

The Future of Auto Insurance

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What have you heard about auto insurance telematics?

Customers don't want to share data with us

Telematics are not able to select risks better than the credit score

Telematics is usage-based insurance

Converting IoT data into actionable insights is still a wish... we are not yet ready to make smart actions



It's impossible for an insurer to charge fees to customers for services

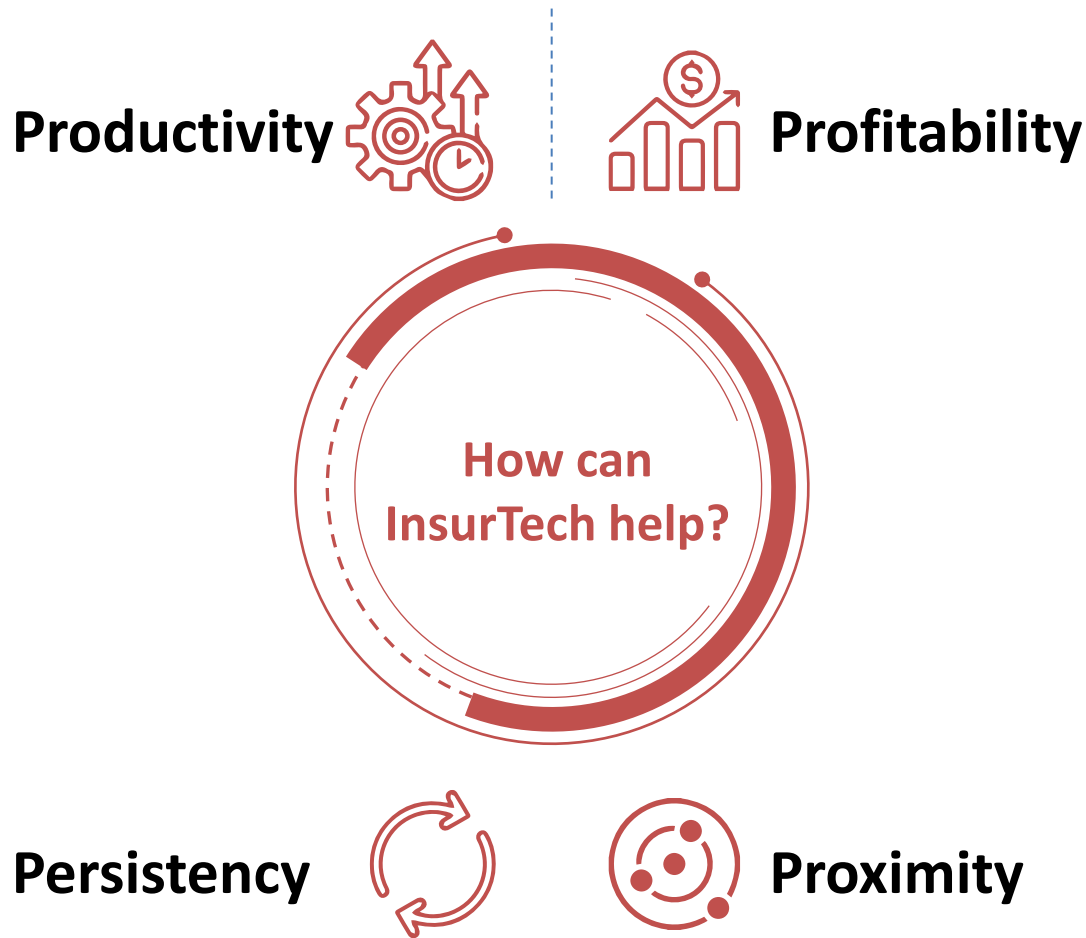
There is no ROI on Insurance Telematics, it is only premium shrinking

To make telematics works insurers need to work with OEMs, GAFA...

Insurance telematics is about how to collect data to find a profitable underwriting formula

Even in the insurance sector, we are in the age of post truth

For the past seven years, I've affirmed that Insurtech can bring a concrete impact on the core insurance activities



Insurtech can make the insurance sector stronger and therefore more capable of achieving its strategic goal in this changing world: to protect the way people live!

Telematics is a concrete demonstration of this thesis

Productivity

- Telematics represents **+30% of the new business** for some top US auto insurers
- Many international insurers have increased their top line **charging fees** (e.g. \$5 a month) to the policyholders for the additional telematics-based services
- One of the biggest US telematics program for heavy vehicles showed a **2X conversion rate** compared to other trucks quotations

Persistency

- One of the larger telematics US portfolios has shown between **5-15 percentage points higher retention** relative to those who have chosen to not enroll into a program
- The behavioral change global best practice showed an **84% lower lapse rate** among the most engaged policyholders

Profitability

- Many international personal auto telematics programs have quantified in about **10% the self-selection effect** on the loss ratio (before the eventual up-front discounts)
- The “behavioral change” global best practice has measured on average **15% improvement in driving behaviors** within 30 days (even doubled in the long term)
- **90% reduction in phone usage** through frequent engagement and tangible rewards (US field study)
- The most successful US commercial auto telematics program **reduced the claim frequency by 20%**

