amount of industry, analyst and media attention. Barely a day goes by without a new pilot launch, study, or media story.

The falling cost and the development of more sophisticated technology; changing consumer attitudes; government and regulatory pressures; and the continual profitability struggle for P&C insurers, are all converging to create considerable impetus behind telematics initiatives.

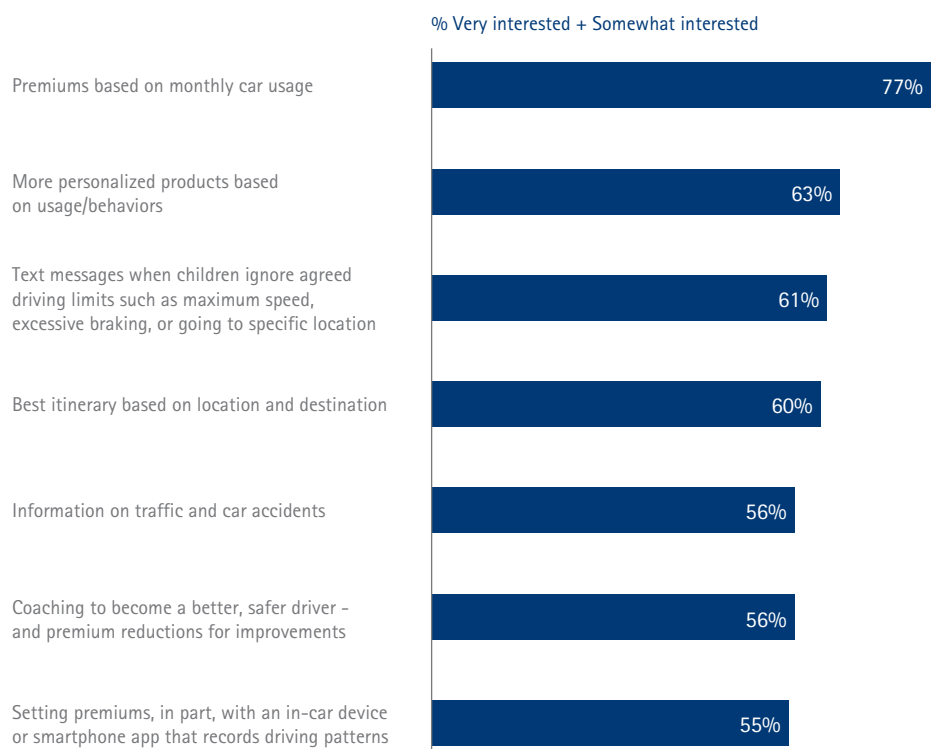
Unsurprisingly, insurers are currently carrying out pilots with varying degrees of maturity across the globe. The business drivers and consumer demand for telematics also vary by geography, resulting in the emergence of very different technologies and propositions.

Figure 1: Catalysts and drivers for telematics by region

Region	Examples of catalysts and drivers for increased telematics uptake
North America	<ul style="list-style-type: none"> • US: high motor insurance premiums, particularly for young drivers, successful insurance marketing campaigns and installation of standard on-board diagnostics ports in cars
Europe	<ul style="list-style-type: none"> • EU: EU Gender Directive banning the use of gender as a rating variable. Potential future impact of eCall system and General Data Protection Regulation • UK: high motor insurance premiums, particularly for young drivers, and high incidence of fraudulent claims • Italy: high motor insurance premiums, high incidence of fraudulent claims and vehicle theft. Government regulation obligating insurers to offer telematics with premium discount • Germany: telematics dominated by automotive and roadside assistance companies offering insurance as an additional service
Other	<ul style="list-style-type: none"> • South Africa: high incidence of vehicle theft and road accidents, along with an established market for stolen-vehicle recovery and fleet management services • Brazil: government legislation CONTRAN 245 mandating embedded telematics services in new vehicles as a response to high levels of car theft • Asia Pacific: development of telematics features by motor manufacturers in e.g. China and Japan. Relaxation of regulatory restrictions in China to allow free-market pricing in motor insurance

Figure 2: Consumer surveys continue to show interest in telematics-based insurance

How interested are you or would you be by the following auto insurance services that may be offered by insurance providers?



