

# INSURANCE TELEMATICS

**GLOBAL  
STUDY**

**FREE  
ABSTRACT**



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**From experimentation  
to mass implementation**

## ABOUT PTOLEMUS CONSULTING GROUP



PTOLEMUS is the **first strategy consulting firm entirely focused on telematics and location-based services.**

We help our clients apply strategic analysis to this fast-moving ecosystem, across all its industries (consumer electronics, insurance, automotive, mobile telecoms, etc.) and on an international basis.

PTOLEMUS, founded by Frederic Bruneteau, operates across Europe and has Partners in Brussels, Paris, Munich, Milan and Boston.

It has also built a network of telematics specialists across the world to be able to analyse and address global mobility issues.

PTOLEMUS has performed multiple consulting and research assignments on insurance telematics.

### Our consulting services

#### Strategy definition

New market entry, business plan development, board coaching and support

#### Evaluation of investment

Strategic due diligence, market assessment, feasibility studies

#### Procurement strategy

Specification of requirements, launch of tenders, supplier negotiation & selection

#### Innovation management

Product & services development, roadmap definition, project management & launch, patent strategy

#### Business development

Partnership strategies, response to RFPs, lobbying

#### Implementation

Project & programme management, risk analysis & mitigation strategy

### Our fields of expertise

#### Mobile content and social networking

Application stores, crowd-sourcing, etc.

#### Navigation & location-based services

Maps, traffic, fuel prices, speed cameras, weather, parking, etc.

#### Usage-based charging

PAYD / PHYD insurance, Road User Charging, PAYD car leasing & rental

#### Telematics & Intelligent Transport Systems

Connected car, tracking, fleet management, eCall, bCall, Stolen Vehicle Recovery, Car As A Service, connected train, etc.

#### Positioning / Location enablement

#### M2M & connectivity

## THE AUTHORS OF THIS STUDY

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Mr. Bruneteau founded the PTOLEMUS Consulting Group on the conviction that pervasive location and connectivity would revolutionize the business of mobility.

He has 17 years of experience in 12 countries with companies such as TomTom, SFR Vodafone, Arthur D. Little and BNP Paribas.

Mr. Bruneteau has performed several insurance telematics assignments, notably the due diligence of Octo Telematics. He also chaired the latest Insurance Telematics conference in London and Fleet & Asset Management Conference in Amsterdam.

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### **Sergio Tusa, Associate Partner, Milan** ([stusa@ptolemus.com](mailto:stusa@ptolemus.com))



Sergio Tusa has gained over 20 years of experience in the telematics, location-based services and automotive domains.

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He also chaired the latest Telematics Munich conference.

## **OUR SINCERE THANKS**

The richness of a study is largely based on the willingness of the “outside world” to co-operate and give its time and knowledge for the benefit of the wider society and economy.

We would like to thank

- All persons who kindly accepted to respond to our questions. A list of the companies we interviewed is available on page 20;
- Our families for their patience and understanding;
- All companies that responded to our survey of technology solutions.

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## INTRODUCTION

Since the first Pay As You Drive experiment by Progressive Insurance in 1998, almost everything has changed in telematics. It has transformed into a fast growing model that all insurers worldwide must revisit.

How important is the emergence of telematics for the global motor insurance sector however?

In 2010, the European motor insurance market - the largest in the world - was worth an estimated **€124 billion**. Insurers paid out almost €100 billion in claims to car owners. By comparison, we estimate that its **telematics-enabled services market at €5 billion, or 4% of the motor insurance market**.

This highlights the contrast between a major but maturing sector of the economy and a burgeoning pocket of growth. This also clearly indicates that any take-up of telematics by insurers will have a major impact for telematics service providers and device makers.

Does the reverse hold true?

In this study, we respond by analysing whether telematics will change the motor insurance market and how profoundly it will impact it.

We assess the present state of insurance telematics in the US and in Europe and the challenges ahead. We also identify and propose solutions to overcome them. Last not but not least, we analyse the continuing evolution of the industry value chain and attempt to detect the winners and losers.

This report will provide **insights to insurers' management teams**, notably CEOs, CMOs, CIOs, Business Unit Directors and Directors in charge of risk management and claims management.

It will also interest assistance providers, automotive manufacturers, their tier-1 and tier-2 suppliers, telematics service providers (TSPs) and technology providers (TTPs), regulators and governments.

Our investigation also brings **responses** to the following questions:

- Is telematics necessary for insurers and what are its driving factors?
- What challenges remain and what actions must be taken by each party to face them?
- How can customer acceptance for these services be increased?
- How do the various telematic solutions available compare against each other?
- Which are the best suppliers for each type of solution and commercial target?
- How will the industry value chain evolve based on the actions of the principal agents?
- What is the business case for the mass introduction of PAYD/PHYD insurance?
- What is the expected market size for these products & services in the next 5 years?

# PTOLEMUS

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## Consulting Group

To conduct what is the most comprehensive study ever written on insurance telematics, we have relied on

- Interviews with over 80 executives from all sides of the industry, from Allianz to Zurich,
- More than 2 years of desk research and primary research, notably a survey of available technology solutions,
- Building a simplified motor insurer's business model, with specific inputs for France, Germany, Italy and the UK,
- Building a 10-year forecast model of the US and European markets so as to combine strategic and technology analysis with hard figures, and obviously,
- A review of applicable patents worldwide,
- Our existing experience in the field of insurance telematics.

This report provides a **“one-stop-shop” analysis** of this complex business issue, across Europe and North America. The potential of other regions is also assessed.

In our view, it is an **important read** for all insurers because

- The motor insurance market is facing structural losses due to heavy price competition and rising claim costs,
- Telematics-based insurance offerings will provide to insurers who launch them a competitive advantage, notably a better pricing of risk,
- The ITS directive and fast decreasing technology costs are paving the way for a mass-market launch,
- PTOLEMUS' analysis will help insurers learn from pioneers, overcome challenges, better understand the case for value-added services and make informed decisions,
- An examination of the present business models and value chain is needed to prepare the market for the next phase of growth,
- It compares the leading telematic solutions available to insurers.

It has been a pleasure for us to conduct this study. We hope that you will enjoy reading it. If you identify inaccurate information in our study, please let us know. We will correct it immediately. Your feedback will always be well received. If your company plays a role in this business and has not been mentioned in our report, please let us know so that we can update it in the coming months. Please send your **comments** to [insurance@ptolemus.com](mailto:insurance@ptolemus.com).

Thank you very much.

Sincerely,

Frederic Bruneteau  
Managing Director

## EXECUTIVE SUMMARY

What will you need to remember?

We have tried the impossible and summarised the study in the following 12 axioms.

1. **After Italy, telematics-enabled insurance will gradually become mainstream in the US, the UK and all developed countries.** Overall, telematics-enabled policies will generate more than €50 billion in premiums by the end of the decade.
2. In most countries, **first successful models will be launched by direct insurance start-ups or "natural born-innovators"** of the insurance world. As in the US, leading insurers will increasingly have no other option than following these.
3. **In most markets, telematics will attract and retain the lowest risk drivers of each segment, offering them discounts of up to 50% on their premiums.** Traditional offerings will increasingly be purchased by high-risk customers.
4. Stimulated by the gender ruling and upcoming regulation, **telematics will revolutionise the way insurers assess drivers' risks.** It will also force insurers to **reinvent their business**, notably by building a regular relationship with their customers, thereby reducing churn.
5. As seen in the US, **governments and regulators will gradually turn positive towards telematics**, notably to reduce the emissions of CO<sub>2</sub> and other car pollutants.
6. **Professionally installed solutions will remain the leading technology to provide PAYD / PHYD solutions in Europe while OBD dongles will continue to dominate in North America.**
7. **This will drive a market for numerous value added services**, notably bCall, eCall, stolen vehicle recovery, remote diagnostics, fuel management, etc.
8. EOBD solutions will emerge in Europe in 2013, notably in low premium markets. TSPs and insurers that ignore these will be at risk.
9. **The smartphone will become the next OBU of the insurance industry** - We expect it to emerge as a valid data probe within 2-3 years.
10. Numerous **automotive OEMs will seize the eCall opportunity to make motor insurance a major part of their connected services business.**
11. In the commercial segment, insurance telematics will be sold as **a component of larger fleet management solutions** by insurers but also TSPs, leasing companies, integrators, OEMs and other players.
12. **Privacy will need to be actively managed and transparent** by insurers. Otherwise, a public backlash against telematics could happen.

## FOOD FOR THOUGHT

"We believe Snapshot is a **game changer** – representing the **future of auto insurance** as our mobile and interconnected world gives us the opportunity to offer immediate and substantial savings to our customers."



Glenn Renwick  
President & CEO, Progressive  
May 2011

"Adopting UBI [usage-based insurance] sooner rather than later will not **only attract better drivers** willing to participate, but will also allow carriers to build and maintain a database on numerous variables that influence loss costs."

Moody's Investor Service  
December 2011 **MOODY'S**

"Privacy is for old people"

Reid Hoffman  
CEO, LinkedIn  
January 2010



Steve Poizner  
California Insurance  
Commissioner  
December 2010

"The voluntary pay-as-you-drive initiative is an innovative program that will allow insurers to offer plans based on more accurate mileage, so that people who choose to drive less will pay less for auto insurance"

"The combination of technology and a sustained programme of working with drivers ... can help save lives on the roads, reduce costs and improve the working environment for drivers."



Robert Gremli  
Chief Risk Engineering Officer, Zurich  
November 2010

"Traditional car insurance relies on low mileage drivers subsidising high mileage drivers. If you don't drive a lot, you pay for the accidents of your high mileage neighbours. PAYD is a difficult innovation for existing insurance companies to follow because of this subsidy system."



Roger Grobler  
Chairman, Real Insurance  
September 2010

UK insurer  
October 2011

"I think in **5 years every major insurer will have a telematics offering in their portfolio.**

I think PAYD / PHYD will still be a relatively niche product and insurers will target particular segments like young drivers."

"Everybody has a plan until they get punched in the face"

Mike Tyson,  
Professional boxer



"We have completely removed paper from the customer experience. Even the underwriting is done through electronic signature"



Michel Lungart  
CEO, Amaguiz  
December 2009

"Privacy is not just a right...it's an emotion"



Simon Davies  
Privacy International  
January 2010

"At Wunelli, we have both PAYD & PHVD & claims data (both fault & non-fault) for over 15 000 devices now. **The data is absolute gold.**

We can now calculate the probability of a future fault accident from only 1000 miles worth of data."



Paul Stacy  
IT & Innovation Director, Wunelli  
2011

"Our data shows that the vast majority of our customers are responding to our **'carrot' rather than 'stick' approach** and are improving their driving skills because they are rewarded for doing so. Our scheme is only in its infancy, but it is clear that if telematics was taken up on a larger scale it could be a major step forward in improving the safety on Britain's roads."

David Neave, Director of General Insurance  
The Co-operative Insurance  
November 2011



"Customers will only buy a product they are attracted to. One of the things the insurance industry continues to get wrong is that it designs products for itself and not the customer. **Forget the actuarial stuff, what you need to do is design a product that customers want**, that fits on price comparison sites, and that you can compare with a conventional product."

Mike Brockman  
CEO, Insure the box  
April 2011



French insurer  
February 2012

"This is clearly interesting but we will not be those that open and create the market"

"We consider our motor insurance as the must have accessory that customers don't want and hope never to use (...) No one knows better how to repair a Volkswagen group vehicle than the Volkswagen group approved paint and body shop network, therefore they are at the heart of our proposition. So when a customer does make a claim on our insurance we can guarantee that their vehicle will be returned to factory standards, **making our insurance the best accessory a customer will ever own or use.**"

Robert Cottrell  
Head of Insurance  
Volkswagen Financial Services (UK)

"PAYD saves money and is a more accurate and fairer method to price auto insurance (...) **PAYD pricing reduces inequities** by eliminating the subsidies low-mileage drivers currently pay for high-mileage drivers in the traditional pricing system."

Joseph Ferreira, MIT Professor  
Eric Minikel, IBI Group  
November 2010



Andy Napoli  
President, Consumer Markets Division  
The Hartford  
December 2011



"The data is compelling. **This capability has really redefined the way we think about pricing auto.** Insurers that don't use telematics to price auto coverage will eventually attract poor drivers who were turned down for coverage by the insurers that do"

Sources: Insurance Daily, Real Insurance, Moody's, World Economic Forum, California Department of Insurance, News Assurances



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## LIST OF COMPANIES INTERVIEWED AND MENTIONED IN THE FULL STUDY

As part of our research, we have **held discussions with 83 organisations in 18 countries** including

- 29 insurance companies,
- 17 Telematics Service Providers (TSPs),
- 8 Telematics Technology Providers (TTPs),
- 6 automotive Original Equipment Manufacturers (OEMs) and tier-1 suppliers.

We would like to **thank these organisations** for their precious contribution to this report. They are listed hereafter and will benefit from an extended free extract of the report and a discount on the [Full Study](#).