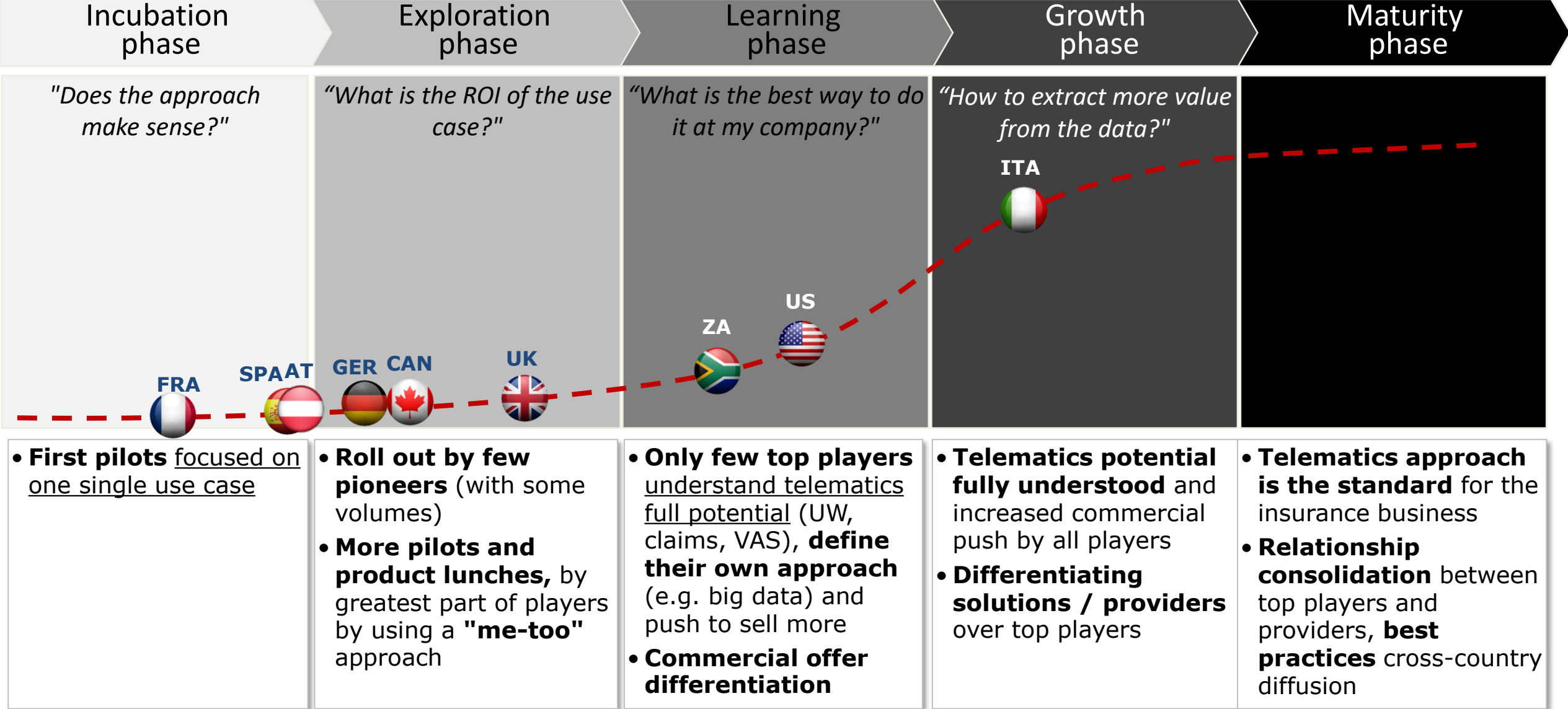
Proximity

- **40% of the telematics clients interact daily** with the reward system of a digital broker
- **30-50% of monthly active users** reached by one of the larger telematics US portfolios (continuous monitoring)
- Some European insurers **increased by 10% the claim settlement speed** in their telematics portfolio

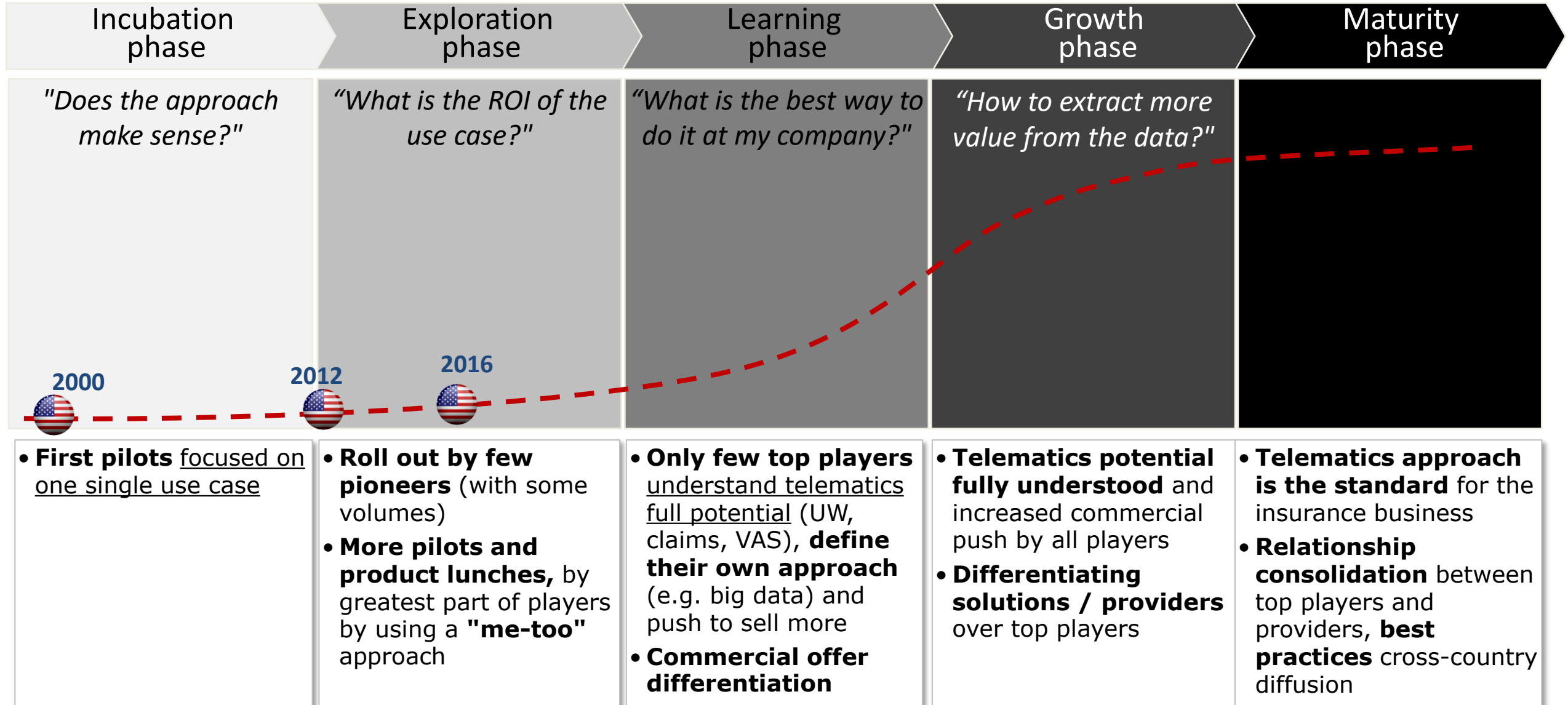


How can InsurTech help?