Source: Accenture Consumer-Driven Innovation Multi-Country Consumer Survey 2013



Where is insurance telematics heading?

The market is still immature

In spite of its recent rapid growth, and the level of hype and interest in this area, the usage-based insurance sector is still immature and relatively small.

There are some notable big players, such as Progressive in the US, with over 1 million consumers choosing its UBI Snapshot program, and Unipol-Fondiaria Sai in Italy with a similar number of customers holding black-box-based insurance policies.

However, in the UK, one of the more developed telematics markets, with around 20 different offerings, it is still estimated to account for only 2-3 percent of motor insurance policies.

Insurers have multiple issues to tackle

Insurers are still grappling with a range of strategic, technological and regulatory issues. They are seeking to understand consumer perceptions, driver psychology, and how to effectively use telematics technology.

As a result, among current offerings, there is little standardisation in the technology, the data that is collected and analysed, or the benefits that are promoted to consumers.

But perhaps the biggest questions insurers must answer before broad-based telematics adoption can become a reality include how to:

- overcome consumer privacy and data ownership concerns
- get an accurate picture of overall driving behaviour in light of positive self-selection

- balance the risk-reward in a compelling manner so that consumers are able to see past the intrusiveness and financial ramifications of continuous driver monitoring
- incentivise all consumer groups to use telematics through more personalised and innovative services and offers in addition to reduced premium rates
- create value from the vast amounts of data captured
- make the economics work

Cut through the hype and consider the potential implications of telematics

In order to successfully navigate the future of telematics in the motor insurance industry, insurers need to be able to cut through the hype, consider the different scenarios for the future of this sector, and ensure their business is ready to tackle the resulting implications.

To help address this need, Accenture has developed two extreme scenarios for the future of telematics. These are based on a number of factors that will impact the level of telematics adoption, how this sector will mature and industrialise, and therefore the back-office implications for insurers.

Scenario 1: "It's a fad"

Telematics was much talked-about, but failed to launch at scale in the early 2000s. Under this scenario, the same cycle re-emerges. Considerable resources are invested, but it never quite takes off. A number of factors lead to a more limited uptake and development of telematics within the motor insurance sector.