We have also indicated the **280 companies** that are **mentioned** in this report.

| Company name               | Country     | Sector                       | Discussion | Mentioned |
|----------------------------|-------------|------------------------------|------------|-----------|
| AA                         | UK          | Automobile club              |            | ✓         |
| AAA Club Partners          | USA         | Automobile club              |            | ✓         |
| Accutec Ind.               | USA         | ODM                          |            | ✓         |
| Achmea                     | Netherlands | General insurance            | ✓          | ✓         |
| ACI                        | Italy       | Automobile club              |            | ✓         |
| ACTA                       | France      | Roadside assistance provider |            | ✓         |
| Assercar                   | France      | Repair centres               |            | ✓         |
| ADAC                       | Germany     | Automobile club              |            | ✓         |
| Admiral Insurance          | UK          | General insurance            |            | ✓         |
| Agero                      | USA         | Automobile club / TSP        |            | ✓         |
| Aioi Nissay Dowa Insurance | Japan       | General insurance            |            | ✓         |
| Airmax Group               | UK          | TSP                          | ✓          | ✓         |
| Aisin AW                   | Japan       | Tier-1 supplier              |            | ✓         |
| Alcatel-Lucent             | France      | Telecom equipment vendor     |            | ✓         |
| ALD Automotive             | France      | Leasing company              | ✓          | ✓         |
| Allianz                    | France      | General insurance            | ✓          | ✓         |
| Allianz                    | Germany     | General insurance            | ✓          | ✓         |

| Company name  | Country      | Sector                       | Discussion | Mentioned |
|---|--------------|------------------------------|------------|-----------|
| Allianz   | Italy        | General insurance            | ✓          | ✓         |
| Allianz   | UK           | General insurance            |            | ✓         |
| Allstate Insurance  | USA          | General insurance            |            | ✓         |
| Alo@Assurances  | France       | Consumer insurance           |            | ✓         |
| Alpine  | Japan        | In-car audio equipment       |            | ✓         |
| Altech Netstar  | South Africa | TSP                          |            | ✓         |
| Altima Assurances   | France       | General insurance            | ✓          | ✓         |
| Amadeus Capital Partners  | UK           | Private equity fund          | ✓          | ✓         |
| Amaguiz (Groupama)  | France       | Consumer insurance           | ✓          | ✓         |
| ANIA  | Italy        | Insurance trade association  |            | ✓         |
| ANWB  | Netherlands  | Automobile club              |            | ✓         |
| Aplicom   | Finland      | TSP/TTP                      | ✓          | ✓         |
| Apple   | USA          | Consumer electronics vendor  |            | ✓         |
| ARM Holdings  | UK           | Processor design vendor      |            | ✓         |
| Arval   | France       | Leasing company              | ✓          |           |
| ASFA  | France       | Insurance trade association  |            | ✓         |
| Assicurazioni Navale  | Italy        | General insurance            |            | ✓         |
| Assurland.com   | France       | Online comparison site       |            | ✓         |
| Atmel   | USA          | Semi-conductors vendor       |            | ✓         |
| Atos  | France       | IT integrator                |            | ✓         |
| AutoDirect Insurance  | UK           | Consumer insurance           |            | ✓         |
| Aviva (formerly Norwich Union)  | UK           | General insurance            | ✓          | ✓         |
| Axa   | Belgium      | General insurance            | ✓          | ✓         |
| Axa Assistance  | France       | Roadside assistance provider | ✓          |           |
| Axa Matrix Risk Consultants   | France       | Commercial insurance         | ✓          | ✓         |
| Barnes & Noble  | USA          | Book distribution chain      |            | ✓         |
| B&Q   | UK           | Restaurant chain             |            | ✓         |
| BDI (Bundes-beauftragte für den Datenschutz und die Informationsfreiheit) | Germany      | Data protection authority    |            | ✓         |
| Best Buy  | USA          | Electronics retail chain     |            | ✓         |
| Bird & Bird   | France       | Law firm                     | ✓          |           |
| Blockbuster   | USA          | Video rental chain           |            | ✓         |
| BluO Fund   | Luxembourg   | Private equity fund          | ✓          | ✓         |
| BMW   | Germany      | Automotive OEM               |            | ✓         |
| Bouygues Telecom  | France       | Mobile operator              | ✓          | ✓         |
| British Airways   | South Africa | Airlines                     |            | ✓         |
| BT Software & Research  | USA          | Telecommunications operator  |            | ✓         |

| Company name  | Country      | Sector                            | Discussion | Mentioned |
|---|--------------|-----------------------------------|------------|-----------|
| <b>Budget Insurance</b>   | UK           | Personal line insurance           |            | ✓         |
| <b>Bull</b>   | France       | IT integrator                     |            | ✓         |
| <b>Cap Gemini</b>   | France       | IT integrator                     |            | ✓         |
| <b>CEA</b>  | Belgium      | Insurance trade association       |            | ✓         |
| <b>CEN</b> (European Committee for Standardisation)                 | Belgium      | Standardisation organisation      |            | ✓         |
| <b>CertEurope</b>   | France       | Trusted third party services      |            | ✓         |
| <b>Cesar Satellite</b>  | Russia       | TSP                               | ✓          | ✓         |
| <b>Cinterion</b>  | Germany      | Connectivity module provider      |            | ✓         |
| <b>CLAL Insurance</b>   | Israel       | General insurance                 |            | ✓         |
| <b>Clarion</b>  | Japan        | In-car audio equipment            |            | ✓         |
| <b>CNIL</b> (Commission Nationale de l'Information et des Libertés) | France       | Data protection authority         | ✓          | ✓         |
| <b>Cobra Automotive</b>   | Italy        | TSP                               | ✓          | ✓         |
| <b>Cobra Electronic Solutions</b>                                   | Italy        | TTP                               | ✓          | ✓         |
| <b>Compagnie Générale d'Automatisme (CGA HBS)</b>                   | France       | Engineering firm                  |            | ✓         |
| <b>Comparethemarket.com</b>   | UK           | Online comparison site            |            | ✓         |
| <b>Confused.com</b>   | UK           | Online comparison site            |            | ✓         |
| <b>Continental</b>  | France       | Tier-1 supplier                   | ✓          |           |
| <b>Corona Direct</b>  | Belgium      | General insurance                 | ✓          | ✓         |
| <b>COVEA Group</b>  | France       | General insurance                 | ✓          | ✓         |
| <b>Coverbox</b>   | UK           | Consumer insurance                | ✓          | ✓         |
| <b>Crédit Mutuel Arkea</b>  | France       | Consumer insurance                | ✓          |           |
| <b>Cybit Masternaut</b>   | UK           | TSP                               | ✓          | ✓         |
| <b>Daimler Fleetboard</b>   | Germany      | TSP                               |            | ✓         |
| <b>Daimler Insurance Services</b>                                   | Germany      | OEM                               | ✓          | ✓         |
| <b>Danlaw</b>   | USA          | TTP                               | ✓          | ✓         |
| <b>Data Tec Co Ltd</b>  | Japan        | ODM                               |            | ✓         |
| <b>Davis Instruments</b>  | USA          | TTP                               |            | ✓         |
| <b>DBV Winterthur</b>   | Germany      | General insurance                 |            | ✓         |
| <b>Delphi</b>   | USA          | Tier-1 supplier                   |            | ✓         |
| <b>Denso</b>  | Germany      | Tier-1 supplier                   | ✓          | ✓         |
| <b>Department of Transportation</b>                                 | USA          | Government                        |            | ✓         |
| <b>Diamonds</b>   | UK           | Insurance broker                  |            | ✓         |
| <b>Direct Line Germany</b>  | Germany      | Consumer insurance                |            | ✓         |
| <b>Discovery Insure</b>   | South Africa | Consumer insurance                |            | ✓         |
| <b>Diva</b>   | UK           | Insurance broker                  |            | ✓         |
| <b>Dixon's</b>  | UK           | Consumer electronics retail chain |            | ✓         |

| Company name  | Country      | Sector                        | Discussion | Mentioned |
|---|--------------|-------------------------------|------------|-----------|
| Drive Service                                       | Italy        | Repair & maintenance services | ✓          | ✓         |
| DriveCam  | USA          | TTP                           |            | ✓         |
| Elmic Systems                                       | USA          | Embedded software             |            | ✓         |
| Equity Red Star                                     | UK           | General insurance             |            | ✓         |
| ERTICO - ITS Europe                                 | Belgium      | Trade association             | ✓          |           |
| Eurocar   | South Africa | Vehicle rental                |            | ✓         |
| European Commission                                 | Belgium      | Government                    | ✓          | ✓         |
| European Court of Justice                           | Belgium      | Government                    |            | ✓         |
| Exigen  | USA          | Insurance software provider   |            | ✓         |
| F&I   | USA          | Magazine                      |            | ✓         |
| Farmers Insurance                                   | USA          | General insurance             |            | ✓         |
| Fiat  | Italy        | Automotive OEM                |            | ✓         |
| Financial Times                                     | UK           | Newspaper                     |            | ✓         |
| Fleet Logistics                                     | UK           | TSP                           |            | ✓         |
| Fleetmatics / Sagequest                             | USA          | TSP                           |            | ✓         |
| FMSCA (Federal Motor Carrier Safety Administration) | USA          | Government                    |            | ✓         |
| Focus   | Germany      | Magazine                      |            | ✓         |
| Foley & Lardner                                     | USA          | Law firm                      |            | ✓         |
| Ford  | USA          | Automotive OEM                |            | ✓         |
| Fujitsu Ten   | Japan        | Automotive supplier           |            | ✓         |
| Garmin  | USA          | Electronics                   |            | ✓         |
| GE Equipment Services                               | USA          | Fleet management company      |            | ✓         |
| General Motors                                      | USA          | Automotive OEM                |            | ✓         |
| Generali France                                     | France       | General insurance             | ✓          | ✓         |
| Generali Group                                      | Italy        | General insurance             | ✓          | ✓         |
| Generali Group                                      | Italy        | General insurance             | ✓          | ✓         |
| Genertel (Generali Group)                           | Italy        | Consumer insurance            |            | ✓         |
| Geotab  | USA          | TSP                           |            | ✓         |
| GirIMotor   | UK           | Insurance broker              |            | ✓         |
| GMAC Insurance                                      | USA          | Consumer insurance            |            | ✓         |
| Good Technology                                     | USA          | Mobile handset vendor         |            | ✓         |
| Google  | USA          | Search engine                 |            | ✓         |
| Greenroad Technologies                              | USA          | TSP                           |            | ✓         |
| Groupama  | UK           | General insurance             |            | ✓         |
| Grupo Nacional Provincial                           | Mexico       | General insurance             |            | ✓         |
| Harman  | USA          | Tier-1 supplier               |            | ✓         |
| High Point Auto Insurance                           | USA          | Personal line insurance       |            | ✓         |

| Company name   | Country      | Sector                       | Discussion | Mentioned |
|--|--------------|------------------------------|------------|-----------|
| Hitachi  | Japan        | Conglomerate                 |            | ✓         |
| Hollard Insurance  | South Africa | General insurance            |            | ✓         |
| Honda  | Japan        | Automotive OEM               |            | ✓         |
| Hughes Telematics  | USA          | TSP                          | ✓          | ✓         |
| HUK-Coburg   | Germany      | General insurance            |            | ✓         |
| Hyundai  | South Korea  | Automotive OEM               |            | ✓         |
| Hyundai Mobis  | South Korea  | Tier-1 supplier              |            | ✓         |
| IBI Group  | USA          | Studies                      |            | ✓         |
| IBM  | USA          | IT integrator                |            | ✓         |
| ID Macif   | France       | Consumer insurance           |            | ✓         |
| IDM Trucking   | USA          | Transportation               |            | ✓         |
| iKube  | UK           | Consumer insurance           |            | ✓         |
| IMA  | France       | Roadside assistance provider |            | ✓         |
| IMS  | Canada       | TSP                          | ✓          | ✓         |
| Industrial Alliance, Insurance and Financial Services Inc. | Canada       | General insurance            |            | ✓         |
| Information Commissioner's Office                          | UK           | Data protection authority    |            | ✓         |
| ING  | Netherlands  | Consumer insurance           | ✓          |           |
| Innosurance  | Australia    | Commercial insurance         |            | ✓         |
| Insure the box   | UK           | Consumer insurance           |            | ✓         |
| Interactive Driving Systems                                | USA          | Risk management solutions    |            | ✓         |
| International Road Union                                   | Switzerland  | Trade association            |            | ✓         |
| Intesa San Paolo Assicuri                                  | Italy        | General insurance            |            | ✓         |
| Iron Mountain  | UK           | Storage services             |            | ✓         |
| ISACA (Information Systems Audit & Control Association)    | Worldwide    | Trade association            |            | ✓         |
| Iveco  | Italy        | Automotive OEM               |            | ✓         |
| IVOX   | USA          | Risk management solutions    |            | ✓         |
| Ixonos   | Finland      | Software developer           |            | ✓         |
| Jambit   | Germany      | IT integrator                |            | ✓         |
| KDDI   | Japan        | Mobile operator              |            | ✓         |
| Kia Motors   | South Korea  | Automotive OEM               |            | ✓         |
| Kuantic  | France       | TTP                          |            | ✓         |
| Ladybird   | UK           | Insurance broker             |            | ✓         |
| LG Electronics   | South Korea  | Consumer electronics vendor  |            | ✓         |
| Liberty Mutual   | USA          | General insurance            |            | ✓         |
| LinkedIn   | USA          | Social networking            |            | ✓         |
| Lysanda  | UK           | TTP                          | ✓          | ✓         |

| Company name           | Country     | Sector                                | Discussion | Mentioned |
|------------------------|-------------|---------------------------------------|------------|-----------|
| MAAF Assurances        | France      | General insurance                     |            | ✓         |
| MACIF Assurances       | France      | General insurance                     | ✓          | ✓         |
| Magneti Marelli        | France      | Tier-1 supplier                       | ✓          | ✓         |
| MAIF Assurances        | France      | General insurance                     | ✓          | ✓         |
| Mapfre                 | Spain       | General insurance                     | ✓          | ✓         |
| Markerstudy Group      | UK          | Consumer insurance                    |            | ✓         |
| Marks & Spencer        | UK          | Retail                                |            | ✓         |
| Masternaut             | France      | TSP                                   | ✓          | ✓         |
| MATMUT Assurances      | France      | General insurance                     |            | ✓         |
| Mercedes Benz          | Germany     | Automotive OEM                        |            | ✓         |
| Meta System            | Italy       | TTP                                   |            | ✓         |
| Metaskil               | UK          | Software developer                    |            | ✓         |
| Michelin               | France      | Tyre manufacturer                     | ✓          |           |
| MileMeter              | USA         | Consumer insurance                    |            | ✓         |
| Mitsubishi Electric    | Japan       | Conglomerate                          |            | ✓         |
| Mobile Devices         | France      | TTP                                   | ✓          | ✓         |
| Mobileye               | Israel      | TTP                                   |            | ✓         |
| Montezemolo & Partners | Italy       | Private equity fund                   |            | ✓         |
| Moody's                | USA         | Rating agency                         |            | ✓         |
| MORE TH>N              | UK          | Consumer insurance                    |            | ✓         |
| Motaquote              | UK          | Consumer insurance                    |            | ✓         |
| Motorola Mobility      | USA         | Mobile phone vendor                   |            | ✓         |
| Nationwide Insurance   | USA         | General insurance                     |            | ✓         |
| Navteq                 | France      | Map provider                          | ✓          | ✓         |
| ND a Islandi Ehf       | Island      | n.a.                                  |            | ✓         |
| News of the World      | UK          | Newspaper                             |            | ✓         |
| NIS Glonass            | Russia      | Public-private partnership            |            | ✓         |
| Nokia                  | Finland     | Mobile phone vendor                   |            | ✓         |
| Norton Rose            | UK          | Law firm                              | ✓          |           |
| Norwegian Biotronics   | Norway      | n.a.                                  |            | ✓         |
| Novacom Europe         | Netherlands | TSP                                   |            | ✓         |
| NXP                    | Netherlands | Chipset vendor                        | ✓          | ✓         |
| ÖAMTC                  | Austria     | Automobile club                       |            | ✓         |
| Octo Telematics        | Italy       | TSP                                   | ✓          | ✓         |
| OECD                   | France      | International organisation            |            | ✓         |
| Oracle                 | USA         | Enterprise resource planning software |            | ✓         |