However, many markets have still a low maturity level



The story of the US market: 2000-2016 UBI 1.0

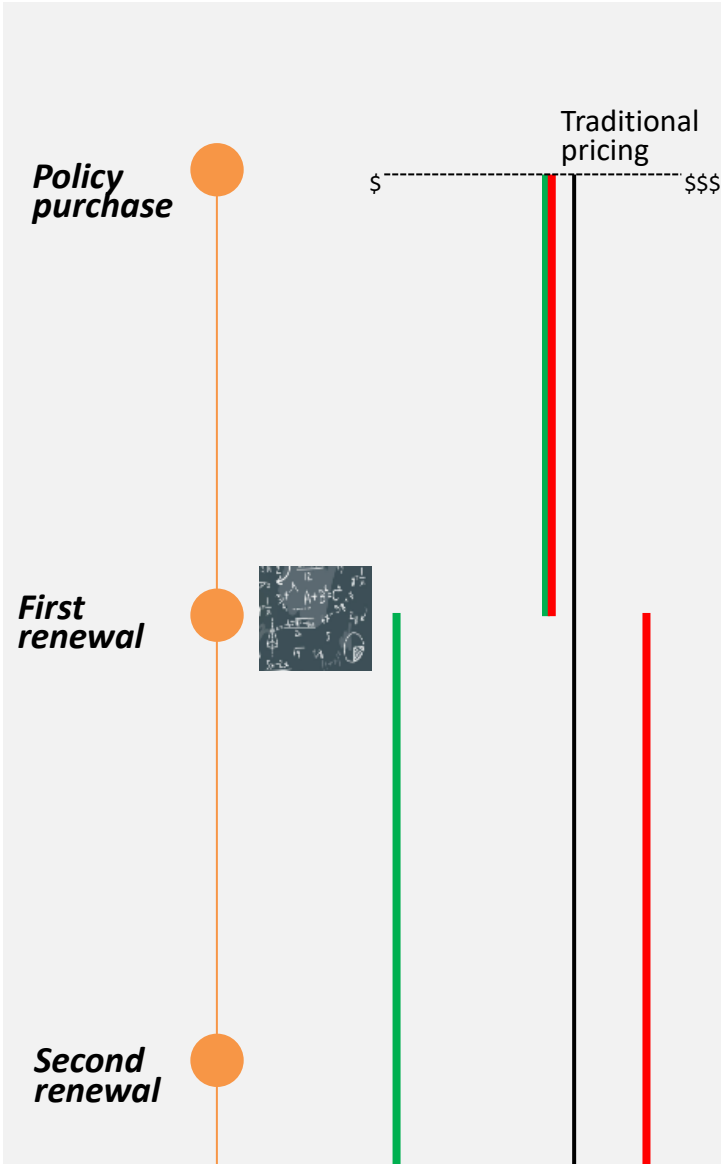


UBI 1.0

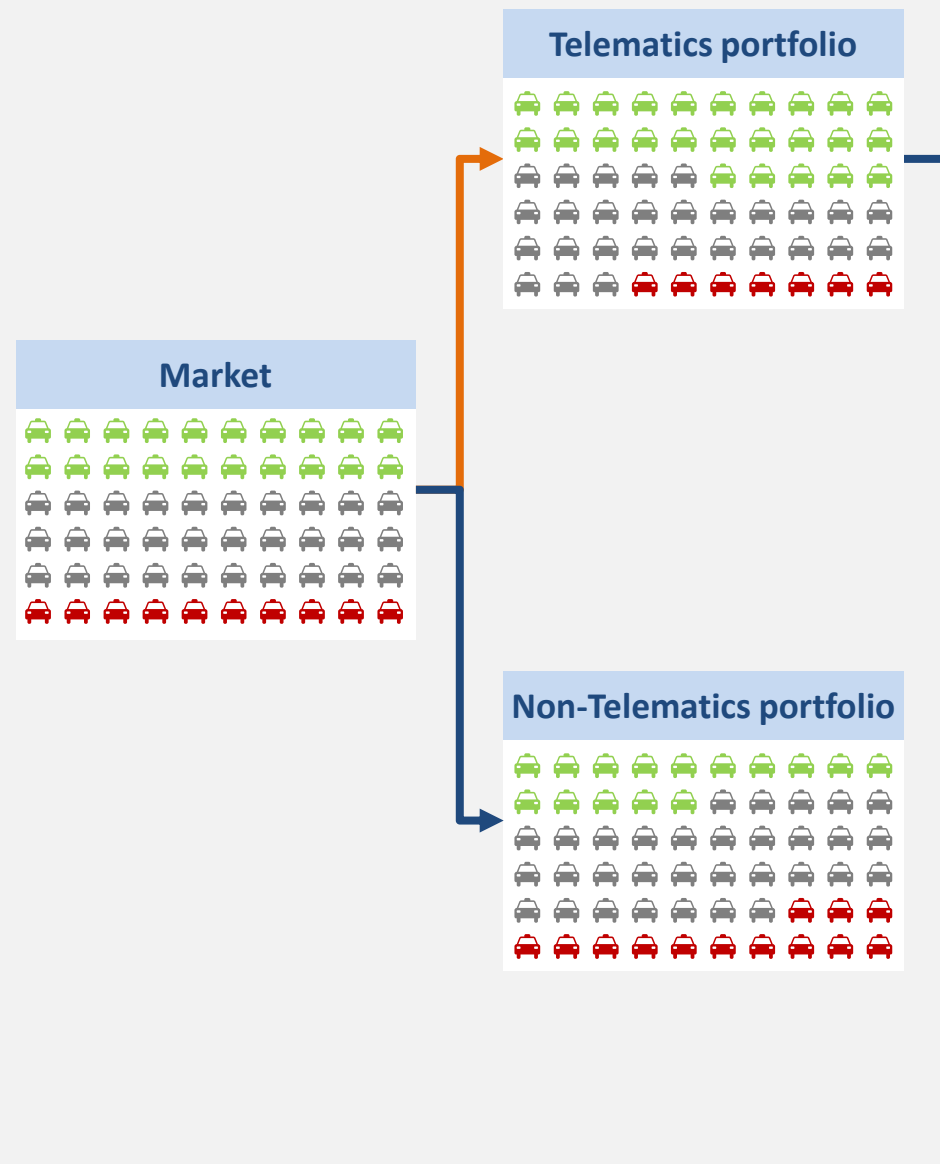
Risk level compared with their pricing cluster

