

Insurance Telematics 2011 – The Buzz is Rising

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(12 September 2011)

This year's **Insurance Telematics USA** show (ably managed by the energetic Telematics Update team) reflected the quickly gathering momentum in this space, as 370 participants from insurance companies and vendors gathered at Chicago's McCormick Place for the two day event. Speakers covered topics from business models and intellectual property to public-private partnerships and communications technologies. "This show was one of the more informative and well attended conferences this year," said Jack Pierce, Business Development Director at Applus. "It provided details as to where the insurance telematics market is currently and offered insight in where it is going. I'm glad I went."

Key takeaways:

- **It's early days yet.** Pioneers in the insurance industry started work on the insurance telematics opportunity years ago, but technology, deployment and cost issues made for slow going. Today, leaders such as Progressive Insurance are starting to sign up tens of thousands of U.S. consumers a month, and their competitors are hustling to join the game before the self-selected pool of early-adopting low-risk drivers is creamed off. However, most insurers are still in the pilot stages, and participants reported a variety of deployment challenges as they seek to grow consumer adoption beyond today's 1% rate. Speaking on a panel, Nino Tarantino, President of Octo Telematics, projected that 2015-16 will be the timeframe for mainstream availability of usage based insurance (UBI) in the U.S., which appeared to be a consensus view among leading practitioners.
- **Business model still evolving.** Speakers shared a broad range of ideas, from "reward-based solutions" aimed at providing discounts to consumers in return for reduced underwriting risk, to a range of "value-added services" (VAS) which are seen as helping with differentiation and customer retention. A fundamental question is the allocation of roles among insurance providers, the supplier ecosystem, and VAS competitors such as automotive OEMs. Speakers discussed a range of approaches, including the possible emergence of "driver rating" agencies (much like credit rating agencies) and the evolution of insurers from "accident reaction" to "accident prevention" partners.
- **Deployment not simple.** Speakers reported that successfully selecting devices, navigating the sea of solution providers and integrating with legacy IT systems can take years, although this timeline is improving as more programs are put in place. Changes to sales and fulfillment processes also add complexity to this process. In addition, the

investment required to capture the requisite amount of data for statistically valid driver scoring (conservatively estimated by one speaker at 50,000 vehicle years) is non-trivial.

- **Consumer acceptance still a question.** Most speakers downplayed the privacy issue, saying that most consumers would happily trade privacy for discounts. Nate Bryer of Allstate reported that recent studies by Towers Watson, ISO and LexisNexis have all shown that 70-80% of consumers surveyed would consider using UBI. However, when a room full of attendees was asked if they would personally join a UBI program, only about half said yes. This issue may be further complicated by public sector interest in using these platforms to collect Vehicle Mileage Tax (VMT) and to moderate driver behavior in the interest of safer, greener driving.
- **Fleet opportunities significant.** Speakers quoted the “large fleet” telematics adoption rate at 90%+. The wide range of non-standardized systems deployed in the fragmented fleet marketplace makes integration with insurance provider systems challenging, but this is clearly an area of interest for the insurer community. Smaller fleets are also an opportunity, with much work needed to develop appropriately benchmarked profiles for varied vehicle use scenarios.

With all that said, one insurance carrier now counts 250,000 UBI customers in the US, and the conference was heavily attended by their competitors. A space to watch!