| Company name                                     | Country     | Sector                        | Discussion | Mentioned |
|--|-------------|-------------------------------|------------|-----------|
| Orange   | UK          | Mobile operator               |            | ✓         |
| Orange Business Services                         | France      | Integrator / TSP              | ✓          | ✓         |
| ÖSA (Öffentlichen Versicherungen Sachsen-Anhalt) | Germany     | General insurance             |            | ✓         |
| Pacifica Assurances                              | France      | General insurance             |            | ✓         |
| Panasonic  | Japan       | In-car electronics            |            | ✓         |
| PHS Datashred                                    | UK          | Business services             |            | ✓         |
| Pioneer  | Japan       | In-car electronics            |            | ✓         |
| Polis Direct                                     | Netherlands | Consumer insurance            |            | ✓         |
| Privacy International                            | UK          | Non-governmental organisation |            | ✓         |
| Progressive Insurance                            | USA         | Consumer insurance            |            | ✓         |
| PSA Peugeot Citroën                              | France      | Automotive OEM                | ✓          | ✓         |
| Punch Telematix                                  | Belgium     | TSP                           |            | ✓         |
| QNX  | Canada      | Embedded software             |            | ✓         |
| Qualcomm Enterprise Services                     | Netherlands | TSP                           | ✓          | ✓         |
| Quality Planning                                 | USA         | Insurance services            |            | ✓         |
| RAC  | UK          | Automobile club               |            | ✓         |
| RACE   | Spain       | Automobile club               |            | ✓         |
| RBS Insurance                                    | UK          | General insurance             |            | ✓         |
| Real Insurance                                   | Australia   | Consumer insurance            |            | ✓         |
| Reala Mutua                                      | Italy       | General insurance             |            | ✓         |
| RealVNC  | UK          | Embedded software             |            | ✓         |
| RelayRides                                       | USA         | Car sharing provider          |            | ✓         |
| Renault  | France      | Automotive OEM                |            | ✓         |
| Renault Trucks                                   | France      | Automotive OEM                |            | ✓         |
| Renesas  | USA         | Semiconductors                |            | ✓         |
| Robert Bosch                                     | Germany     | Tier-1 supplier               |            | ✓         |
| Rosno (Allianz Group)                            | Russia      | General insurance             |            | ✓         |
| Royal & Sun Alliance                             | UK          | General insurance             |            | ✓         |
| Safeco   | USA         | General insurance             |            | ✓         |
| SageQuest  | USA         | TSP                           |            | ✓         |
| Samsung  | South Korea | Consumer electronics vendor   |            | ✓         |
| SAP AG   | Germany     | Enterprise resource software  | ✓          | ✓         |
| Sara   | Italy       | General insurance             |            | ✓         |
| Scania   | Sweden      | Automotive OEM                |            | ✓         |
| Scope Technologies                               | Singapore   | TSP/TTP                       | ✓          | ✓         |
| Second Opinion Financial Systems                 | USA         | Software developer            |            | ✓         |

| Company name                  | Country      | Sector                       | Discussion | Mentioned |
|-------------------------------|--------------|------------------------------|------------|-----------|
| Seesam                        | Latvia       | General insurance            |            | ✓         |
| Sensomatix                    | Israel       | Data management              | ✓          | ✓         |
| SFEREN                        | France       | General insurance            |            | ✓         |
| Sheila's Wheels               | UK           | Insurance broker             |            | ✓         |
| Sierra Wireless               | Canada       | Connectivity module provider |            | ✓         |
| SiRF (CSR Group)              | UK           | Chipset vendor               |            | ✓         |
| Skymeter                      | Canada       | TTP                          | ✓          | ✓         |
| SmartDrive                    | USA          | TTP                          |            | ✓         |
| Société Générale              | France       | Bank                         |            | ✓         |
| Sogessur                      | France       | General insurance            |            | ✓         |
| Solly Azar (Verspieren Group) | France       | Insurance broker             | ✓          | ✓         |
| Sony                          | Japan        | Consumer electronics vendor  |            | ✓         |
| Sony Ericsson                 | Japan        | Mobile phone vendor          |            | ✓         |
| Standard & Poor's             | France       | Rating agency                | ✓          | ✓         |
| State Farm Insurance          | USA          | General insurance            |            | ✓         |
| Stellar International         | Ireland      | n.a.                         |            | ✓         |
| Stok Nederland                | Netherlands  | TSP                          | ✓          |           |
| T-Mobile                      | Germany      | Mobile operator              |            | ✓         |
| TCS                           | Switzerland  | Automobile club              |            | ✓         |
| Telefonica                    | Spain        | Mobile operator              |            | ✓         |
| Telenav                       | USA          | Navigation / MRM provider    |            | ✓         |
| Teletrac                      | USA          | TSP                          |            | ✓         |
| Telit                         | Italy        | Connectivity module provider | ✓          | ✓         |
| Telogis                       | USA          | TSP                          | ✓          | ✓         |
| Test-Achats                   | Belgium      | Consumer rights organisation |            | ✓         |
| Texa                          | Italy        | TTP                          | ✓          | ✓         |
| Thatcham                      | UK           | Certification company        |            | ✓         |
| The Carphone Warehouse        | UK           | Telecommunications retail    |            | ✓         |
| The Co-operative Insurance    | UK           | General insurance            | ✓          | ✓         |
| The Hartford                  | USA          | General insurance            |            | ✓         |
| The Sun                       | UK           | Newspaper                    |            | ✓         |
| The Wall Street Journal       | USA          | Newspaper                    |            | ✓         |
| Thélem Assurances             | France       | General insurance            |            | ✓         |
| Tiger Wheel & Tyre            | South Africa | Tyre fitment centre          |            | ✓         |
| Tokio Marine Risk Consulting  | Japan        | Risk consulting firm         |            | ✓         |
| Toll Collect                  | Germany      | Road charging provider       |            | ✓         |
| TomTom Business Solutions     | Netherlands  | TSP                          | ✓          | ✓         |
| Touring                       | Belgium      | Automobile club              | ✓          | ✓         |

| Company name                       | Country      | Sector                | Discussion | Mentioned |
|------------------------------------|--------------|-----------------------|------------|-----------|
| Toyota                             | Japan        | Automotive OEM        | ✓          | ✓         |
| Toys'R Us                          | South Africa | Games stores          |            | ✓         |
| Tracker                            | South Africa | TSP                   | ✓          | ✓         |
| Tracker Network (UK)               | UK           | TSP                   |            | ✓         |
| Trafficmaster                      | UK           | TSP                   |            | ✓         |
| Transics                           | Belgium      | TSP                   |            | ✓         |
| Travelers Insurance                | USA          | General insurance     |            | ✓         |
| Trimble MRM                        | USA          | TSP                   | ✓          | ✓         |
| uBlox                              | Switzerland  | Chipset vendor        |            | ✓         |
| UGF Group                          | Italy        | General insurance     |            | ✓         |
| Unipol                             | Italy        | General insurance     |            | ✓         |
| Uniq                               | Austria      | General insurance     | ✓          | ✓         |
| US Bank                            | USA          | Bank                  |            | ✓         |
| Valeo                              | France       | Tier-1 supplier       |            | ✓         |
| Vanguard plc                       | UK           | Mobile phone retailer |            | ✓         |
| Vector Capital                     | USA          | Private equity firm   |            | ✓         |
| Verisk Insurance Solutions         | USA          | Software developer    |            | ✓         |
| Vivium (P&V Group)                 | Belgium      | General insurance     | ✓          | ✓         |
| Vodafone                           | UK           | Mobile operator       | ✓          | ✓         |
| Volkswagen                         | Germany      | Automotive OEM        |            | ✓         |
| Volkswagen Financial Services (UK) | UK           | Financial services    |            | ✓         |
| Volvo Cars                         | Sweden       | Automotive OEM        |            | ✓         |
| Volvo Trucks                       | Sweden       | Automotive OEM        |            | ✓         |
| Wireless Car                       | Sweden       | TSP                   | ✓          |           |
| Wunelli                            | UK           | TSP                   | ✓          | ✓         |
| Xirgo Technologies                 | USA          | TTP                   | ✓          | ✓         |
| Young Marmalade                    | UK           | Consumer insurance    | ✓          | ✓         |
| Zurich                             | Italy        | Consumer insurance    | ✓          |           |
| Zurich                             | UK           | Consumer insurance    | ✓          |           |
| Zurich Financial Services          | France       | Commercial insurance  | ✓          | ✓         |
| Zurich Fleet Intelligence          | UK           | Commercial insurance  | ✓          | ✓         |

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## I. OVERVIEW OF THE PRESENT ENVIRONMENT

### A. Overview of insurance telematics

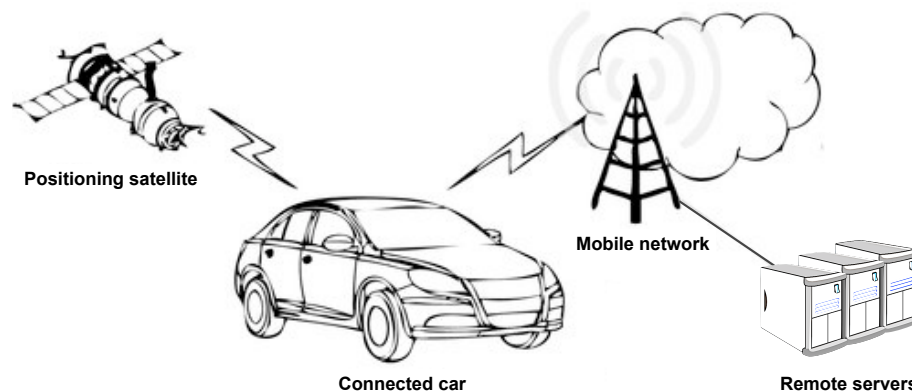
#### 1. What is insurance telematics?

Did you ever wonder why your motor insurer asks for your age, gender, address and claims history while calculating your premium?

Wouldn't it be more appropriate to see how, when, where and how much you are driving instead?

That is exactly what the proponents of telematics-based insurance are advocating. Telematics is the integrated use of telecommunication and information technology for vehicles. It is mostly widely used for providing services such as real-time navigation, roadside assistance, vehicle tracking and more recently - motor insurance.

**Figure 1: Telematics: the car connects to the Internet**



Source: PTOLEMUS, Embedded Computing Design

Insurance telematics is thus the use of telematics by motor insurers with an objective to **adjust the premium on the actual risk**.

In this report, we shall study telematics-enabled usage-based insurance (UBI) programs such as *Pay-As-You-Drive* (PAYD) and *Pay-How-You-Drive* (PHYD) policies. We will also evaluate ancillary value added services that are often provided by insurers such as stolen vehicle recovery and remote vehicle diagnostics among others.

It is important to note that while the car's **geo-location** adds precious data for the premium to be calculated, **insurers do not need to record it and even less to store it for a telematics insurance plan**. For example, numerous PHYD policies are based on driving behaviours, primarily driven by acceleration and braking patterns.

## 2. UBI vs. insurance telematics

Although Usage-based Insurance (UBI) and Insurance Telematics are often used one for the other, they actually are different concepts.

In fact, UBI is a wider notion that includes all policies that make the premium depend on the level of usage of the driver. As we will see in this paragraph, not all these policies require a telematic unit in the car.

Usage-based motor insurance policies first sprung up in the United States of America in August 2004 with the launch of **Progressive Insurance's TripSense** product. Launched in Minnesota, it enabled participants to save up to 25% on their renewal policies depending on how much and when they drove.

**Figure 2: Progressive's TripSense plan and the TripSensor data logger**



Source: Progressive Insurance

It was a revolutionary concept in its own right and opened many new opportunities to insurers.

It became the first ever motor insurance offering which used a consumer's actual behaviour data to price his risk rather than the mutualisation system that has been the mainstay of motor insurers for centuries.

Progressive met with equal praise and skepticism. Numerous press articles highlighted the risks of a "Big Brother approach". While some appreciated its potential to price insurance premiums more fairly, reduce driving and promote safer driving habits, others were concerned by the cost of the technology, the potential invasion of consumer privacy and the difficulties in creating a sustainable business model.

Two main categories of usage-based insurance policies emerged with remarkably distinct characteristics and business models: self-reporting based policies and telematics-based policies.

**a. Self-reporting based policies**

These policies calculate the premium’s amount primarily on the total distance driven **as reported by customers** through the odometer of the car. Customers are required to communicate the odometer reading at specific intervals (e.g. at the annual renewal of the policy) and sometimes the insurer performs random checks on customers to ensure that the reported reading is accurate.

For insurers, these policies are easy to implement and to integrate with existing operations. In numerous countries, a few insurers have implemented these.

For example, as early as in 2004, **Polis Direct** introduced in the Netherlands a ‘kilometre policy’ whereby the customer’s premium could increase or decrease by up to 50% based on his actual mileage against his forecast mileage.

In the US, **MileMeter**, a Texas-based start-up, introduced in 2008 a pay-per-mile policy that claimed to save customers up to 75% on their motor insurance premium. They require customers to provide a **digital photograph** of their odometer at the time of renewal of policy, which happens every 6 months.

Customers have to prepay for 6,000 miles at a time or 6 months at a time. The rate per mile is calculated by the company based on the age, location, car model and past history of the driver.

A similar service was also launched in September 2008 by **Real Insurance** in Australia called *Pay as you drive*. It relies on customers to faithfully report their odometer readings at the time of purchase, renewal or filing a claim. They include a fixed base amount in their quote with a variable rate per mile.

**Figure 3: Real Insurance were one of the first to launch verified mileage programmes**



Source: Real Insurance



Similar schemes were introduced by **Corona Direct** in Belgium, **MAAF** in France and **StateFarm** in the US.

**Figure 4: In Belgium, Corona Direct commits to up to 50% savings with its pay-per-mile plan**



Source: Corona Direct

Thus, non-telematic UBI programs use the similar statistical factors to assess the risk level of a customer. However, they levy the premium entirely or partly based on his / her actual mileage rather than as a fixed lump sum per annum.