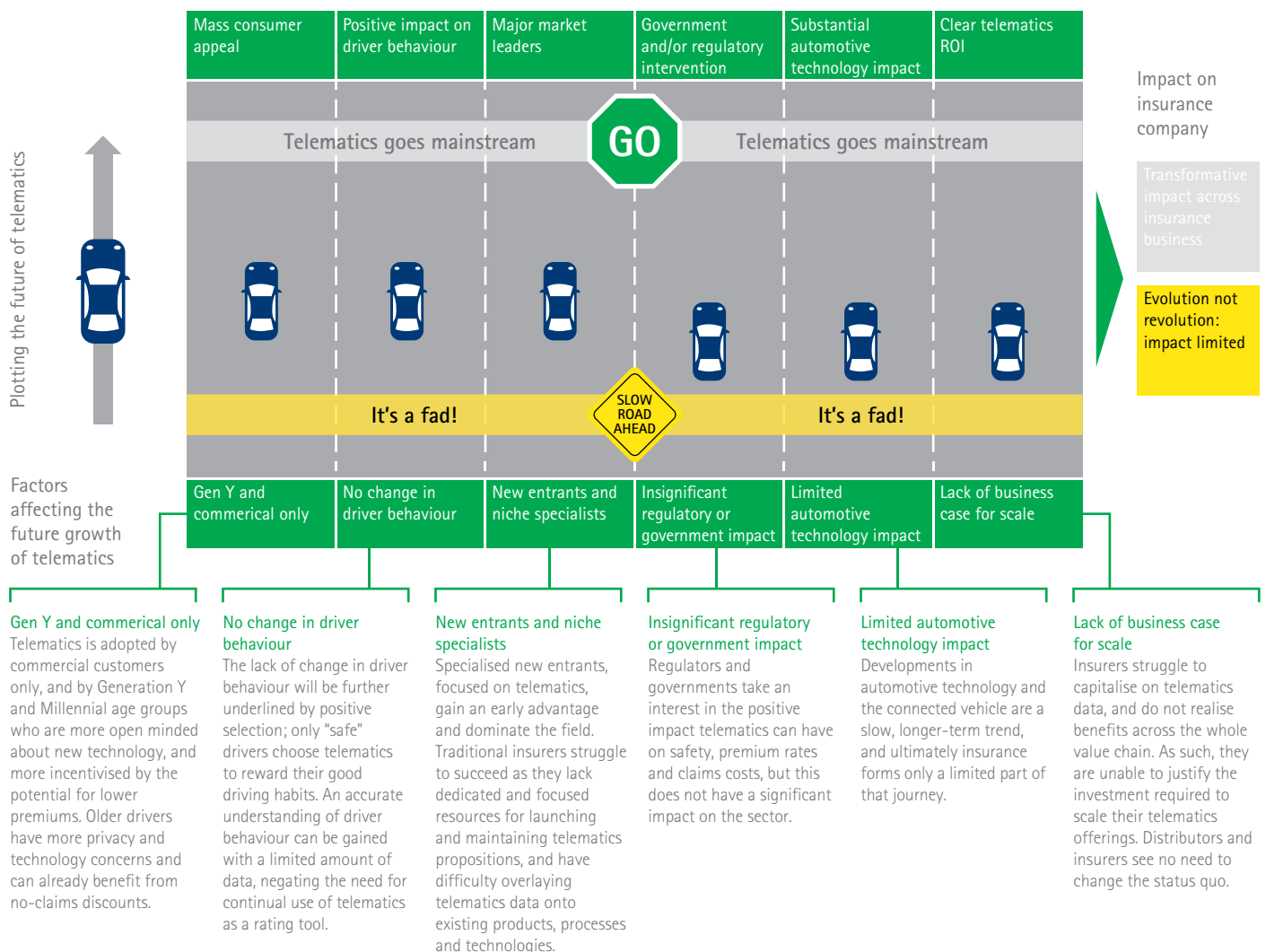
Impact of this scenario? "Evolution not revolution"

Under this scenario, telematics plays a role in commercial lines and niche areas of personal lines. Without the business case and the ability to capitalise on the data acquired, it has only limited impact on insurers' back-office operations and profitability.

Benefits are only realised in certain areas of the business, depending on an insurer's proposition. For example:

- reduced claims handling costs and improved accident reconstruction, with limited impact on risk selection and pricing
- an additional rating factor, which may improve accuracy and speed, but does not eliminate traditional core underwriting and claims handling techniques
- marketing: attracting safer drivers with lower premiums and improving customer loyalty