Low risk driver Average risk driver High risk driver

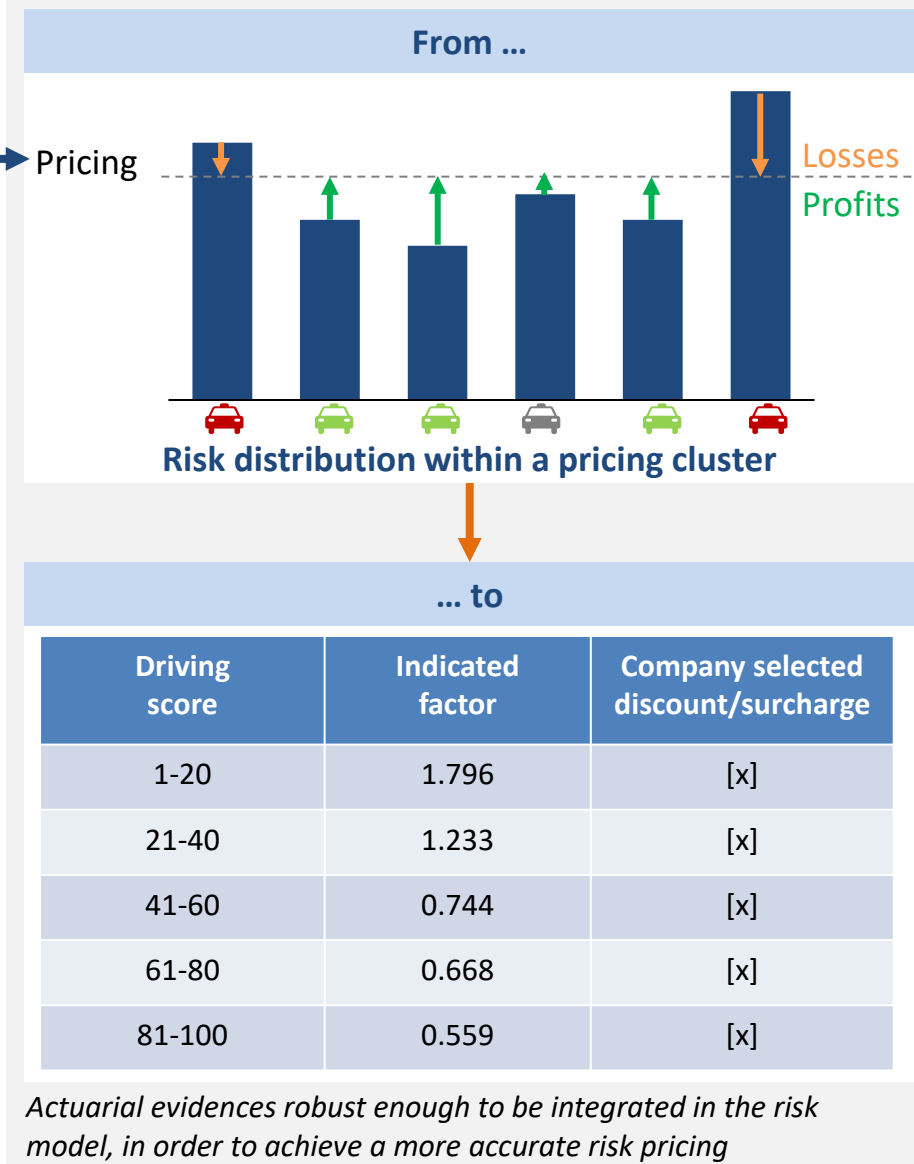
The product sold to the client



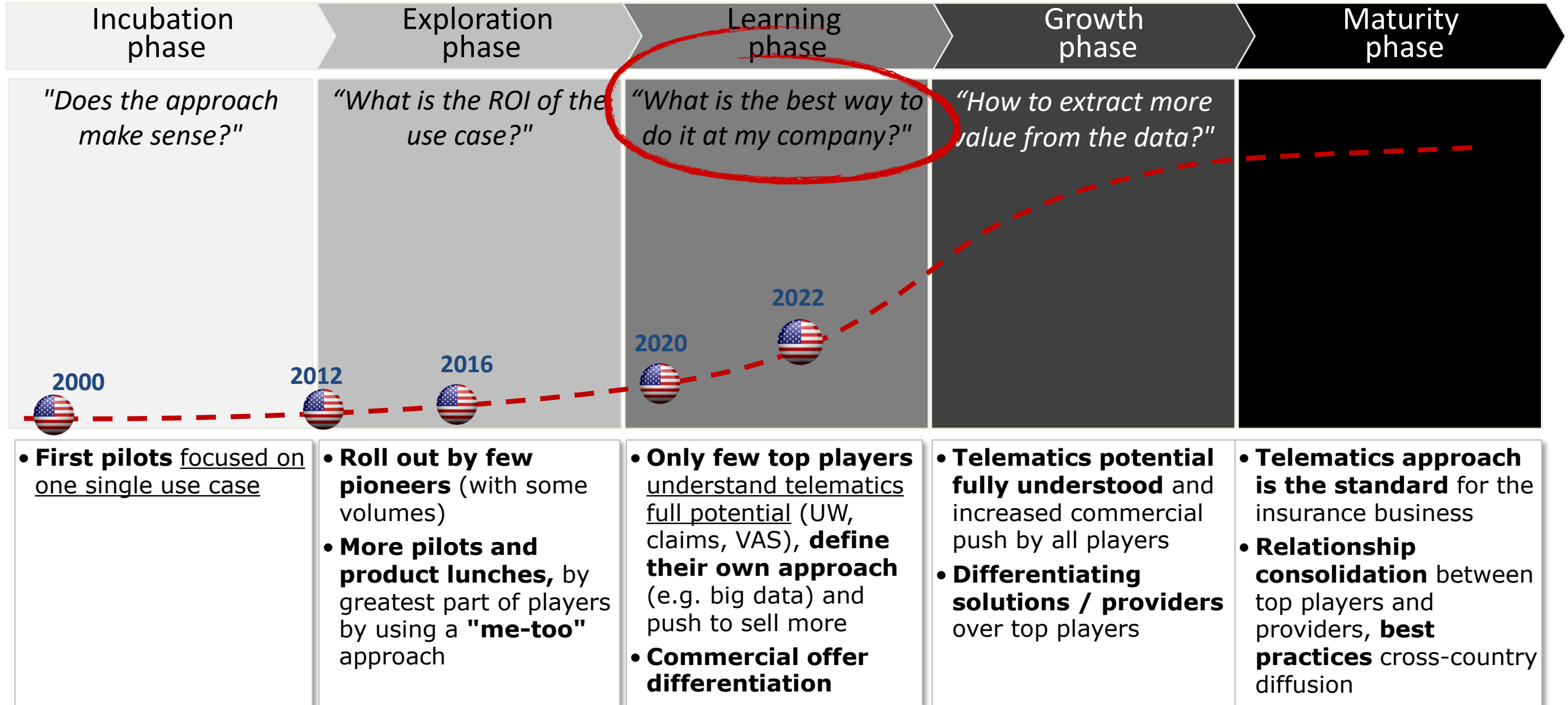
Up-front selection self-selection



Pricing sophistication



The story of the US market: 2016-2022 UBI 2.0





Customer engagement



Behavioral change



Claims management

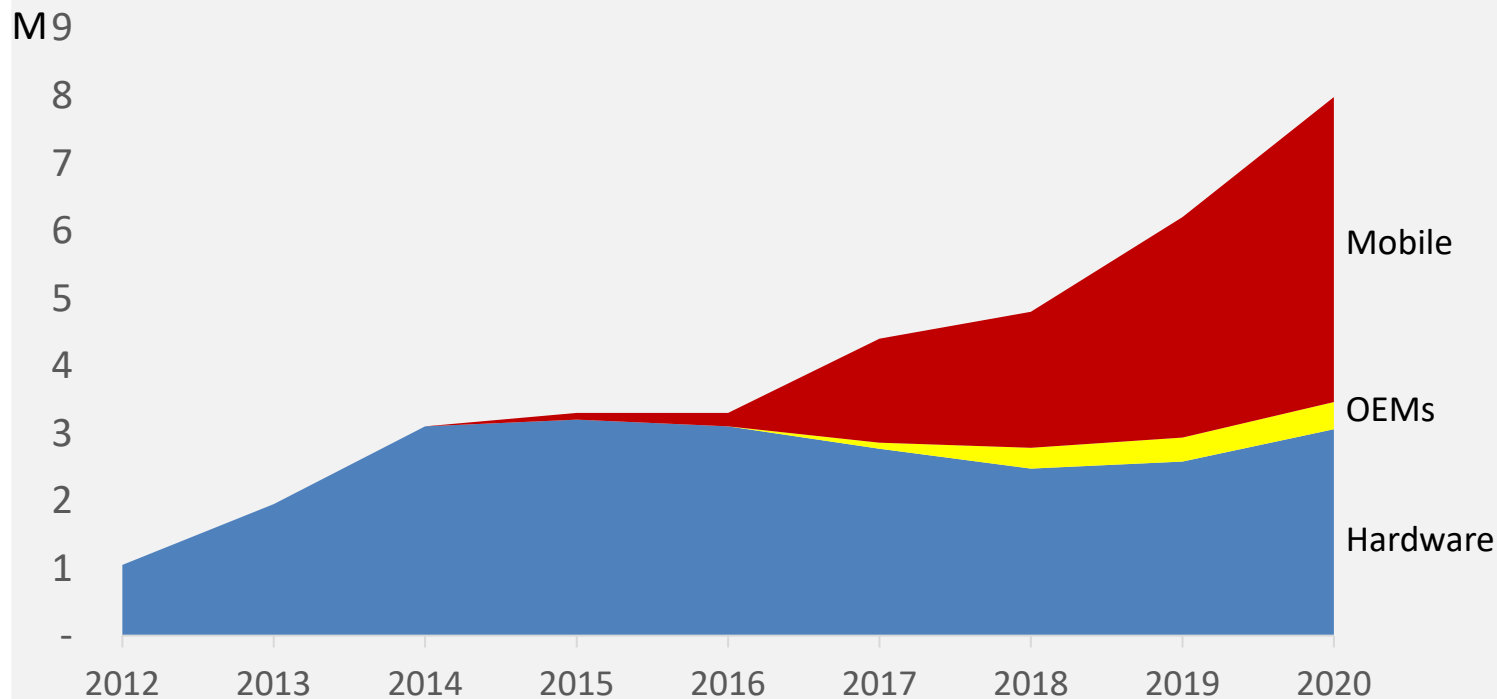


The constant monitoring has opened more opportunities for the usage of telematics data and the creation of economic value from this data

Telematics has already been recognized as a **necessary capability** in the US personal auto insurance



Number of personal auto vehicles connected to an insurer by year (US)



Source: IoT Insurance Observatory

“

“If you're not leaning into telematics, you're not going to be in business for very long, at least on a profitable basis”

*Tom Wilson, Feb '21**

“Geico clearly missed the bus and were late in terms of appreciating the value of telematics. They have woken up to the fact that telematics plays a big role in matching rate to risk”

*Ajit Jain, May '21***

“It's been only the last two years that we made a very serious effort in terms of using telematics [...] “It's a long journey, but the journey has started, and the initial results are promising”

*Ajit Jain, Apr '22****

Mobile based telematics has been the protagonist of this evolution

* Bank of America Securities' virtual conference 2020 <https://www.insidepandc.com/article/2876mmytwlmxq2wtztds/companies-without-telematics-offerings-wont-be-in-business-long-allstates-wilson>

** Berkshire Hathaway annual shareholder meeting <https://www.riskmarketnews.com/buffett-speaks-the-hard-truth-about-insurance-at-annual-meeting/>

*** Berkshire Hathaway annual shareholder meeting <https://www.carriermanagement.com/news/2022/05/02/235622.htm>



In ten years, it will be the norm for the US customer:



To download insurer's app on their phone to be insured

This app will continuously use the smartphone's sensors to deliver a superior customer experience

Regardless of what product a customer chooses (pay-per-use, telematics-based renewal pricing, or a policy with a traditional rating based only on traditional variables such as age, credit score, etc.)



To have the insurer proactively preventing risks

This will be done through both real-time warnings in risky situations and driver improvement via rewards for safe driving