However, these insurers suffer from a number of **drawbacks**, notably

- The **odometer accuracy** is affected by factors such as tyre size and wear & tear which can lead to greater error in risk pricing;
- Such systems generally rely on the customer's honesty to calculate the periodic mileage but there is a clear **conflict of interest** for the consumer which makes the system unreliable;
- There is a **greater risk of fraud**. For example, it is easy to imagine photographs of fake odometers. This makes the system not easily scalable;
- The **system does not gather any additional driver behaviour data** that can be used for more accurate risk pricing such as the time of the day when the vehicle was driven, the type of road on which it was driven, the distance per trip, his/her driving style, etc.
- There is **no opportunity for generating additional revenue** through the sale of ancillary services.

In a nutshell, because mileage is the most important variable in the assessment of risk, policies based on odometer readings bring a step forward in the analysis and the pricing of risk.

However, numerous other variables can also add risk-rating accuracy. This is what telematics-based insurance can deliver.

***b. Telematics-based insurance***

Telematics-based insurance policies were first started in the United States by Progressive Insurance in 2004.

They were called *Pay-as-you-drive* to indicate that the consumer's insurance premium would have a direct correlation with the total distance that he/she drove. A GPS device is generally installed in the car to track the distance driven and is automatically transmitted to the insurer.

They offered significant **improvements** over the non-telematic UBI products, notably

- A GPS device can measure the distance travelled with greater accuracy as compared to an ordinary odometer;
- It does not rely on the consumer's honesty while reporting the annual mileage;
- The on-board unit can be configured to track other parameters that can help the insurer to more accurately price the risk of the consumer;
- It can be used to deliver other driver services such as stolen vehicle recovery, emergency call, breakdown call and real-time traffic information.

Today, **telematics-based insurance policies are offered in 5 different continents to more than 2 million subscribers.**

Insurance companies have developed various innovative business models to market these policies and the technological platform has improved to reduce the implementation cost and effort, increase the data collected and support a plethora of value added services to meet the needs of different consumer groups.

***The simplicity of Pay As You Drive (PAYD)***

In 2006, **Hollard Insurance**, the international insurance group, launched in South Africa the first commercial Pay As You Drive policy based on a black box solution. It targeted low mileage drivers, notably women, as well as young drivers.

It promised

- A reduction of the premium in case of an annual mileage below 25 000 km,
- The first 400 km free,
- A stolen vehicle tracking device,
- An emergency assistance button inside your car,
- A coverage including the way to a business meeting,
- **Electronic logbooks of the distance covered available for tax purposes.** You should save on premiums if you travel less than 480 km a week, or 25 000 km a year.

The company has maintained and expanded its PAYD offer to **6 different "DrivePlan" options**, based on the number of kilometres insured per month: Drive500, Drive 750, Drive1000, Drive1250, Drive1500 and even an unlimited plan, DriveMax.

Premiums are collected monthly, on the first day of the month. The **same way as in a mobile phone subscription**, if the driver exceeds his plan included kilometres, he/she pays a variable cost per month. However, the user can roll over non-used kilometres from one month to another.

To market it, Hollard has even launched TV advertising campaigns that promise discounts of up to 30%. The main message is simple: pay only for what you need. Standard motor insurance contracts, similarly to fitness clubs, force customers to pay for something they do not need. By measuring what they actually need, discounts are possible.

**Figure 5: Hollard Insurance - "Car insurance is like your new gym contract"**



Source: Hollard Insurance

Interestingly, Hollard supports several tracking devices, notably Tracker's SkyTrax or Hollard's own device.

To leverage Tracker's large customer base, **Hollard has also opened its Pay as You Drive plan to Tracker subscribers.**

In both cases, the customer pays a monthly subscription fee equivalent to €5-12 to rent the device. The €12 option notably includes stolen vehicle tracking, as shown in the following table. If his/her car is equipped with a device already, it can be used as well.

However, the model differs in one important dimension, the duration of the contract. The Hollard contract is a monthly agreement whereas Tracker requests a 3-year commitment.

**Figure 6: Hollard Insurance' & Tracker's proposed plans (in South African Rands)**

| Included items                       | Service provider                           |                 |                    |
|--------------------------------------|--|-----------------|--------------------|
|                                      | Hollard Insurance                          | Tracker         |                    |
|                                      | DriveMate                                  | SkyTrax Data    | SkyTrax Recover    |
| Mileage reporting                    | ✓  | ✓               | ✓                  |
| Driving behaviour reporting*         | ✓  | ✓               | ✓                  |
| Roadside assistance                  | ✓  | ✓               | ✓                  |
| Medical assistance                   | ✓  | ✓               | ✓                  |
| Detailed trip reports                | ✓  | ✓               | ✓                  |
| Stolen vehicle recovery              |  |                 | ✓                  |
| Automatic health checks              |  |                 | ✓                  |
| High risk zone notification          |  |                 | ✓                  |
| International roaming                |  |                 | (✓)                |
| SMS polling                          |  |                 | (✓) (R1 / request) |
| <b>Monthly cost for PAYD clients</b> | R60 / month                                | R55 / month     | R125 / month       |
| <b>Contract term</b>                 | Monthly contract                           | 36 months       | 36 months          |
| <b>Cancellation policy</b>           | No cancellation cost if device is returned | Payment of R796 |                    |

Note: (✓) indicates an optional feature; \* Driver behaviour is not used in the policy pricing.  
Source: Hollard Insurance

Obviously, kilometre-based policies are a big step forward compared to standard flat-rate policies in approximating risks.

While remaining simple to understand, PAYD policies reward low mileage drivers, who, in almost all cases, carry lower risks. This is a big advantage compared to standard policies, which de facto represent a subsidy of low mileage drivers to "road warriors".

**However, PAYD does not take into account the behaviour of drivers.** For example, a trip on Saturday night will cost the same amount as a trip on Tuesday at 3 PM. In our view, this explains why the marketing focus of Hollard has been on women and pensioned workers, rather than on young drivers.

This is the reason why several insurers have launched telematics-enabled policies that take other factors than mileage into account. These are named **Pay How You Drive (PHYD)** policies.

***The accuracy of Pay How You Drive (PHYD)***

In June 2009, **Liberty Mutual** launched such a scheme towards commercial fleets, in partnership with GE Commercial Finance and US Bank, the provider of fuel cards.

Built on Sensomatix driver behaviour's software, it used tracking boxes from multiple TSPs (Telematics Service Providers): Geotab, Teletrac, Telenav and Telogis. To optimise the data generated, Liberty Mutual has selected devices that integrate accelerometers.

Therefore, in addition to mileage and the time of trips, it **records potentially dangerous events** such as speeding, cornering, harsh breaking, lane-changing, etc.

Liberty Mutual proposes fleets to increase the safety of their drivers and reduce their insurance premium and their fuel consumption thanks to 3 sets of indicators, integrated into a **single fleet dashboard**, shown below:

- A safety score, based on at-risk driving habits,
- A fuel score, conditioned on the use of the US Bank Voyager Fleet Card,
- An insurance discount score.

**Figure 7: Liberty Mutual OnBoard Advisor's dashboard**



Source: Liberty Mutual

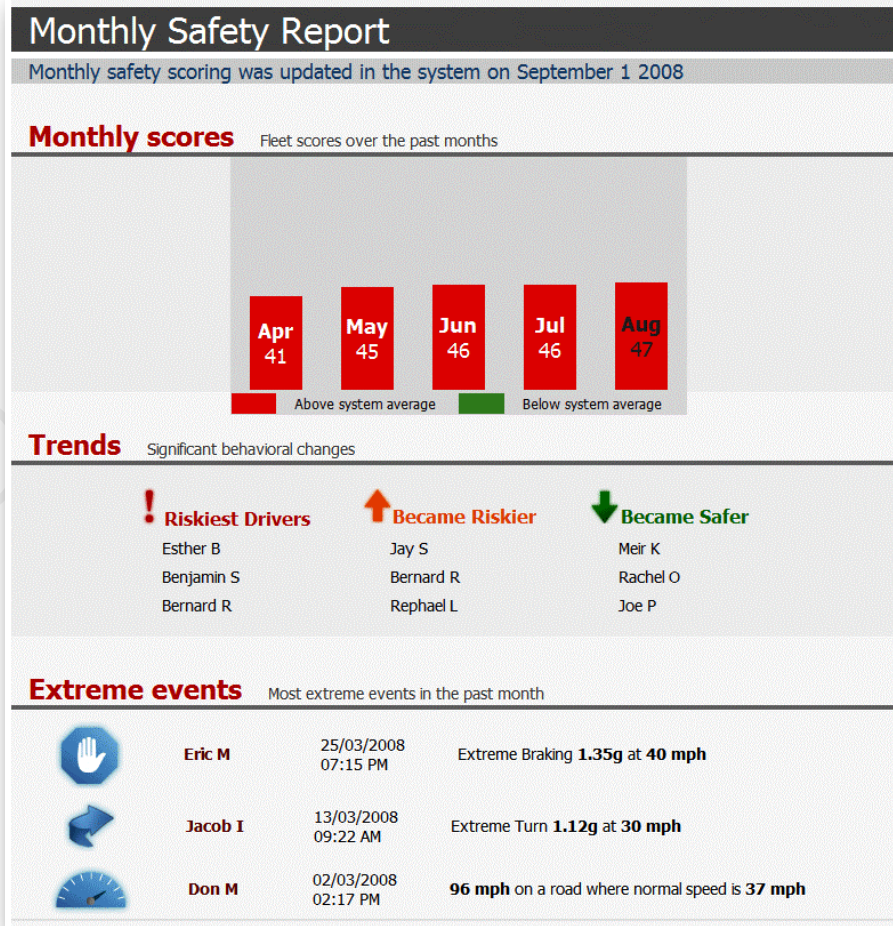
The fleet manager obtains statistics on the level of performance of its fleet and individual drivers. Such a report is shown hereafter.

If the fleet's company regularly monitors driving behaviours and provides monthly and direct feedback to drivers, Liberty Mutual promises **premium discounts of up to 40%** and typical reductions of 12-15% in fuel and insurance costs.

Thanks to Liberty Mutual's system, the fleet owner can promote good driving behaviours and prevent accidents from happening. In addition to a fairer insurance policy, it delivers also an **improvement in safety**.



Figure 8: Liberty Mutual OnBoard Advisor's dashboard



Source: Liberty Mutual

While it is possible to question the impact on privacy of PHYD, it is clear that **Actual Behaviour-Based Insurance (ABBI) is a major improvement in the fairness of the insurance risk mutualisation system.**

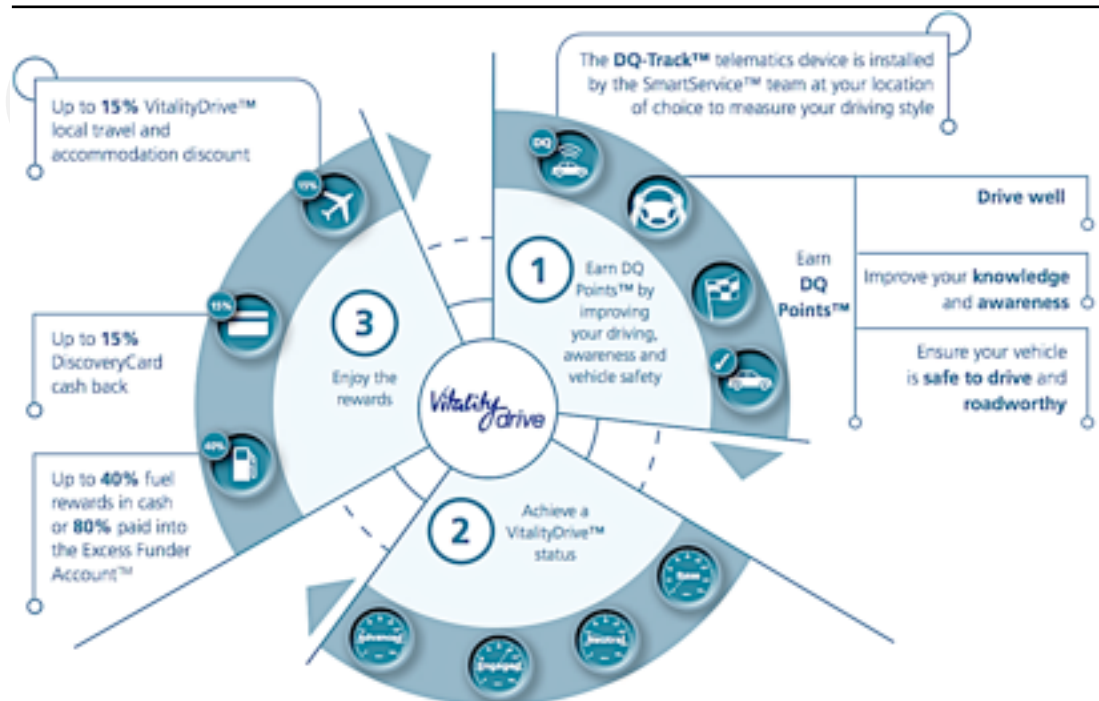
**Discovery**, a South African personal insurance provider, has even coined the term of **DQ** ("Driver Quotient") in its commercial offering to show that the driver was ultimately in control of the premium he / she pays. We will be interested to read studies on the correlation between IQ and DQ...

Discovery has launched a comprehensive Pay How You Drive (PHYD) programme called *VitalityDrive* that rewards good behaviour. It is detailed in the next figure.

As part of its plan, **Discovery offers a large range of side benefits** that go beyond a reduction in the premium:

- Up to 15% discounts at BP gas stations for holders of the Discovery card;
- Up to 15% discounts at Tiger Wheel & Tyre, a network of tyre fitment centres specialising in performance wheels and tyres;
- Up to 15% discount at DiscoveryCard partner stores, e.g. Toys'R Us;
- Up to 15% discount at local travel partners, notably British Airways and Europcar.

**Figure 9: Discovery's Vitality Drive - The higher the DQ, the bigger the rewards**



Source: Discovery Insure

To help the driver increase its DQ, Discovery proposes its customers to

- Use an interactive online tool, to see their past trip information and driver records;
- Follow *VitalityDrive* accredited pro-active driving course every two years to win DQ Points.

We sum up thereafter the **strengths, weaknesses, opportunities and threats** that the classic rating model, the reporting-based pricing model and the telematics-based pricing models have.