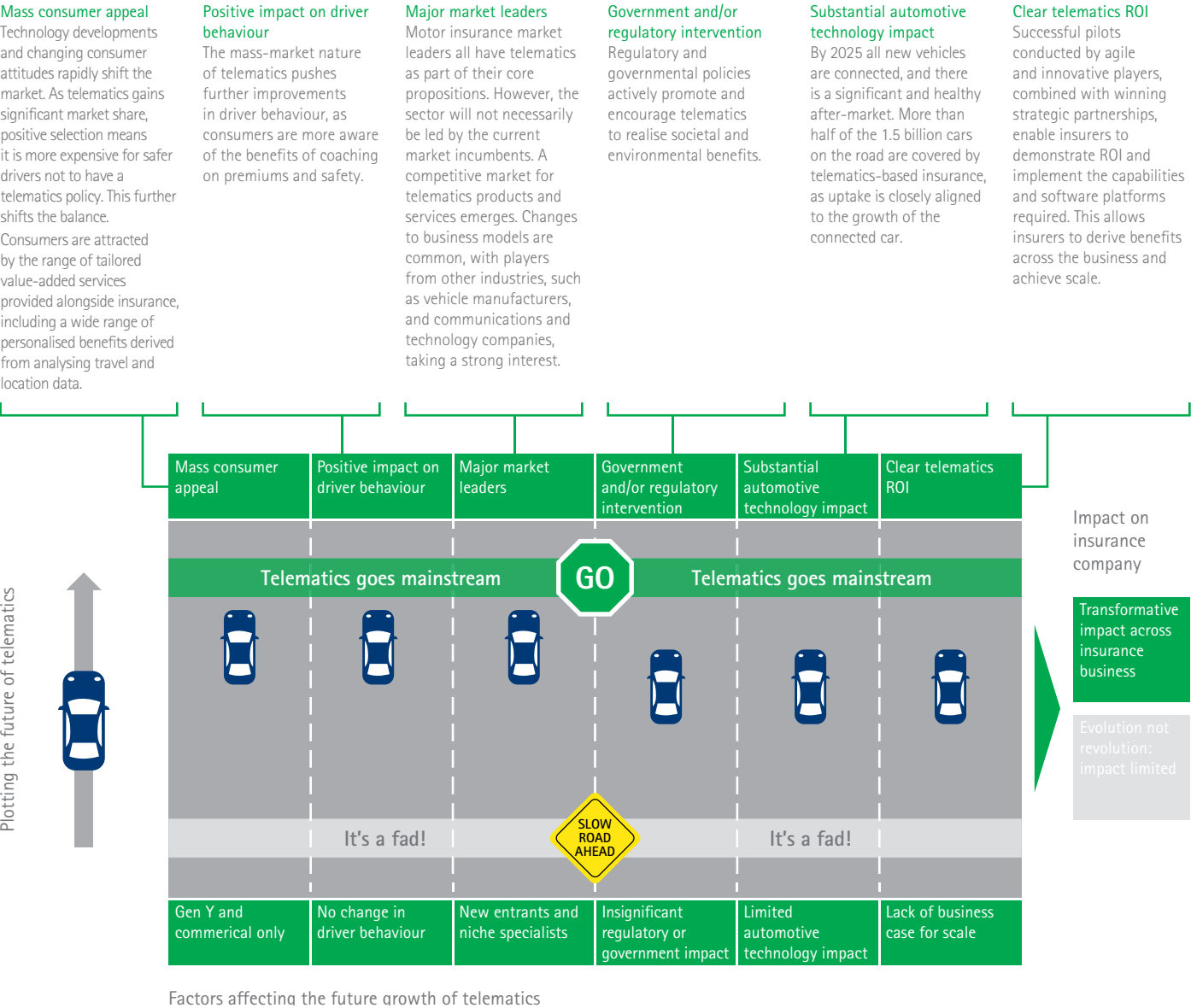
Figure 3: Where is insurance telematics heading? Scenario 1



Scenario 2: "Insurance telematics goes mainstream"

At the opposite end of the spectrum is a future in which the motor insurance industry is transformed by telematics.

Figure 4: Where is insurance telematics heading? Scenario 2



Impact of this Scenario? "Telematics is transformative and goes mainstream"

Under this scenario, telematics has a transformative impact on insurers' back-office operations, changing rating and claims handling processes and benefiting insurers across the value chain. Initial estimates suggest benefits equate to around 15-20 percent of the cost ratio.²

Taking an even more extreme, longer-term strategic view of the sector, there would be a more fundamental shift for insurers and their role in the market. For example:

- Telematics-based insurance is, to some extent, in a race with other technological innovations that are making vehicles safer and more economical. As cars become more connected, they will take over more and more responsibility from the driver, reducing the number of accidents and shifting liability from the automobile owner/driver to the vehicle manufacturer.

- Ultimately the possibility looms that consumers will no longer drive themselves. Google's driverless car project, tested on roads from 2012, has logged more than 300,000 driverless miles. Although such vehicles are still in the novelty stage, a future in which individual ownership of cars is a rarity, and customers rely on fleets of driverless cars to take them where they need to go, is not only foreseeable but likely.

In a world where driving behaviour and vehicles are so radically different from today, what will be the role for traditional motor insurers?