To have all the claim touchpoints enhanced by the usage of telematics data

There will with a virtuous collaboration between claim handlers and AI



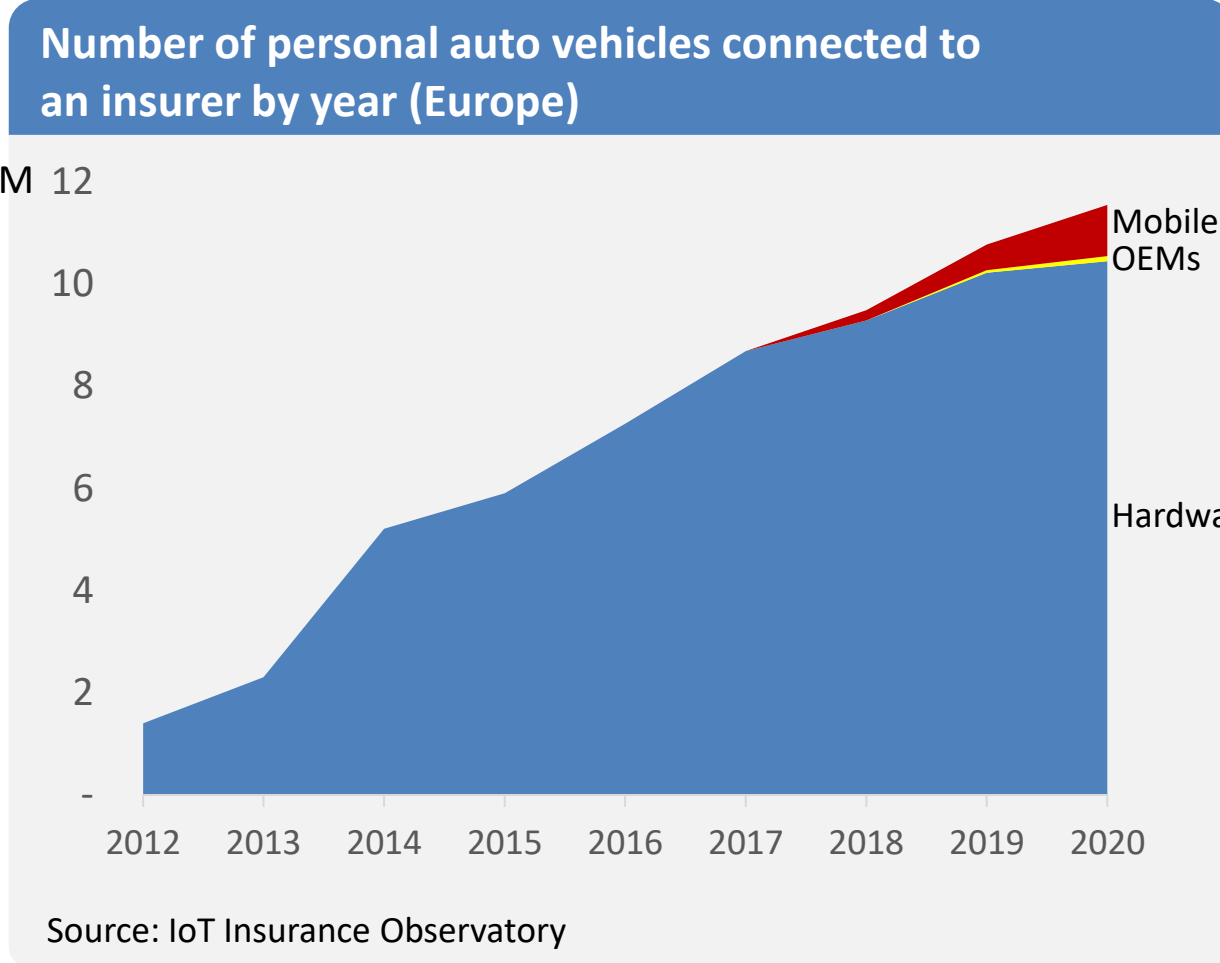
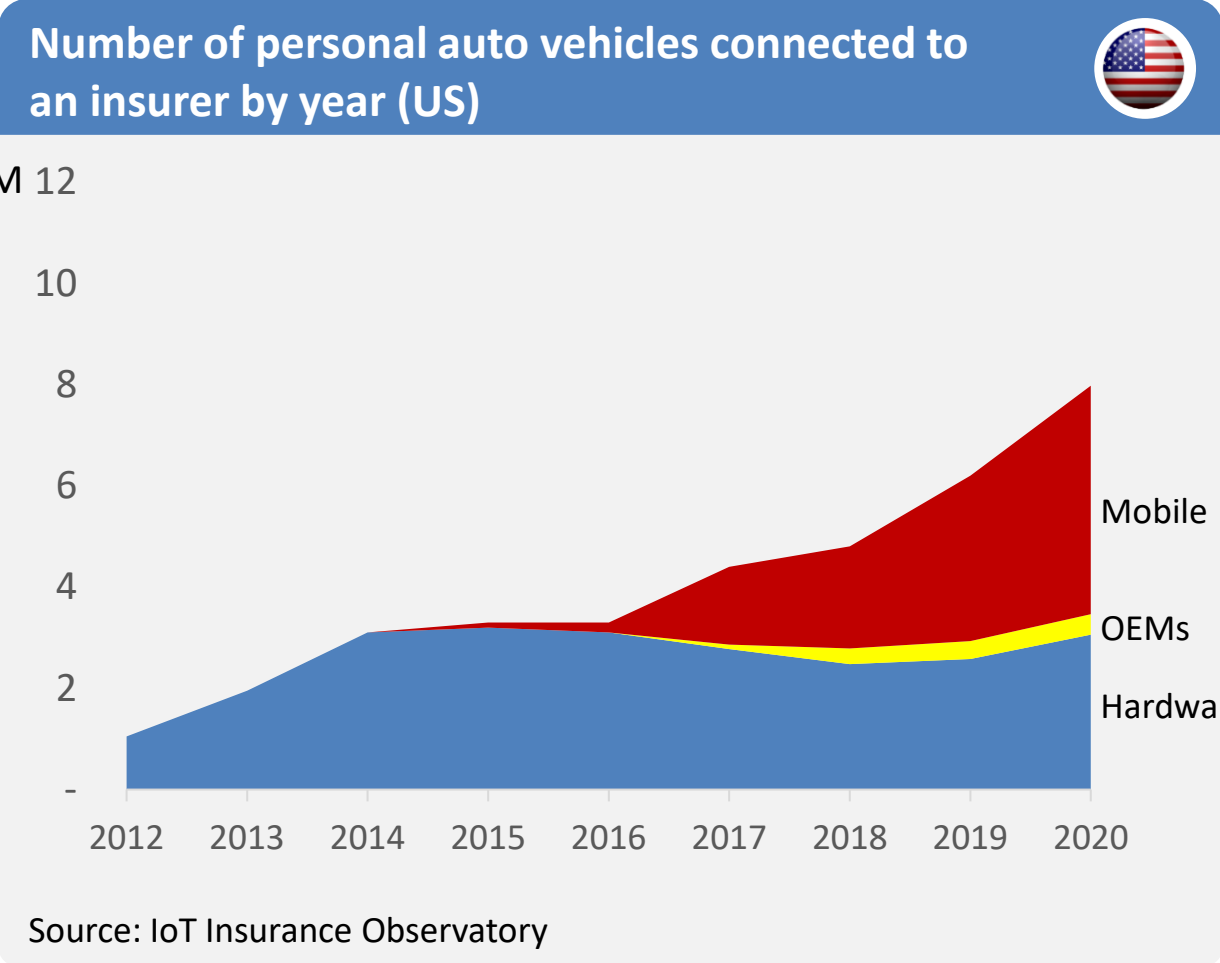
To select among personalized offers their insurers' apps

