

Can Telematics Reinvent Auto Insurance?

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We've all experienced the frustration before: An auto insurer asks for some basic information-age, sex, credit score, and driving record-plugs that information into an equation, and voila! Out pops a premium that only vaguely represents how you as a driver really drive.

Wouldn't it be nice if premiums were instead determined by actual performance on the road, with law-abiding, fuel-conscious drivers rewarded with low premiums and those hard-braking, fast-accelerating maniacs stuck with higher ones?

Enter the field of insurance telematics, which proposes to use telecommunication devices to transmit real-time driving data to insurers, who can then glean a more accurate picture of driving behavior and use it to set fairer rates.

As a bonus, insurance agents can use those same devices to offer new services to their customers, like real-time navigation, vehicle diagnostics, and in-car entertainment.

A auto insurance model

"Telematics has shown the potential to turn the auto insurance model on its head," suggest Mike Hales, Joe Reifel, Gang Xu, and Andrew Beebe, telematics insurance consultants at A.T. Kearney, in an editorial on the Insurance & Technology website. "By installing or embedding telecommunications devices into cars, insurers could measure and price premiums more accurately, provide customized services, improve safety, and reduce claim costs."

Insurance telematics is more than a concept; insurance companies around the globe have begun to experiment with implementation. In the United States, Progressive has set the bar with a program called MyRate, which determines premiums based on how much drivers drive. Already the program has been implemented in 19 states.

Meanwhile, all the other big players-AAA, Allstate, State Farm, Hartford, GMAC, Erie Insurance, MetLife, Safeco, American Family-are in development or beta mode. Farmers Group Inc. is considering measuring car usage by iPhone and Blackberry and determining rates by the mile.

Pay how you drive

In Europe, Italian company Octo Telematics has proved an industry pathfinder and currently works with 30 insurance companies. In 2009, one of those companies, UNIQA Group, launched SafeLine, a safety and security service package for motor insurance, in Austria and a Pay As You Drive policy in Hungary.

Likewise, Akorn Insurance has launched a Pay-How-You-Drive motor insurance policy in the UK, and the Panda Group, a multi-service cooperative based in Finland, has launched a pilot program testing the use of GPS data to determine insurance premiums and road tolls.

At the start of 2010, a thousand cars in Finland were outfitted with GPS devices that track speed, sudden braking, frequency of rapid accelerations, and where and how often cars are driven. This data, in turn, will be used to customize insurance premiums and road use fees to individual drivers.

Vertical integration

"A lot is going on in the industry, the first mergers, the first acquisitions, many companies are experimenting with devices, it's an exciting time," says Oliver Loisel, who teaches insurance telematics at Vienna University for Economics and Business and tracks the industry on the Insurancetelematics.com website.

He launched the site a year-and-a-half ago, and since has conducted expert interviews with stakeholders and insurance companies around the world. "Across the board, the automotive world is trying to integrate more vertically with the driver," Loisel says. "Telematics has the ability to speed up real information about driving behavior, and thus we believe will be an opportunity for insurance companies all over the globe."

Roadblocks ahead

Despite such enthusiasm, the field of insurance telematics has hit some roadblocks. A number of companies have struggled with the cost of implementation. Aviva Plc, for instance, the second largest insurer in the UK, initiated a policy to put tracker devices into cars to record their customers' driving but retracted the policy in 2009 because the cost of implementing the devices was too great.

Progressive charges drivers enlisted in the MyRate program \$30 every six months to cover the cost of the technology, so that means it's only worth it for the drivers if their driving nets considerable savings on premiums.

Insurance companies have also encountered problems with privacy. Some drivers feel that having a black box buried under their dashboard oversteps their right to privacy, especially when that black box belongs to insurance companies that often struggle in the customer trust department.

Privacy concerns

"To overcome this hurdle," A.T. Kearney the consultants recommend, "insurers must be as transparent as possible up front, offer the right amount of value-added services to customers, and carefully position the offerings with the right messages to win over consumers." Easier said than done.

Loisel adds that complexity is another challenge. "Talking to the different stakeholders- the telecommunication industry, the car makers, the insurance companies, the service providers, the assistance companies like AAA- what is difficult to make people understand is how many different players there are, and what their core competencies in this new field should be."

Nonetheless, Loisel remains convinced of telematics insurance's potential. Already in 2010 there have been exciting developments-in South America, with Brazils GDP and its automotive sector continuing to blossom in spite of the global recession; in Asia, where the governor of Singapore is pushing for a GNSS-based road pricing system; in Europe, where the European Commission is finally moving with eCall; and in America, where states like California are championing pay-as-you-drive regulations as a means to reduce emissions.

"We know the industry is going forward even though we don't know exactly in what direction forward means," Loisel says. "We cannot look into the future, but we see lots of progress being made and being made fast."

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