Figure 5. Benefits of telematics as a win-win

Insurers	Customers
<ul style="list-style-type: none"> • Better risk selection • Improved fraud analysis, fraud detection and cost of fraud • Lower claims losses – up to 30% reduction • Reduced claims handling cost – around 55% • Automation and improvement of core insurance processes (cost and time) • Increased customer satisfaction, retention and loyalty • Greater insight and understanding of customers • Enhanced reputation and brand, especially relating to policy issues such as safety and the environment • Moving insurance from a grudge purchase, with service provision only in the event of a claim, to providing a wide range of continual, tailored, value-added services to the customer 	<ul style="list-style-type: none"> • Greater price transparency • Degree of empowerment and personal control over premium rates • Lower and more affordable premiums, especially for younger drivers • "Peace of mind" for parents of teenage children • Greater overall safety: improved driving, reduction in accident frequency and severity • Faster accident assistance and support • Value-added services including improvements in fuel efficiency and vehicle maintenance, as well as tailored discounts and packages relevant to lifestyle and behaviour • Greater personalisation • Rewards for loyalty

² Figures are based on Accenture's analysis and understanding of mature offerings in different geographies

Preparing for the tipping point: ensuring success in telematics

The adoption of telematics will accelerate

In reality, the future will be a mixture of these two scenarios. However, as has been demonstrated globally over the last 12 months, Accenture believes that the adoption of telematics will continue to accelerate.

The UK market demonstrates the extent of change that is possible

The UK provides prime examples of how new business models can revolutionise the private motor insurance market. While there are structural factors particular to the UK insurance sector that have made these market shifts possible, it serves as a useful benchmark for the extent of change that is possible.

Figures 6 and 7 demonstrate how the direct channel and aggregators both captured significant market share in a relatively short space of time. If telematics were to follow

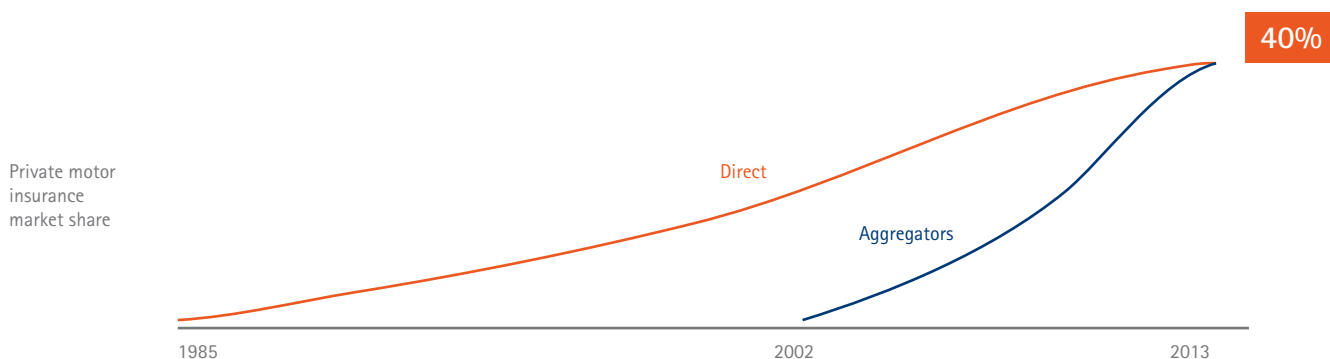
the growth trajectory of these two waves of change, then the UK market alone could be worth £4 billion (\$6.5 billion) by 2020.

Insurers that do nothing risk being left behind

Telematics undoubtedly acts as a catalyst for new entrants and innovative business models. While existing insurers and distributors may have a vested interest in maintaining the status quo, there will be new entrants and players outside the industry who will not be constrained by existing market structures or legacy, and will take advantage of technology advances to shake up the market.

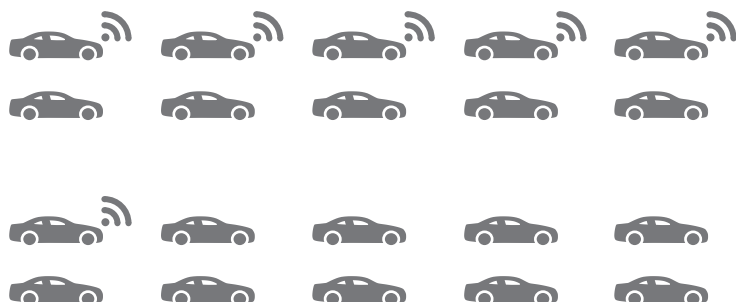
Figure 6: UK case study – could telematics be the next big disruptor?