They will receive both telematics-based services and additional contextualized risk transfer solutions



To provide a telematics-based app (without need to switch the existing policy) to the existing book of business can be the game changer for the telematics penetration

European markets have still not leveraged the mobile-based telematics opportunity adequately



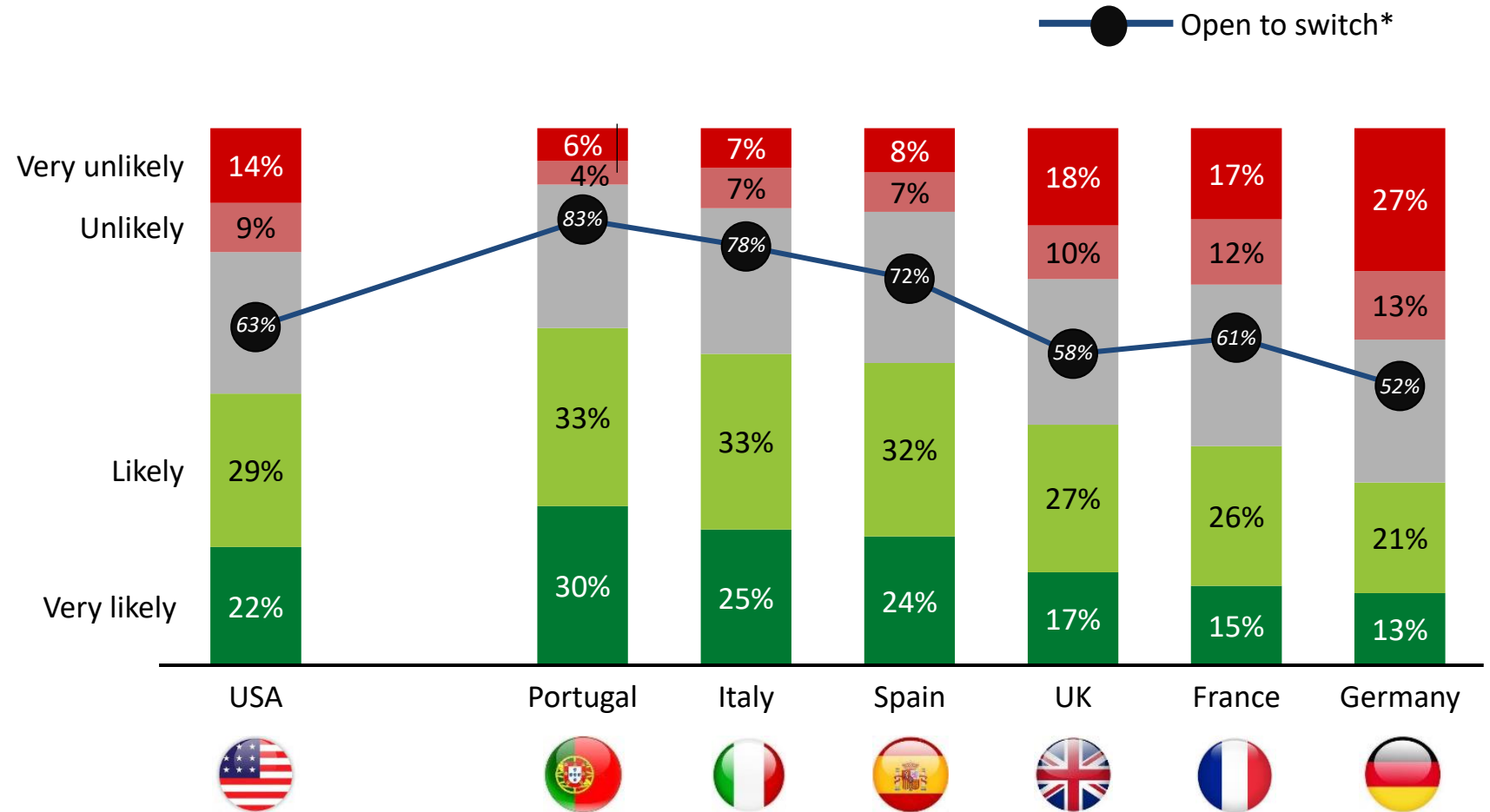
Are European customers ready?



The app installed on your phone is connected with the provider of your insurance product. It monitors your driving behavior and the events happening while you are driving. This app will reward you for safe driving, give you feedback and tips to improve, support you in case of an emergency/a crash and provide other services

Question:

Would you recommend this app offered by an insurance company to a friend?



Yes, your policyholders are ready! Are you?

* How likely would you be to change your current insurance policy for one that has both the pricing approach and the features you chose in the last two questions? (4-Very Likely; 3; 2; 1-Not at All Like)
 "Open to switch" = "4" + "3"