## SWOT analysis of the 3 main rating models

Figure 10: SWOT of classic rating & pricing methodologies (Rating based on preliminary risk factors)

| STRENGTHS  | WEAKNESSES   |
|--|--|
| <ul style="list-style-type: none"> <li>✓ Well understood by underwriters, agents and brokers</li> <li>✓ Well understood and accepted by customers</li> <li>✓ Vast amount of statistics available to correlate risk factors and claim statistics</li> <li>✓ Already built and well integrated into existing insurance IT (CRM, billing, claims management) systems</li> <li>✓ Low cost as does not require a device / an installation</li> <li>✓ Impact on privacy is limited to initial declaration by customer</li> </ul> | <ul style="list-style-type: none"> <li>* Based on statistical data, not individual behavioural data</li> <li>* Not dynamic - Based on risk factors at the time of first set up (afterwards, this depends on the willingness of the customer)</li> <li>* Significant delay between actual claims data and pricing decisions, generally resulting in 12 months time lag in pricing (an increase of claims in year N leads to increased premiums in year N+1)</li> <li>* Incentive to improve driving is indirect (better driving does not prevent accidents) and delayed (time to obtain a bonus)</li> <li>* Facilitates fraud as it is largely based on customers' own declarations</li> <li>* In case of an incorrect declaration, the risk exists of having an accident without indemnification</li> <li>* Limited opportunities to develop direct link with the customer (except through smartphone)</li> <li>* No ability to recover vehicle in case of theft</li> <li>* Little control over risks in case of fleets</li> </ul> |
| OPPORTUNITIES  | THREATS  |
| <ul style="list-style-type: none"> <li>★ More and more data sets are available, making the rating more accurate every day</li> </ul>   | <ul style="list-style-type: none"> <li>◆ Rising costs of insurance for young &amp; senior drivers makes it unaffordable to drive in certain countries (notably the UK), pushing these segments towards telematics</li> <li>◆ Best customer segments generally pay more than they should, which could push them towards telematics-based solutions</li> <li>◆ Acceptance of traditional risk factors is decreasing as they are increasingly seen as sheer discrimination (cf. "post-coding" debate between ABI and the Conservative Party in the UK)</li> <li>◆ Gender ruling and other similar anti-discrimination rulings or European directives could prevent the use of the most useful risk factors (gender, age, postcode, etc.)</li> <li>◆ Mandated eCall by 2015 could push automotive OEMs to sell insurance themselves and even become insurers (as part of a larger motor finance unit)</li> </ul>   |

Source: PTOLEMUS

**Figure 11: SWOT of self-reporting methodologies** (Rating based on customer's self reporting of mileage)

| STRENGTHS  | WEAKNESSES  |
|--|---|
| <ul style="list-style-type: none"> <li>✓ Simple model, easy to explain for brokers and direct agents</li> <li>✓ Well accepted by customers, which leads to good volumes</li> <li>✓ Positive incentive to drive less, leading to lower risks</li> <li>✓ Indirect positive effects on the environment (CO<sub>2</sub> emissions, noise, etc.)</li> <li>✓ Indirect positive effects on fuel consumption</li> <li>✓ Low cost as does not require a device / an installation</li> </ul> | <ul style="list-style-type: none"> <li>* Based on trust, i.e. fraud is very easy</li> <li>* Does not integrate other behavioural factors than mileage (e.g. driving times)</li> <li>* Declaration cannot easily be requested more often than on a yearly basis, resulting in 12 months time lag in pricing (an increase of claims in year N leads to increased premiums in year N+1)</li> <li>* Incentive to improve driving is indirect (better driving does not prevent accidents) and delayed (time to obtain a bonus)</li> <li>* Facilitates fraud as it is largely based on customers' own declarations</li> <li>* Little opportunities to develop direct link with the customer (except through smartphone)</li> <li>* No ability to recover vehicle in case of theft</li> <li>* Little control over risks in case of fleets</li> </ul>   |
| OPPORTUNITIES  | THREATS   |
| <ul style="list-style-type: none"> <li>★ Increase in petrol prices pushes such usage-based models</li> <li>★ More and more data sets are available, making the rating more accurate every day</li> <li>★ Large diffusion of smartphones enables insurers to request customers to more easily send a digital photograph of their odometer</li> </ul>  | <ul style="list-style-type: none"> <li>◆ Rising costs of insurance for young &amp; senior drivers makes it unaffordable to drive in certain countries (notably the UK), pushing these segments towards telematics</li> <li>◆ Certain attractive customer segments will still pay more than they should, which could push them towards telematics-based solutions</li> <li>◆ Acceptance of traditional risk factors is decreasing as they are increasingly seen as sheer discrimination (cf. "post-coding" debate between ABI and the Conservative Party in the UK)</li> <li>◆ Gender ruling and other similar anti-discrimination rulings or European directives could prevent the use of the most useful risk factors (gender, age, postcode, etc.)</li> <li>◆ Mandated eCall by 2015 could push automotive OEMs to sell insurance themselves and even become insurers (as part of a larger motor finance unit)</li> </ul> |

Source: PTOLEMUS

**Figure 12: SWOT of telematics-based methodologies** (Rating based on customer's own records)

| STRENGTHS  | WEAKNESSES   |
|--|--|
| <ul style="list-style-type: none"> <li>✓ Individual pricing, based on actual driving behaviour (mileage, time, place, style, etc.)</li> <li>✓ Well accepted by customers, which leads to good volumes</li> <li>✓ Positive incentive to drive less, leading to lower risks</li> <li>✓ Indirect positive effects on the environment (CO<sub>2</sub> emissions, noise, etc.)</li> <li>✓ Indirect positive effects on fuel consumption</li> <li>✓ Ability to recover the vehicle in case of theft (for models with a black box)</li> <li>✓ Ability to provide eCall services and thus reduce the number of fatalities</li> <li>✓ Ability to strongly reduce fraud</li> <li>✓ Ability to provide actual driving data to actuarial models</li> <li>✓ Strong incentive to improve driving skills and style</li> <li>✓ Ability to adjust pricing on a dynamic basis (to the customer's driving behaviour and to market changing patterns)</li> </ul> | <ul style="list-style-type: none"> <li>* Unclear effect of telematics for the motor insurance market as a whole (risk of decreasing its size)</li> <li>* Cost of purchasing and installing (and potentially decommissioning) the device - except for OBD models</li> <li>* Difficult business case, notably in low motor premium markets</li> <li>* Complex business case for low premium drivers</li> <li>* Perception of possible infringements on privacy (Big Brother effect)</li> <li>* Requires a strong CRM system</li> </ul> |
| OPPORTUNITIES  | THREATS  |
| <ul style="list-style-type: none"> <li>★ Decreasing cost of telematics devices</li> <li>★ Ability to discriminate based on real risks instead of gender-based, age-based pricing that will / may become unlawful</li> <li>★ Live customer feedback possible (thanks to a display in the car)</li> <li>★ Low cost, self installed EOBD dongle solutions</li> <li>★ Use of more accurate CAN bus-related data</li> <li>★ eCall becoming compulsory for new car models in the EU by 2015</li> <li>★ ERA Glonass becoming compulsory for new car models in Russia by 2013</li> <li>★ Brazilian stolen vehicle tracking mandate (CONTRAN 245) could be enacted in 2012</li> </ul>   | <ul style="list-style-type: none"> <li>◆ Risk of backlash against "customer tracking"</li> <li>◆ Laws preventing insurers to charge for the rental of the device (as latest Italian law)</li> </ul>  |

Source: PTOLEMUS

### 3. A European perspective on insurance telematics

The European insurance telematics market emerged in 2006, with the launch of Norwich Union's PAYD programme in the UK. Although that programme failed and was eventually stopped in 2008, PAYD continued to flourish in Europe.

**There were more than 1,200,000 telematics-based PAYD insurance customers in Europe at the end of 2011** with a majority of them concentrated in Italy, Spain, France and the UK.

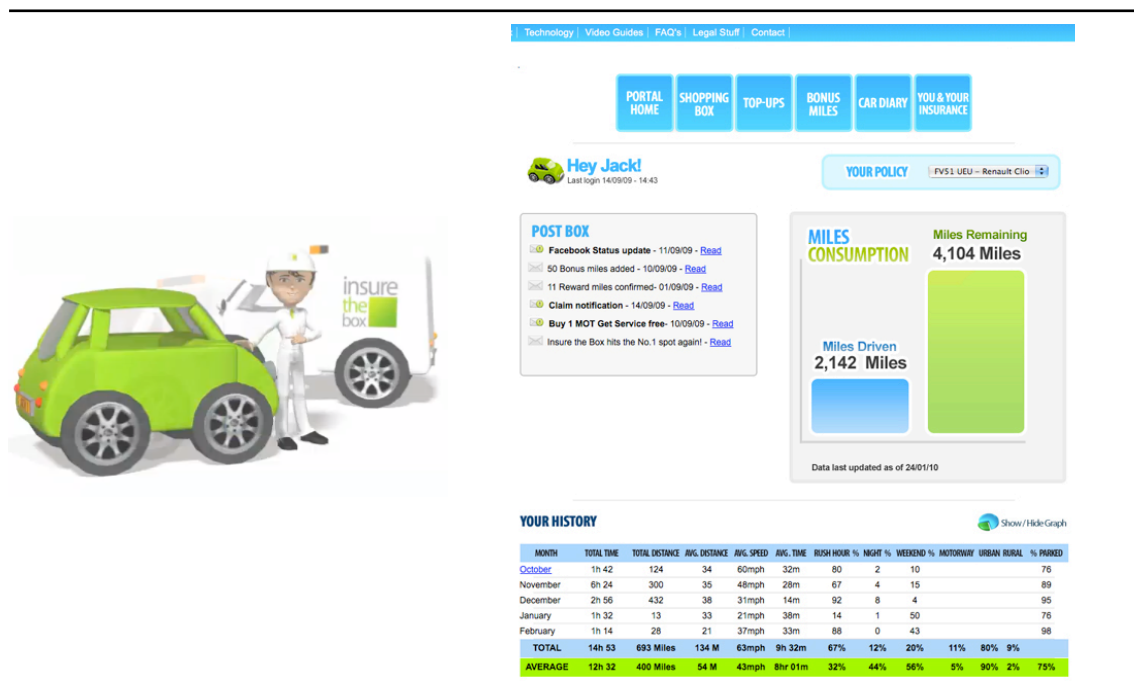
Indeed, Europe has become **the most important market for insurance telematics** and is becoming a field of experimentation for the entire industry.

A number of **innovative business models** have emerged and increasing levels of consumer acceptance are being witnessed.

For example, in January 2009, **Wunelli**, a telematic service provider, launched the **Coverbox** panel in the UK in partnership with a number of leading insurance companies including Allianz, Groupama, The Co-operative Insurance and Markerstudy 'to prove to the insurance industry that telematics can work effectively with motor insurance and assist in reducing risk.'

More recently, **Insure the box**, a provider of telematics-based insurance in the UK, has partnered with brands such as Marks & Spencer, The Carphone Warehouse, B&Q, Dixon's, etc. It offers its customers 'Reward Miles' (i.e. discounts on their motor insurance) when they shop online through its dedicated portal.

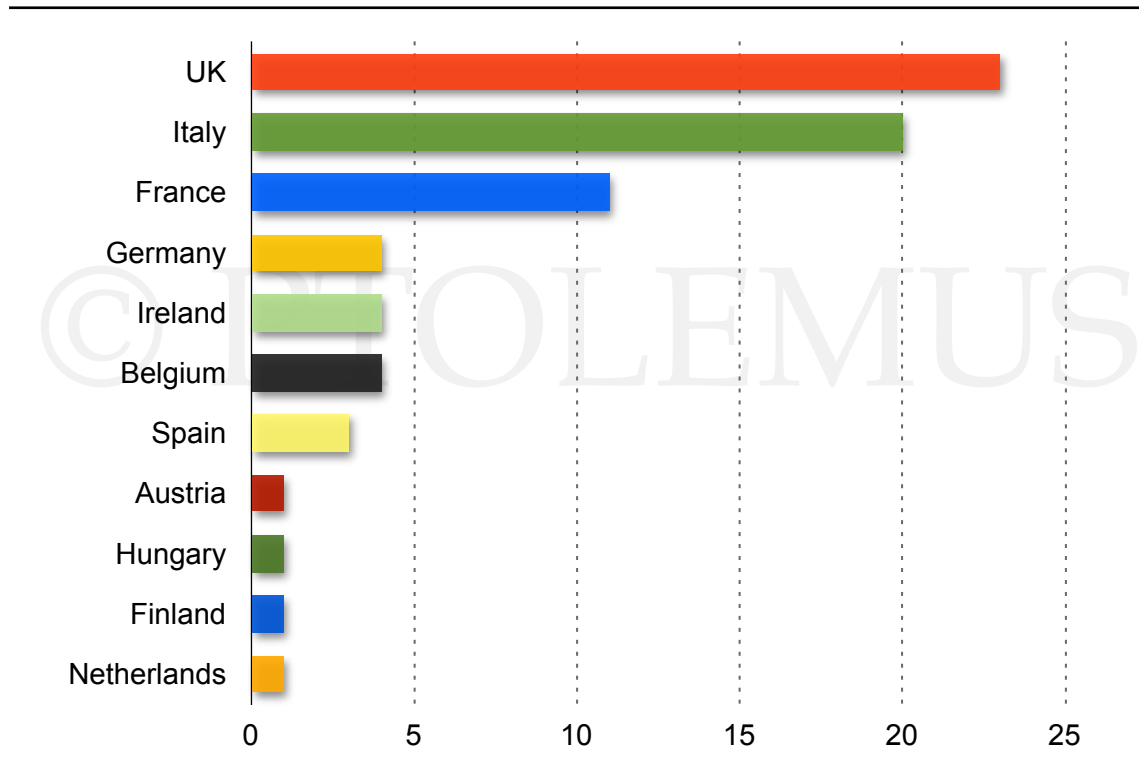
**Figure 13 : The web portal for Insure the box' customers**



Source: Insure the box

This high level of activity and innovation proves that insurance telematics is also taking hold in Europe. The difficult economic environment in Europe may further encourage consumers to look at new ways to cut their costs.

**Figure 14 : Nearly 75 PAYD and PHYD insurance trials and launches in Europe**



Source: PTOLEMUS

Numerous insurers are finally willing to seriously consider telematics as an option. The recent rulings on gender discrimination and the eCall directive (explained in Section II.B.) are likely to give further impetus to the growth of insurance telematics in Europe.

With all this optimism however, there is also the **need of a reality check** as several hurdles still remain before telematics-based insurance products and accompanying services can become a common sight.