The direct channel and aggregators have captured significant market share in UK private motor insurance



What if telematics were the next big disruptor?

2025



Scenario 1: Telematics is transformative, gaining similar market share to previous market shifts

40% market share
£4bn premium income (US \$6.5bn)



Scenario 2: It's a fad. Longer-term low growth rates continue

5%-10% market share
£500m-£1bn premium income (US \$820m-\$1.6bn)

Data: Market approximately £10bn in GWP (based on £8.6bn NWP in 2012 (ABI) and approximately 87-90% NWP to GWP ratio over last 10 years)

Direct market share taken from the ABI's private motor insurance data – assuming little change in this share as the market is mature

Aggregator market share – assuming around 40% about right. New business figures suggest around 55% (IGO4, Admiral data point to that), EY CII 42% in 2010

Source: Accenture analysis based on ABI and Accenture UK FS Consumer Survey data

Note: Figures are all rounded to provide indicative examples

Note: Aggregator and direct channel data are not mutually exclusive

Accenture therefore believes that all motor insurers should have a strategy and a roadmap in place for telematics-supported products. We see three strategic options for insurers:

1. "Wait and see"; follow the market when the time is right
2. "Dip your toes in"; take an interest in and experiment with telematics at the periphery
3. "Jump in – feet first!"; gain first-mover advantage with pilots that prepare for scale.

While all of these strategic options are currently in play, Accenture believes that, on the whole, insurers are still too narrowly focused on telematics as a pricing mechanism for niche markets, rather than as a complete shift in the way insurance can be bought, consumed and serviced.

In spite of the uncertainty surrounding the future size and shape of the sector, insurers that do nothing will get left behind when the tipping point is reached.

Six important success factors to bear in mind when developing telematics strategies

Accenture believes there are six important success factors for insurers to bear in mind when developing a telematics strategy. These success factors have varying degrees of priority depending on where insurers are in their telematics journey, and each raises a series of interesting and challenging considerations.

1. Be quick and agile

Success in telematics requires quick and agile pilots, as well as the organisational ability to continuously learn, refine, enhance and scale. Insurers need to test and learn at a rapid pace while the market is maturing, so that they can scale up and expand the value proposition when the time is right.

Agile pilots will provide insurers with: early insight into consumer and data issues; the opportunity to lead a particular market segment; and the chance to build and learn from data repositories.