Any telematics initiative requires a coherence in any element of the strategy

Target customers

Value proposition

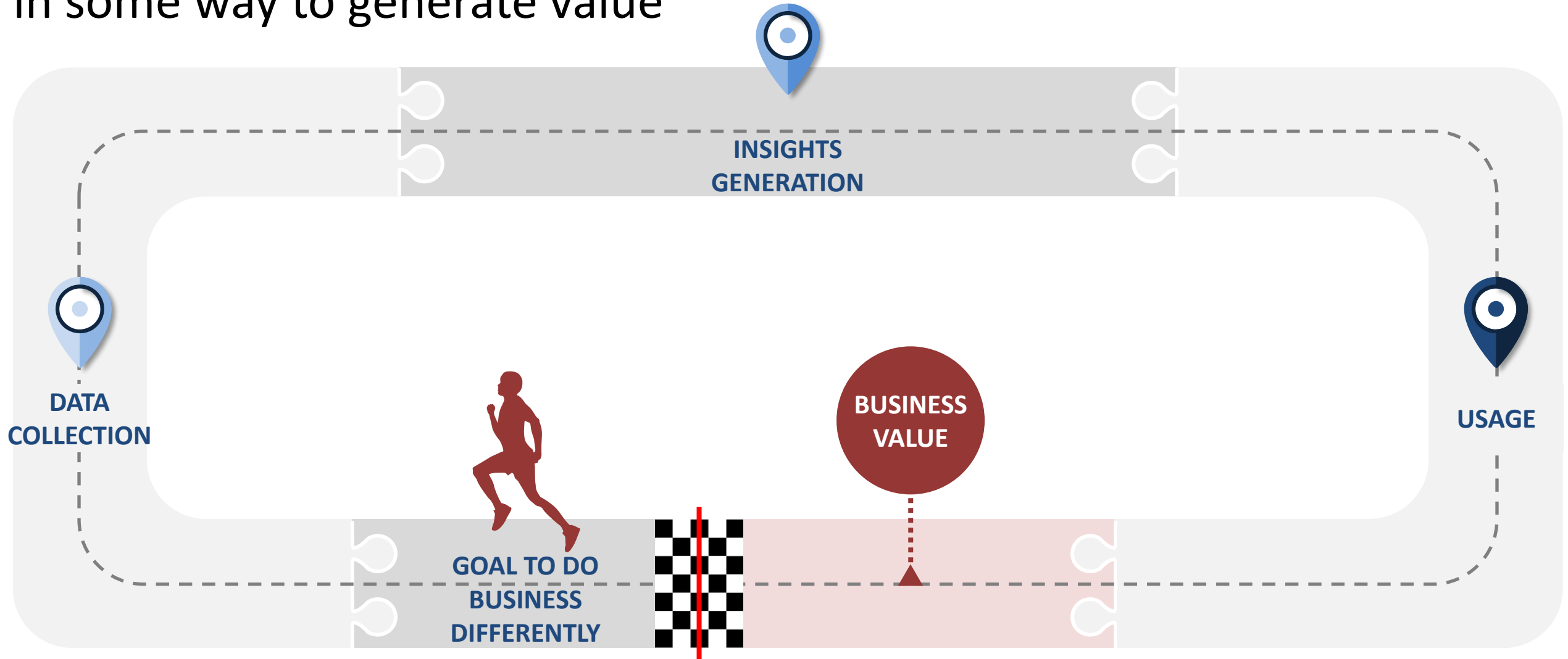
Insurance IoT use cases

Go to market

Frequent issue that have prevented the success

- No market fit
- No reasons strong enough for purchasing the product
- Lack of a strategy for using the data in order to create a strong value proposition:
 - not used at all the data
 - or*
 - not identified the need of all the relevant business functions
- Lack of a link with the distribution approach

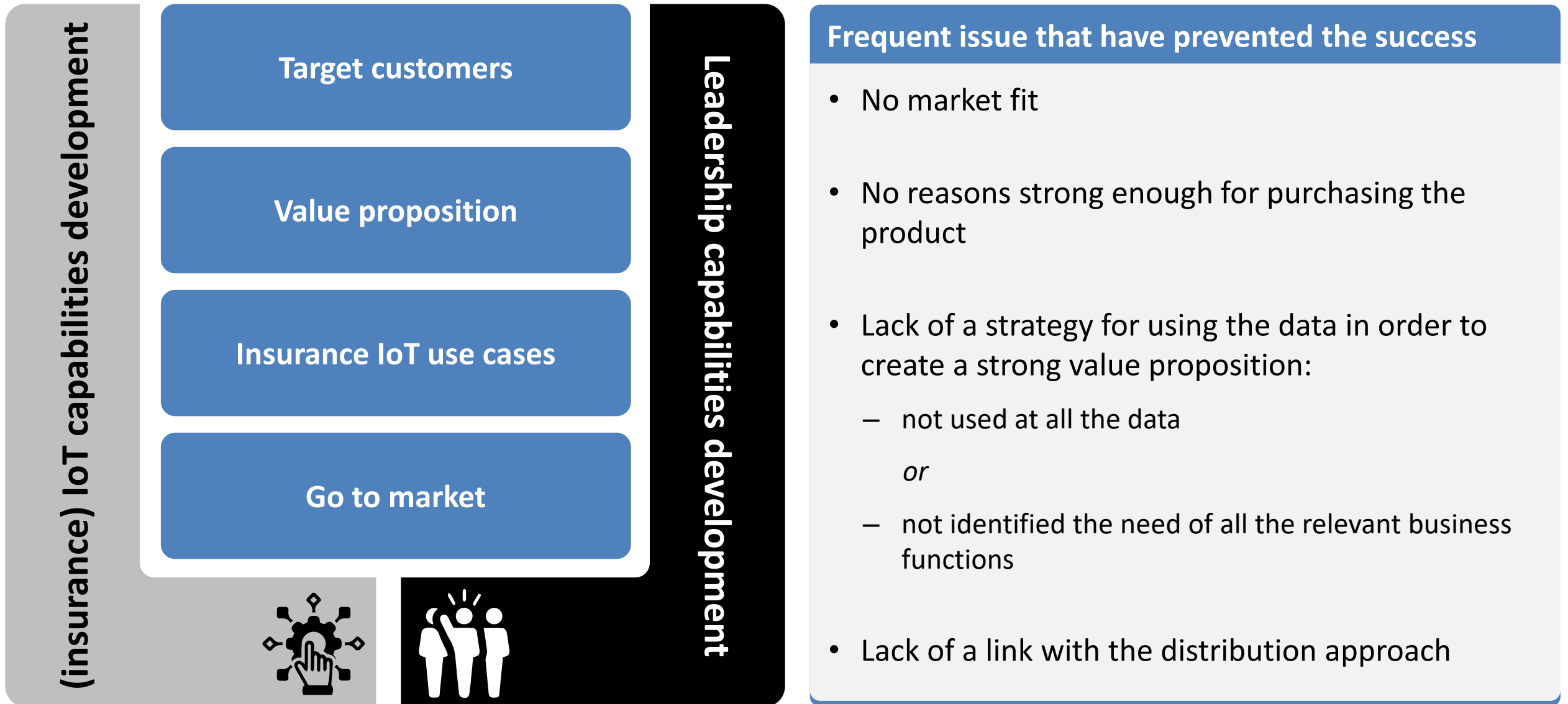
Telematics don't create value on its own, data needs to be actively used in some way to generate value



In each ach lap you have to overcome some obstacle in order to generate business outcomes, this allows to develop the necessary capabilities



Telematics is a business capability (not a product)



However, each initiative should be seen one step further in the overall journey (building capabilities) to master the telematics usage in your company

All these contents come from the IoT Insurance Observatory discussions



Our figures	
The six annual Observatory editions:	
2593	hours of one-to-one workshops over the five annual editions of the Observatory
29	plenary symposiums between North America and Europe
7	international publications
84	insurance companies, including: 4 of the top 5 Reinsurers 11 of the top 15 European Insurance Groups 9 of the top 15 US P&C Insurance Groups
48	tech players and vendors

 *I want thank all the think tank members for the knowledge they have shared over these six editions*