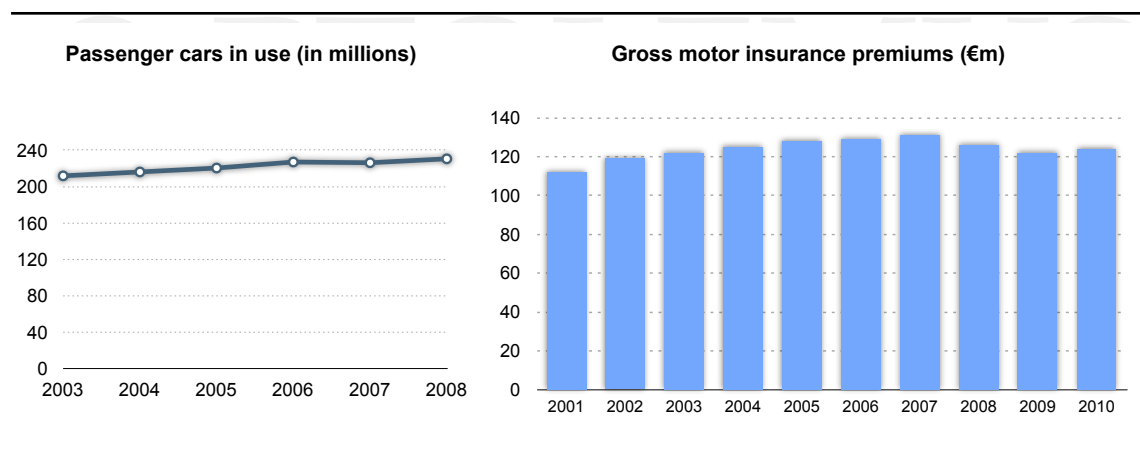
## B. Key features of the motor insurance market

### 1. A maturing business

While the number of passenger cars in use is growing at an average growth rate of 1-2%, the European motor insurance market has stagnated.

As shown in the figure below, in 2010, premiums generated by the industry were the same as in 2003. Given that the number of passenger cars in use has increased in all countries, this obviously means that the average premium has decreased.

**Figure 15: The European motor insurance market has entered a stagnation phase**



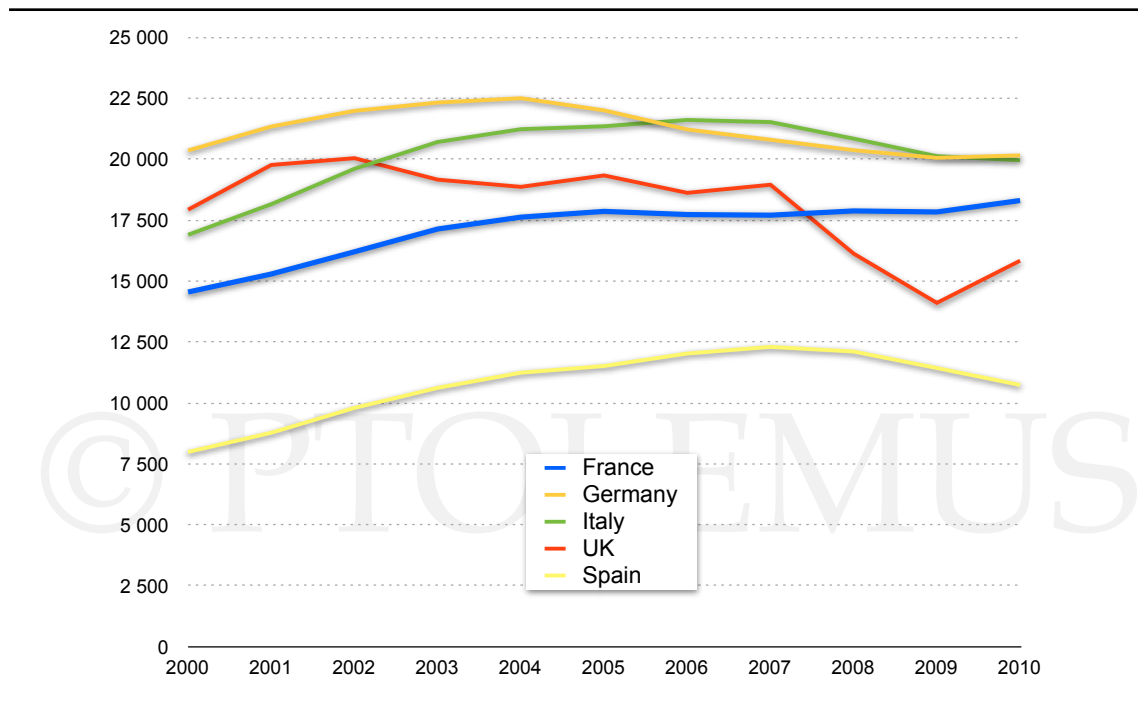
Source: ACEA (Statistics include Turkey), CEA

Most of the largest markets, notably Germany, Italy, the UK and Spain, have declined in the last 5 years. The most affected country has been the United Kingdom, probably due to a higher level of competition.

However, we must qualify this. The French market has constantly grown in the last 10 years. Similarly, supposedly highly competitive and mature countries such as Belgium and the Netherlands have experienced total premium increases by respectively 33% and 23% between 2001 and 2010.

In addition, all new EU countries such as Poland and Romania have experienced rapid growth in the last 10 years. For example, the Romanian market has been multiplied more than 6 times during the period.

**Figure 16: Gross premiums in key European markets are on the decline (amount in million €)**



Source: CEA

With gross premiums stabilising and average premiums falling, **insurers in mature markets need to look at new ways of maintaining profitability.**

In certain markets, insurance premiums are rising again, notably in the UK. In November 2011, Admiral reported increases of 12% in 2009, 26% in 2010 and 14% in the first three quarter-period of 2011.

However, this inflation of premiums is outpaced by the **rise in claim expenditures.** Numerous insurers continue to see their profitability deteriorate, notably due to the increase in bodily injury claims.

The Financial Services Authority (FSA), which notably regulates motor insurers in the UK, recently reported that the combined operating ratios for the market deteriorated further to 120.5% in 2010. This implies that insurers lost about 20p for every £1 they collected in premiums.



## 2. Increasing churn

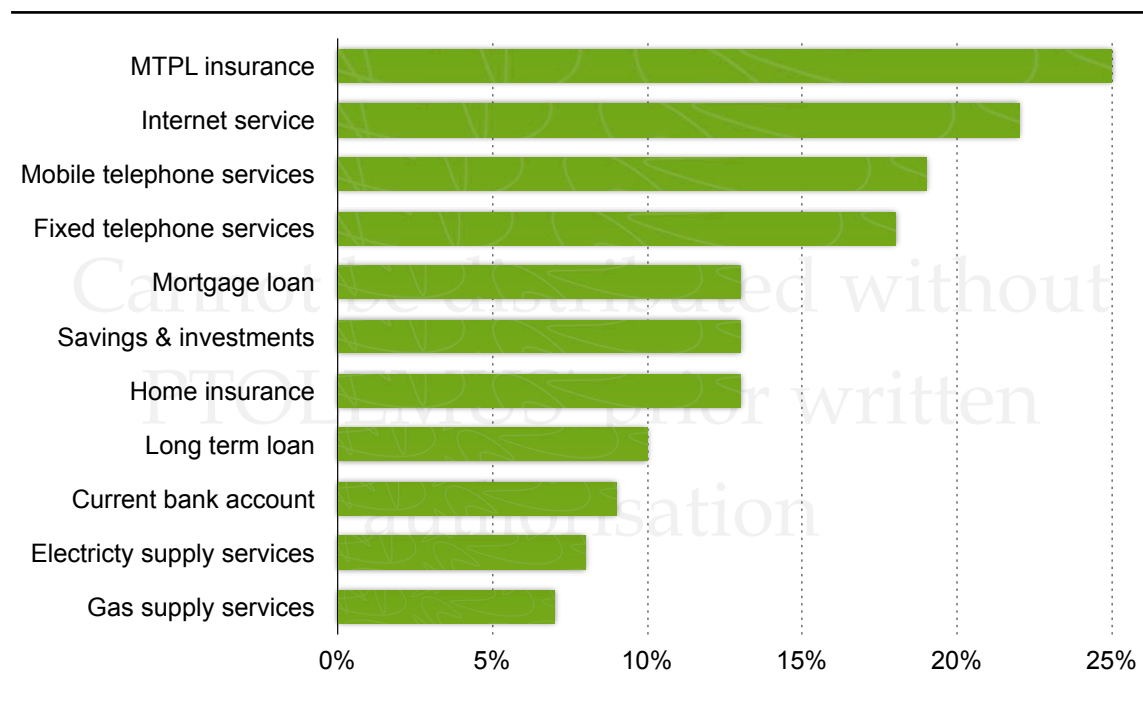
It is difficult to evaluate whether competition has increased in the European market. For example, CEA, the association of European insurers, does not publish average premium statistics across a long period.

In particular, it is not clear whether the decrease in the number of motor insurers in the EU (from 1 385 in 2002 to 1 099 in 2007) is due to more intense competition or simple capitalistic concentration moves. Even in growing markets such as France, the number of motor insurance companies has been cut by 25% between 2000 and 2009.

While motor insurers' combined ratio exceed 100 in a large number of countries, this does not in itself indicate increased competition. Many interviewed insurers have indicated that motor insurance is the entry point to a larger offering comprising property insurance and life insurance. As such, **most insurers "subsidise" their motor insurance activity** and consider it as a **customer acquisition cost**.

However, it is true that in most EU countries **it has become easier for customers to switch insurance providers**, as the chart below attests. There is a noticeable difference between home insurance and motor insurance (MTPL in that case), which is affected by a much higher churn level.

**Figure 17: Share of Europeans who have tried to switch their provider in the last 2 years (%)**



Source: European Commission - Euromonitor January 2009

This is due to the growing role of direct insurers, online comparison tools, aggregators, etc. Increasingly, changing your motor insurance provider is just one click away.

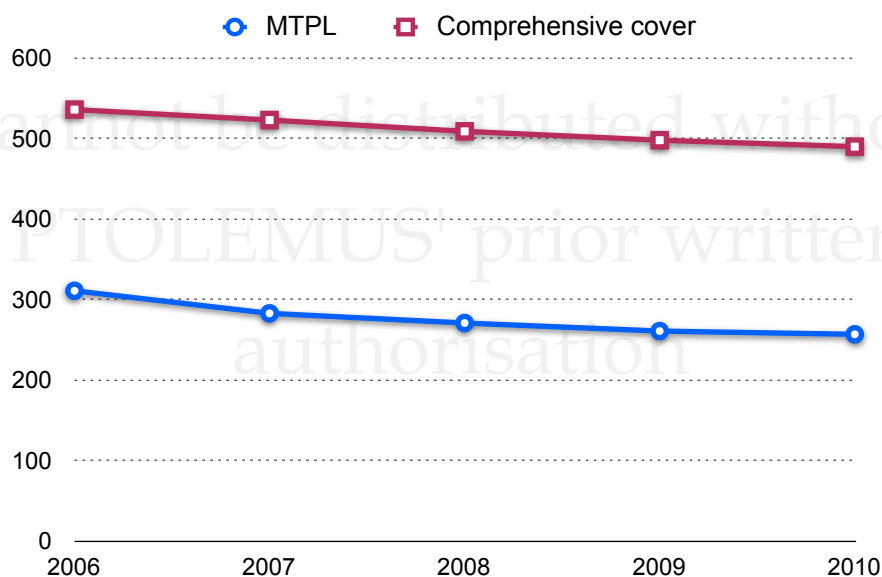
Let us now have a look at the two main segments of the motor insurance market, i.e. the Motor Third-Party Liability (MTPL) segment and the Own Damage insurance segment.

With the exception of the UK, **MTPL** is the minimum mandatory cover in all major European economies. It accounts for the **majority of the market premiums, except in a few countries, notably France**. MTPL insurance covers customers against claims for bodily injuries, death and loss or damage to property raised by third-parties. As MTPL insurance products are fairly homogenous, consumers found their purchase decisions almost solely on price. This has in turn resulted in extreme price competition in this segment and **underwriting profitability has remained negative every year since 2001 for the European region**.

The MTPL combined ratio (ratio of total expenditures against gross premium earned) increased from 104.2% to 108.1% between 2006 to 2008 signifying that underwriting motor insurance has increasingly become a loss-making business. Given the cyclical nature of the insurance industry, this seems to mark the beginning of another tough period for motor insurers with rising costs and falling profitability.

In the **Netherlands** for example, motor insurers are struggling to pass on the increasing costs to the customers due to the intense competition. While total claims expenditure has increased by 10% between 2005 and 2009, the net premiums written have actually decreased by 3% in the same period. Thus the average premium per policy for MTPL and comprehensive insurance has fallen every year from 2006 to 2010 - which has adversely affected underwriting profitability.

**Figure 18: Average premiums in the Netherlands are decreasing due to intense competition (in €)**



Source: VVN

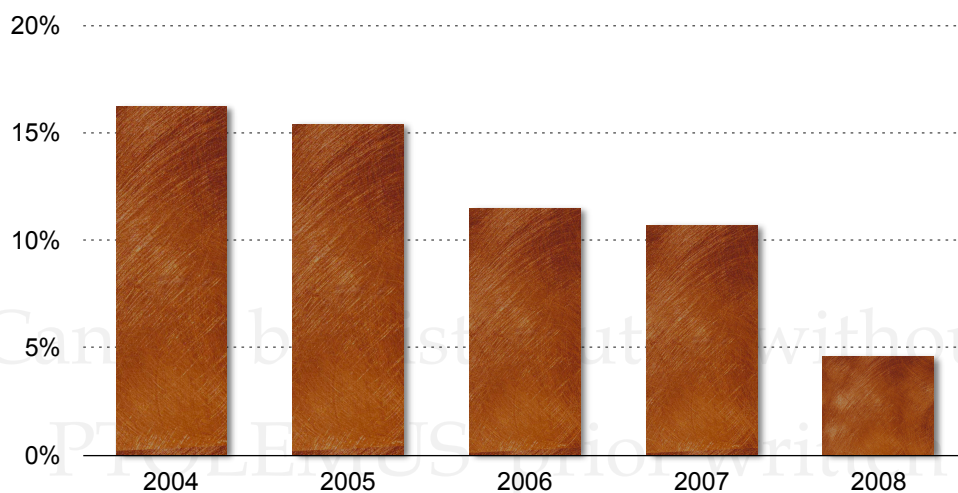
The **own damage** insurance is an additional cover that protects the insured against accidental fire or theft of his vehicle as well as damage to his vehicle in the event of an accident where he/she is at fault. Along with the MTPL insurance, it is known as a **comprehensive insurance** cover. Own damage insurance is generally taken out on newer vehicles that are more expensive to repair.