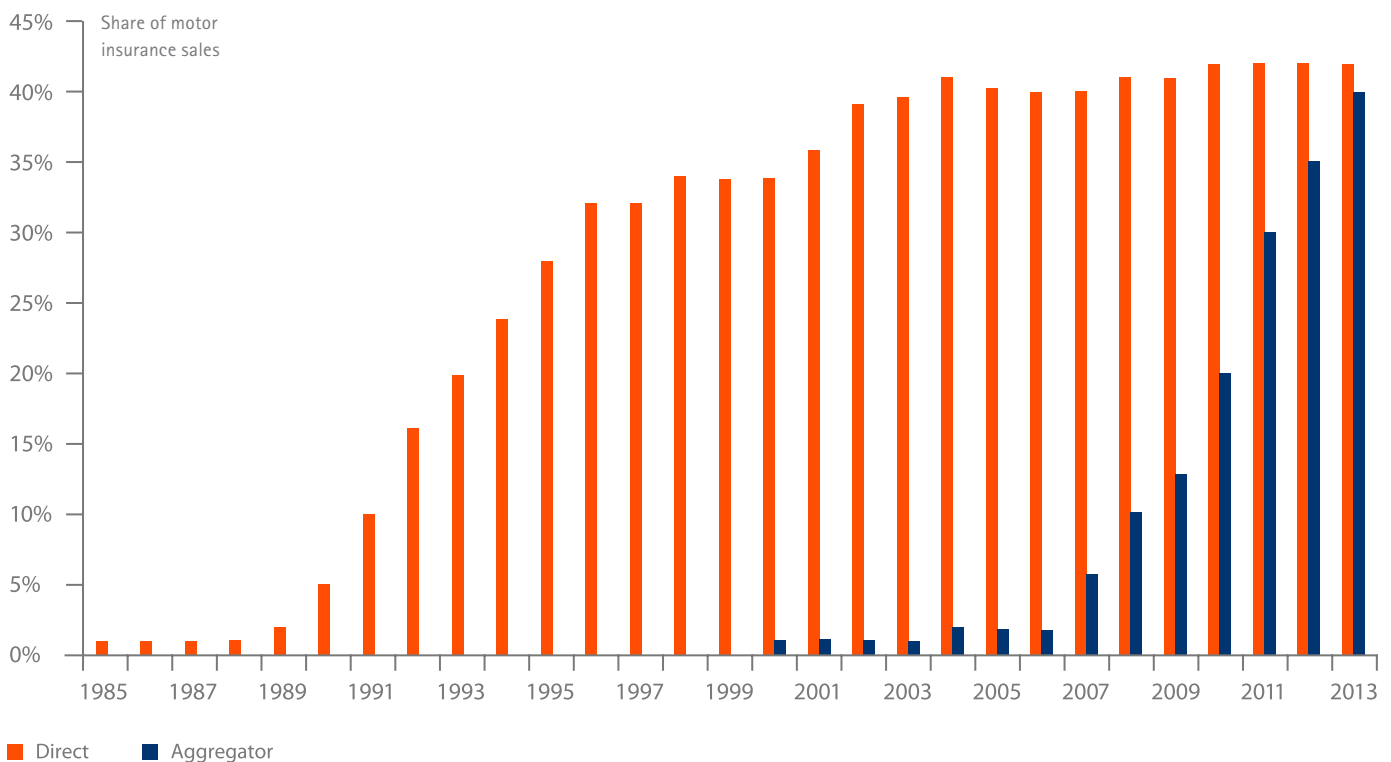
Insurer considerations:

How to test ideas and derive insights without a full scale market play?

Are the internal structures and capabilities in place for agile pilots and continuous improvements?

How to gain first-mover advantage without risking massive failure?

Figure 7: The direct and aggregator channels in the UK both grew rapidly to claim significant shares of the personal-lines motor insurance market.



Source: Compiled using ABI, other published reports and Accenture analysis.

2. Understand the telematics ROI

Regardless of the technology approach, telematics requires considerable up-front investment, not just for the devices themselves but for the technology platforms, data management solutions and analytics needed to handle the huge volumes of data.

Insurers need a detailed understanding of the source of sustainable short- and long-term ROI, taking into account a whole range of factors, including customer retention and loyalty.

The key questions remain:

- whether the improvement in customer acquisition, retention and claims costs outweighs the investments in infrastructure and capabilities required to develop a telematics offering
- whether it is possible to develop mass-market telematics propositions that do not destroy or cannibalise value in the existing book of business

These factors should be monitored and tracked closely from pilot phase, enabling insurers to adjust and further test their propositions if the economics do not work.

Insurer considerations:

Is there an internal understanding of telematics economics?

How can telematics sit alongside existing propositions without cannibalising the existing book?

How to implement telematics cost-effectively?

Can a business case be built for different market approaches in order to secure the right level of investment?

How telematics influences the overall insurance economic model? What impact does it have on reserves, claims handling and cost base?

3. Adopt an integrated approach

Only a comprehensive, integrated approach to telematics will work. All parts of the organisation – including marketing, underwriting, claims, and IT – must be aligned with the program and be prepared for continuous adjustment and development.

Insurer considerations:

Are the execution skills in place to embed telematics across the business?

How to tackle the challenge of converting the existing business operating model to make mainstream telematics a reality?

How to build Board confidence in the potential value of telematics?

4. Understand your current limitations and get the technology right

Insurers are struggling with the reality of how to make use of the enormous amounts of data they can capture and how to convert this into value for customers and for their business.

Much of the burden of a telematics program will fall on IT and insurers' technology platforms. An honest, rigorous assessment of a platform's ability to collect, organise and store vast quantities of data is essential to any program launch. Insurers cannot afford to underestimate the difficulties of data capture and its application for the business.

