Global Consulting

Usage-based Insurance: Telematics in Practice – Q&A

Munich Re of Canada | Global Consulting

Questions

1 Are you using the term telematics and UBI synonymously?

Usage-based-insurance (UBI) is the overall theme of specifically tailored insurance programs. Pay-as-you-drive (PAYD), pay-how-you-drive (PHYD), and pay-as-you-go are the three major UBI value propositions, which can also be merged and hybrid products be created.
Telematics, on the other hand, is the underlying technology that enables UBI products.
Generally speaking, the two terms can and are being used synonymously.

2 Improving road safety is an option that I would have expected. is it included as a subset of one of the options you listed?

Improving road safety can indeed also be seen as a driver for the increased adoption of telematics. Oftentimes improving road safety is seen as a by-product of a broader value proposition. However, we have also seen propositions where for example, the explicit target was to reduce fatalities amongst young drivers, primarily driven by rewards for safe driving
Having a telematics value proposition explicitly targeting to improve road safety can also be used and promoted in a broader context of corporate social responsibility.

3 Could you please expand on the "claims processing" benefits?

A best-practice telematics value proposition should also include a claims proposition. In that case, the telematics technology provider is responsible to collect, process and deliver crash data (e.g. policy details, vehicle details, speed profiles, location, magnitude etc.) to the insurer who can then use this data and act upon. Key beneficiaries in the process are 1. the insurers / their claims organization and the 2. policy holder:

1. Insurers can benefit two-fold from a streamlined telematics claims process: a) being able to better react on crashes by having streamlined processes that are tailored to the telematics crash detections, such that fraud might be better detected or leakage being reduced, and b) being able to pro-actively steer the policyholder, gather more and better information at an earlier point in time and thus, to potentially reduce legal or hire costs
2. Policyholders can benefit from improved support by the insures in case of emergency primarily by a direct call / reach out after a potential crash was detected

4 Could you please comment on privacy and "big brother" worries as pain points or obstacles and how to get over that?

Privacy is a very crucial part of a telematics proposition and with its introduction an insurer should be very transparent and upfront in its communication to the customer. Key is to use easy to understand language for T&C or FAQs that is not being legalized and not only be written by legal or compliance departments.
It is very important to be transparent on which kind of data is being collected, when and for which purposes. The customer needs to understand why their data is being collected, i.e. which features, benefits and value added services are being created with it.

Even though we see that customer become more open to share data even with financial institutions it is crucial to be as clear and transparent in communicating the value proposition to tackle any questions upfront.

5 Do you get lot of question from end user (customers) about the privacy and data sharing. Did you find that to be a resistance for adoption?

As mentioned in the answer to the prior question: as long as data privacy and sharing as well as its consequences (i.e. participation in the telematics program and potentially benefiting from a range of rewards) has been communicated clearly and upfront, we do not see many questions from customers. However, key to prevent such questions as well as customer concerns, amongst others, is a clear communication and marketing strategy. In particular, PR / Press and Marketing departments need to be involved at an early stage such that wording, messaging as well as the entire customer journey can be tailored and made as transparent and clear as possible.
Depending on the sales channels, training materials (e.g. for agents) also need to be developed and tailored to the product in such a manner that privacy concerns are settled as early as possible.

6 Has anyone had success with gamification for older drivers?

Overall, gamification is becoming a key feature for successful telematics programs, irrespective of the target age group. Consumers tend to forget the app after a certain time or at least overall usage drops off after the initial heights which is why it's key to constantly engage customers.
We have seen very successful gamification and reward programs in several markets e.g. in the South African market that also involved a large share of older drivers. The rewards were structured around gas vouchers, which seemed to work quite well. However, gamification and rewards modules always need to be tailored to the respective target group and region.
This is why we believe it is worthwhile to start with user testing and user focus groups to find out what the target group actually wants, needs and which rewards eventually work.

7 How is Floow placed in terms of pricing as compared to other Telematics providers?

The Floow is competitively priced amongst their peers. Munich Re has further negotiated favourable pricing with The Floow for our Reinsurance clients & partners. Additional flexibility is provided via Munich Re as we can discuss potential reinsurance structures, which provides our clients wider option for remuneration.

8 Have you seen any application of telematics in the commercial space (e.g. Long-haul trucking - commercial fleet - etc.)?

For fleet owners / managers, one of the key pain points is how to help them keep the fleet on the road. This can be done by supporting them to increase general operational efficiency, i.e. by offering

respective claims and repair propositions, as well by using scoring to reduce risk and proactively manage risks.
In that respect, we see a big opportunity in small and medium sized fleets that usually don't have professional fleet management tools. Our partner, The Floow, has created a specific fleet telematics product for this segment that can be used for risk management purposes and to increase operational efficiency.

The bigger the fleet the more likely it is that they already have technology in the vehicles, which makes them connected and transmit data. We can also use this existing data and overlay a risk scoring such that pricing, product and risk benefits can also be realised.

Additionally Munich Re has a targeted value proposition for small to medium sized fleets, including Strategy (Underwriting, Risk Selection, Governance); Product (Product design, Data / Tech driven Services); Partners (Risk Management, Safety & Telematics); and Tools (risk assessment, monitoring).

9 Are the predictive attributes limited to frequency of claim or are there unique insights into severity as it relates to driver behaviour and physical damage?

The scores have been tested predominantly by looking at claims frequency because this develops more quickly than severity and gives a better and more accurate early indicator. For this reason when scores are optimised it is typically done on claims frequency rather than severity. We have seen evidence the scores will predict severity too and for our larger clients with sufficient data this is an area of further investigation.

When we have compared telematics to non-telematics we see the 25% selection effect which is broken down by ~ 15% frequency improvement and 10% severity improvement.

Logically better drivers will drive with more anticipation and leave a bigger gap between them and the car in front so as a result it is likely that scores will predict severity as well as frequency. In particular, we believe that distraction is more implicated in bigger accidents than smaller ones but we don't yet have the data to support this as it takes a large volume of data to prove it out.

10 Hi - wondering about internet connectivity and available of high speed? Canada is mostly urban but also substantially rural - with very slow or unavailability of high speed access. Is this an issue?

This will be no issue at all. The app was built to operate in asynchronous mode. Collection of driving behavior will work with or without connectivity and collected data will be transmitted the next time the device is in range of a cell tower (or on wifi).

11 Is it important to have very big portfolio to see the benefits of telematics?

In general, there needs to be a certain portfolio size because implementing telematics is a substantial one-off effort with continuous product development and management. However, telematics can be seen as a “Benjamin Button” product that becomes more valuable over time, when more data is being collected such that products and pricing can be better tailored on individual customers.
Since this is the case, the bigger the portfolio the better. Also, there needs to be a clear chance to scale the product as the long-term value also depends on the size of the portfolio (again, the bigger the portfolio the higher the value to the insurer).

12 What is the average take up rate of the telematics?

Average take up rates of telematics largely depend on the market and target segment. For example, we have seen take up rates from up to 50% with a very young target group that was targeted via digital channels only. In Germany, however, we have approx. 10% telematics penetration across the auto market, which is expected to raise up to approx. 25% in the next 3-5 years.
Over the last couple of years, telematics has steadily been evolving such that the technology has been getting cheaper, implementation has become less complex leading to consumers that have become more open for this kind of value proposition. By now, telematics is ready to be scaled, which is in line with overall market expectations and rising penetrations that are expected in the next 3-5 years.

13 What is the typical LR improvement do you see compared to traditional LR?

With respect to frequency, a telematics book typically sees >20% decrease compared to the non-telematics book. The actual LR improvement varies by company and/or market.