So far, the price competition in this segment has been less intensive than in the MTPL segment since product differentiation is higher. Comprehensive insurance being optional, the products are structured to meet the needs of the different consumer segments rather than to comply with regulatory requirements.

However, even in this segment, the **profitability has fallen sharply** in recent years. According to the latest data released by the CEA, the European insurance and reinsurance federation, the claims ratio for own-damage policies in Europe has increased from 61.3% in 2005 to 70.9% in 2008.

In the same period, underwriting margins have decreased from 15.4% to 4.6%. This trend is likely to continue in 2010 and 2011 bringing down underwriting profitability even further.

**Figure 19: Own damage profitability has fallen sharply as competition has heated up**



Source: CEA

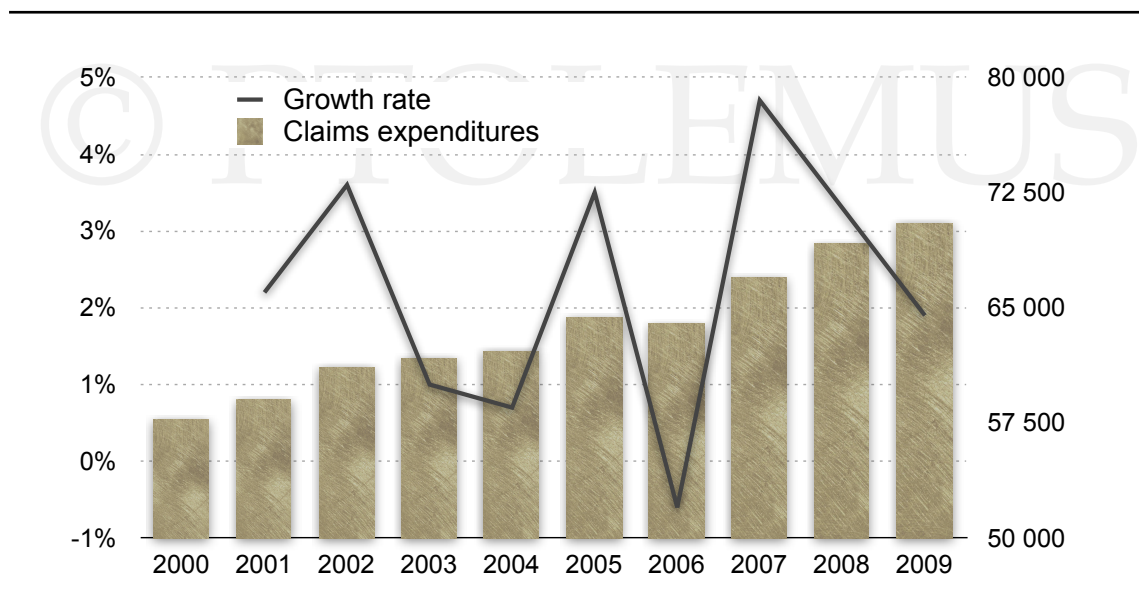
Thus, it is evident that motor insurers are facing **increasing pressure on their bottom lines**, in part due to aggressive pricing by competitors, and need to find ways to differentiate themselves more effectively.

### 3. Rising claim costs

A key feature of the present day motor insurance market is the increasing outlay on claims. While the number of accidents has decreased, the actual expenditure on claims has increased across all major European markets.

According to CEA, total claims have grown almost 50% in the period between 2003-09 across Europe. While the claims ratio decreased at the beginning of the decade, it has not stopped growing since 2005.

**Figure 20: Rising motor claims expenditures in Europe (in M€)**

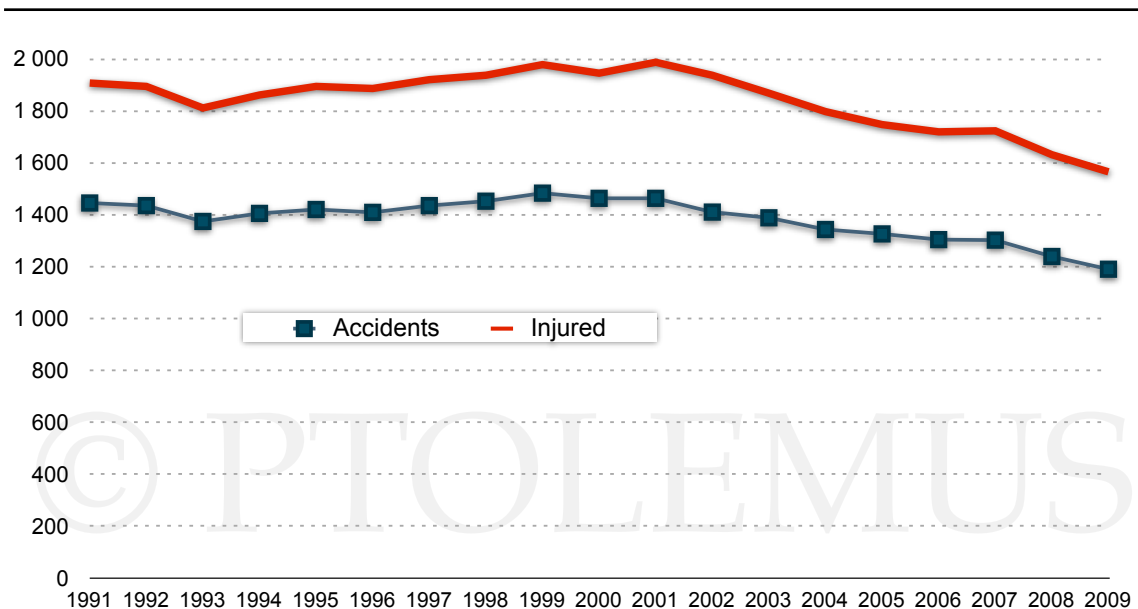


Source: CEA (EU 27)

**This growth of claim costs goes against the long-term trend in the reduction of accidentology and the number of fatalities.**

Between 2000 and 2009, the number of fatalities in Europe has decreased by 38%. The number of injuries has decreased by 20%, as shown in the chart hereafter.

**Figure 21: Number of road accidents and injured in Europe (in thousands)**



Source: European Commission (Directorate General Energy and Transport)

The increase in claim costs can be attributed to three main factors, described thereafter.

### **a. Repair costs**

The claim costs for motor insurers have been rising steadily across Europe and this is in part due to the rising prices of spare parts and repairs.

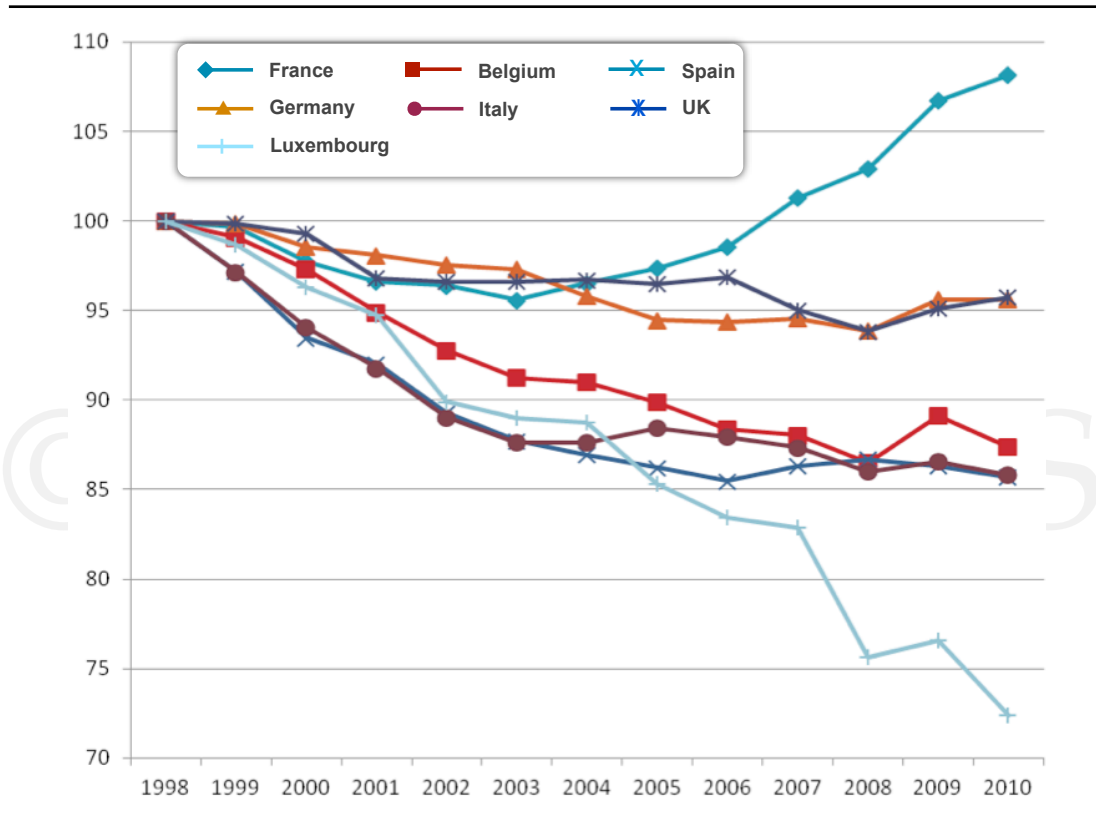
It is estimated that automotive OEMs generate up to 25% of their net income from spare parts. They leverage the fact that competition virtually does not exist in this market as the customer cannot choose its part supplier. **The prices of spare parts have increased by 22% on average in the last decade** in the European Union.

However, the EU market is not uniform in that respect.

In **France**, the price of spare parts (excluding tyres) has increased by 25% between January 2005 and October 2010 - as shown in the chart thereafter. In addition, 85% of bodywork repair revenues are generated by insurance claims and the repair centres controlled by car makers generate 53% of the sector's revenues.

This has led the French Competition Authority to launch an investigation and a public consultation on the subject in April 2012.

**Figure 21: Price index of automotive spare parts & accessories (in thousands)**



Source: Eurostat (Prices in real terms)

Unless public bodies mandate an open market for spare parts, this trend is likely to remain.

Manufacturer-run workshops tend to be more expensive than others and as such insurers discourage their customers from using them.

In certain countries, such as the UK, spare parts' prices have now grown but general repair and maintenance prices have increased very fast - 50% more than inflation between 1998 and 2010.



To counter this, most motor insurers are now tying up with certain "preferred partners" in order to cut down their claim costs. This is the case of Pacifica, Generali, Aviva, Th  lem Assurances, and Sogessur, which have partnered with Assercar in France. The five insurance companies have even taken a stake in the company's capital.

**Figure 22: Five insurers have partnered with Assercar in France**

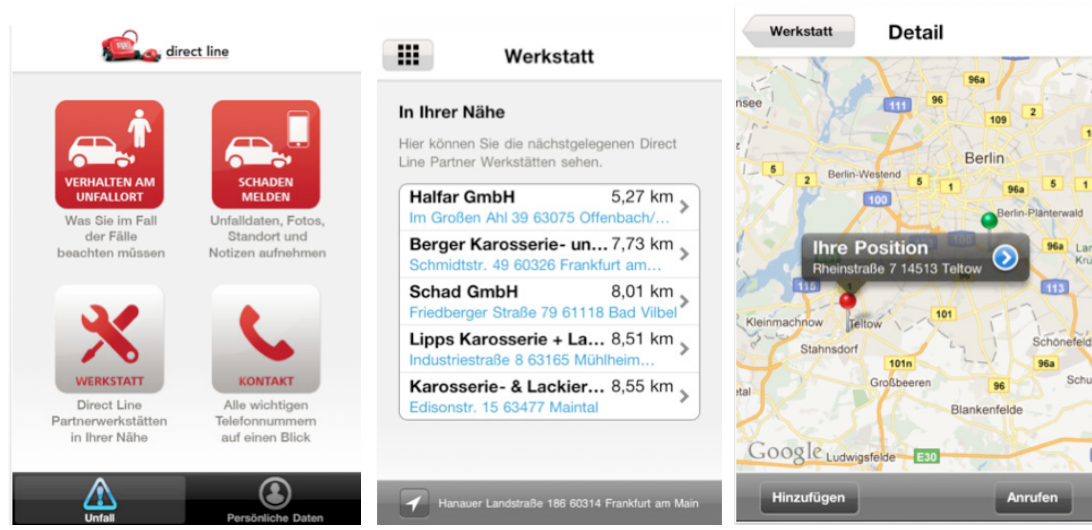


Source: Assercar

However, promoting the use of these partner networks remains a challenge, notably because insured customers tend to go the closest garage (or the garage they are used to) when they have an accident.

This explains why numerous insurance houses have launched mobile applications that notably guide their customers to the nearest certified repair centre.

**Figure 23: Direct Line's mobile application helps German customers find partner workshops**



Source: Direct Line Germany



**b. Personal injury claims**

Despite the decrease in the number of injuries during the last decade, personal injury claims have risen dramatically in certain countries in Europe in the last decade, most noticeably in the UK, France, Poland and Italy.

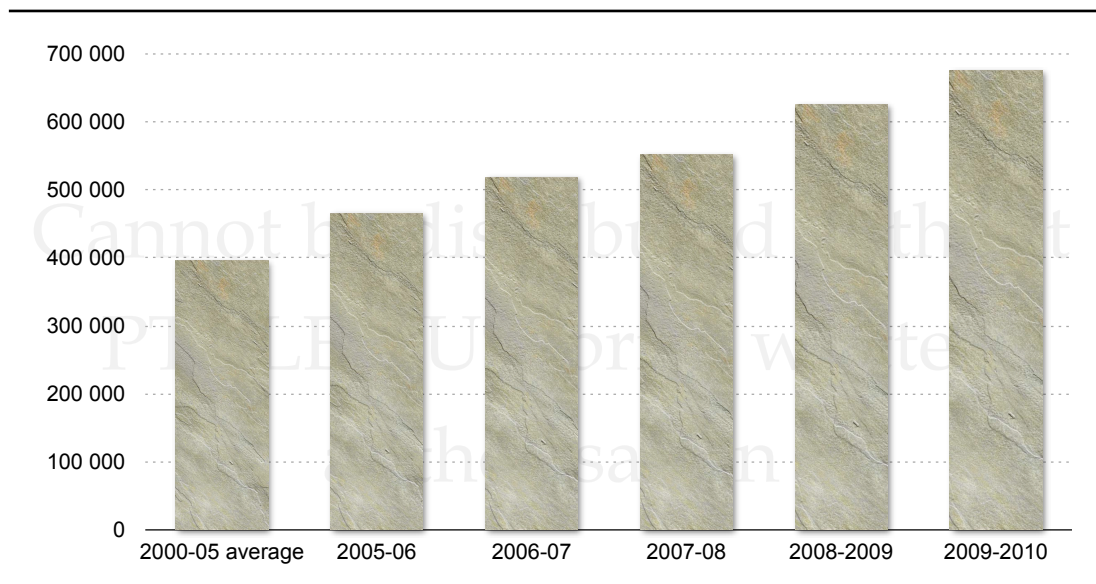
Personal injury claims in the EU grew by an average of 2.3% per annum between 2003-2006 and represented about 14% of all motor insurance claims. However, in certain countries such as Italy, they accounted for almost 22% of all claims.