Insurer considerations:

How to manage the huge volume of data and turn this into a competitive advantage?

Are telematics offerings compatible with existing technology platforms? What is the impact on legacy systems?

5. Put the customer at the centre of the strategy and develop clear and flexible propositions to engage different customer segments

No matter how good the device or how skilled the implementation, telematics will only succeed if it provides value to the end customer.

This requires an in-depth understanding of customer motivations, reservations and driver psychology, as well as the incentives to opt in, maintain engagement and retain at renewal.

Insurers need to develop telematics propositions that can be modified in order to drive engagement among different customer segments and provide value for end customers as well as brokers or agents.

Insurers are still failing to grasp the opportunities of insight-driven, predictive analytics. Regardless of telematics, this should be a key area of investment for insurers wanting to compete in the digital era.

Insurer considerations:

What customer segments will be most attracted to telematics?

What will they value most?

Does the organisation have an insight-driven view of customers in order to understand motivations, lifestyles and values?

Can telematics propositions be tailored to allow customers to opt in to different elements of the offering depending on their priorities and motivations?

6. View telematics as just the beginning

Positive selection bias and lower premium rates will drive initial customer uptake. However, insurers will need to offer additional sustainable value to incentivise the mass market. This will determine whether or not telematics becomes a disruptive industry force.

Accenture believes that the key to driving broad-based adoption is the vast potential for location-based value-added services.

Telematics should therefore be seen as a starting point, not a final destination, for organisational transformation. With the data derived from telematics, insurers can offer tailored value-added services to their customers, based on much richer knowledge and understanding.

These services have the potential to change how consumers perceive telematics and to drive uptake. However, they also have the potential to fundamentally shift the role of an insurance company in the eyes of consumers.

Through telematics, insurers have the opportunity to provide continual relevant services and benefits and get much closer to their customers as a result. This will require a flexible approach, encompassing innovative business arrangements and technology solutions.

Alternatively, if insurers fail to grasp this opportunity to engage with their customers on a personalised level, through tailored products, pricing and value-added services, then other players and other industries will step in.

Insurer considerations:

What value-added services can make telematics more appealing and improve customer engagement?

How to seize the opportunity of providing continual customer service and personalised relationships?

Has there been a strategic look at future insurance distributors, partnerships and service providers?

Is there an internal view of how customer relationships may shift in this arena?





Conclusion

After a somewhat hesitant start, telematics is gaining momentum in motor insurance. We anticipate that it will be widely available in the future and cheaper for both customers and insurers to use.

Insurers that ignore telematics do so at their peril. It is neither a fad nor a mere addition to insurers' pricing and underwriting capabilities. Rather, telematics represents a disruptive, transformational technology that has the power to reshape the global motor insurance industry, dramatically altering every aspect of the insurance value chain from marketing to claims processing.

Telematics provides the opportunity for insurers to get much closer to their customers and gain a far richer understanding of their needs and motivations. Through the data derived from telematics, insurers can not only develop and enhance customer eco-systems, but also gain invaluable insights for the development of the underlying insurance product. Together all of these have the potential to fundamentally shift the role of an insurance company in the eyes of consumers and tackle the ever-increasing retention issue.

Just as technology will transform the way in which consumers use their vehicles, so it will transform traditional motor insurance. Insurers have to be in this sector, learning and adapting, or they risk getting left behind once the tipping point is reached.

How can Accenture help?

Accenture provides a full suite of telematics service offerings, powered by our Digital Insurance Innovation Centre, our deep industry experience, and established relationships with leading telematics and technology providers. Accenture has a wealth of partnerships in place in this sector to bring together the best telematics capabilities.

With leading global insurers, Accenture is involved in developments across the whole telematics value chain, from strategy planning and execution, technology and mobility hardware, analytics and data management, through to integrated technology solutions and managed service offerings.

Through Accenture's Digital Insurance Innovation Centre and our integrated insurance solutions and partnerships, we are able to offer a flexible, supported hosting option covering all key components of the telematics value chain.

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