In the UK, the increase in personal injury claims despite the simultaneous fall in the number of accidents is being attributed to the increasing preponderance of **claims management companies**. It has become much easier for a claimant to seek compensation for personal injury through these firms. A large number of these solicitors also work on a contingent fee, better known as "no-win, no-fee" basis, which provides an incentive for them to seek exaggerated and even fraudulent claims.

While certain insurance companies have severely opposed these firms and some of their business practises (such as referral fees), there can be no doubt that they have also helped the public in claiming their right to compensation for injury.

Data from the Compensation Recovery Unit in the UK shows that the number of personal injury claims from motor accidents has grown by almost 10% annually.

**Figure 24: Motor injury claims have increased by 70% in just 5 years in the UK**

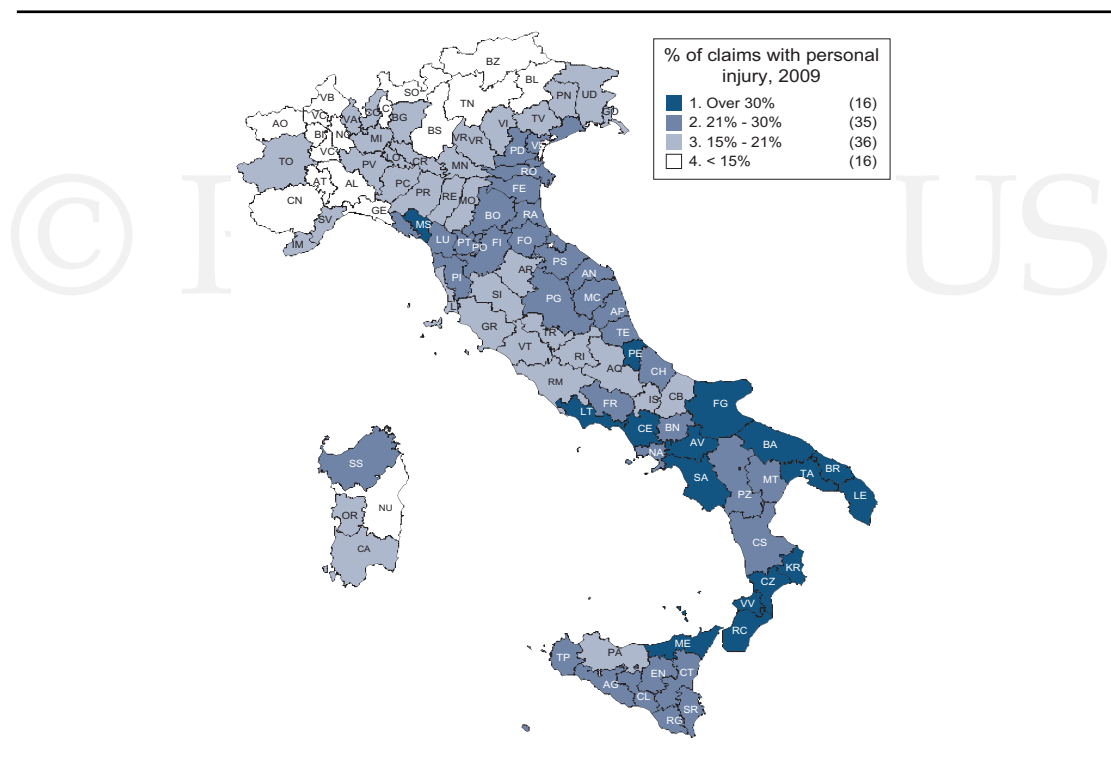


Source: Compensation Recovery Unit, UK

In **Italy**, the situation has become even more worrying.

According to ANIA, the Italian insurance association, personal injury claims have become a major issue, representing **two thirds** (€9 billion) of **total damages paid**. Bodily injury claims represented 21.7% of all claims in 2009, about 10% more than the EU average. In certain areas, it even exceeds 40%, clearly indicating fraud.

**Figure 25: Share of motor claims with personal injury in 2009 (in % of total claims)**



Source: ANIA

Since personal injuries typically involve significantly higher claim expenditures for the insurer, an increase in the proportion of these claims results in higher total claims expenditures.

According to CEA estimates, personal injury claims account for about 14% of all claims recorded by European insurers but represent **more than 50% of all claims expenditures**.

This is verified by examining figure from individual countries such as **Belgium** where personal injury claims accounted for only 9% of all personal motor claims in 2009 but they accounted for 48% of total claim expenditures...

On average, a personal injury claim costs **three times the average cost of all claims**.

**c. Fraud**

Motor insurers have been reporting increased instances of fraud in the last 3 years. The Insurance Fraud Bureau has estimated that fraudulent organised motor insurance claims cost insurers about **£350 million a year in the UK**.

Fraud includes fraudulent claims, staged accidents, phantom passenger claims and underwriting frauds i.e. non-disclosure of information or false disclosure in order to get a more favourable rate of insurance premium.

Whiplash injury claims in particular have drawn the ire of insurers who believe they are often used for fraudulent and exaggerated claims.

For example, actuaries know that adults have rising accident rates when they reach the 45-55 age bracket. This is because parents often take out motor insurance on a car in their own name despite the car being primarily driven by their 16-25 year old child.

Despite their best efforts, insurers are yet to find an effective solution to tackle fraud. We will cover this in more depth in Section VI.A.1.

**4. Limited investment income**

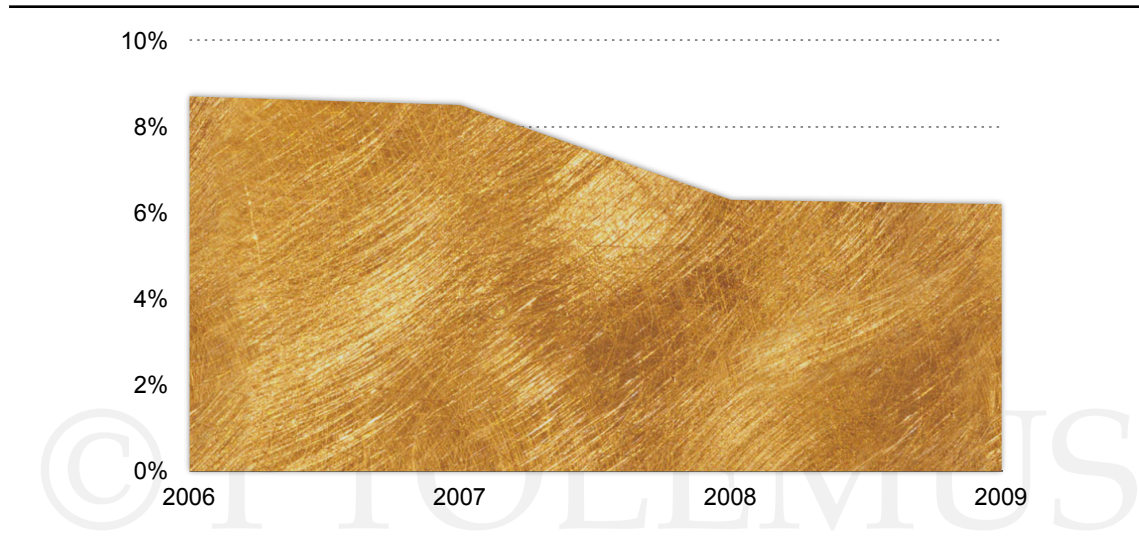
With insurance underwriting being largely unprofitable due to the high price competition and market stagnation, motor insurers have come to rely on income from investments to stay profitable.

Due to the financial crisis however, insurers have seen returns on their investments drop significantly after 2007.

This is confirmed by the recent results of the French motor insurance industry, which have seen net financial income as a percentage of net premiums drop from 8.5% in 2007 to 6.2% in 2009. This is shown on the next chart.

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**Figure 26: Financial income no longer healthy for French insurers** (Net financial income as % of net premium)



Source: FFSA

**Since 2009, the situation has again deteriorated** due to the bad performance of stock markets and uncertainties around sovereign debt risks. For example, Admiral reported an investment income of 1% in 2010.

The impact of this fall will be more pronounced on insurance companies predominantly focused on the motor car market such as the Admiral Group and AutoDirect who cannot cross subsidise the losses against other insurance businesses.

To make the situation more complex, since the 2008 financial crisis, all insurers have been affected by a decrease in the growth and sometimes a decline in collected life insurance premiums.

This puts even **more pressure on re-establishing profitability** in their motor insurance business.

## 5. The advent of online distribution

In numerous countries, direct online distribution has significantly altered the playing field for insurance companies.

For example, **43% of private car insurance sold in the UK in 2010 was through direct channels** such as telephone and the web. In France, the FFSA reports that 45% of motor insurance was sold by insurers directly to consumers.

Online price comparison websites such as comparethemarket.com, confused.com and assurand.com have served to increase transparency and direct competition between insurers. As product differentiation between insurers is minimal, price comparison has become easier.

Furthermore, when purchasing through these online comparison websites, customers may not pay the same amount of attention to the details of each policy and the service quality and the price differences between insurers get highlighted. It also makes the customers self-select the appropriate policy, which can sometimes lead to misinformed decisions, as they no longer receive the assistance of a specialist advisor such as the broker.

On the other hand, the Internet allows the insurers to directly distribute their products and facilitates more direct interaction with the end consumers.

## 6. Sustainability of the mutualisation model

The present model, based on the mutualisation of risks, no longer seems to serve well the motor insurance industry. It seems that **the industry is moving from a cyclical pattern to a more structural deterioration of business conditions.**

Claim costs continue to rise sharply while insurers are finding it difficult to raise prices proportionately due to strong price competition. This is confirmed by the French motor insurance industry, which witnessed a 6.6% increase in motor claims in 2009 while total premiums actually decreased by 0.2%. The motor insurance industry is becoming chronically unprofitable and as such it is imperative for insurers to devise new solutions to combat these market forces.

The present **mutualisation model** of motor insurance assigns customers into different risk classes on the basis of geographic and demographic characteristics. The level of risk of a particular customer segment is then determined by analysing historical claims data. Such a system incorporates a certain degree of **systemic error** as all members of a particular risk class are not homogenous in their actual risk exposure and it relies on cross-subsidisation to balance a relatively high-risk customer against a relatively low-risk customer.

The recent **Test Achats ruling**, also called "gender ruling", by the European Court of Justice is a big threat to the preservation of the mutualisation model as is. It is described in detail in Section II.B.3 of this report. In a nutshell, it forbids insurers to take gender into account as a risk factor.

This could significantly reduce the accuracy of current risk pricing models by preventing a difference between low-risk (women) and high-risk consumers (men) in a particular risk class. This in turn could incentivise these low-risk consumers to look at other pricing options or deter them from seeking insurance altogether.

**Product differentiation**, especially in MTPL, is **minimal** and although service has become a focus area for most insurers, customer touch-points are too few and far apart to have a big impact on purchase behaviour.

As a result, we expect strong price competition to continue in the foreseeable future. The high instances of fraud are also hurting the industry and thus far insurers have struggled to find a workable solution to combat this.

Therefore, we believe that **the present mutualisation model is no longer the optimum solution for the industry**:

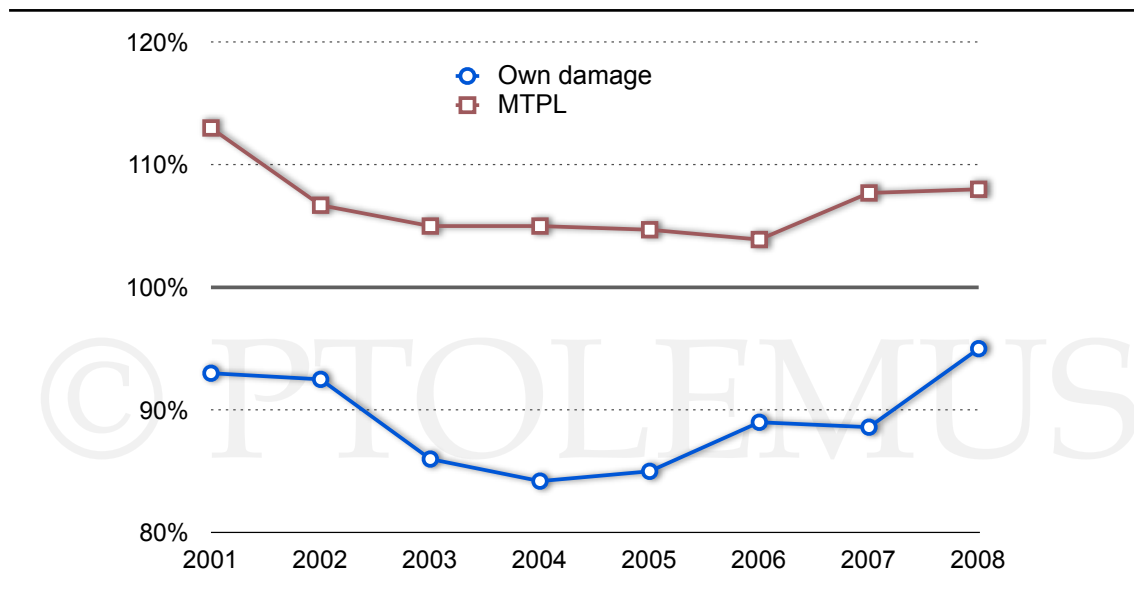
- Low mileage drivers pay for road warriors;
- Prudent drivers subsidise, to a certain extent, drivers that display an aggressive behaviour;
- Honest drivers pay for fraudsters;
- Better protected drivers (which take Own Damage policies) subsidise customers with minimal coverage (MTPL policies) and
- Last but not least, customers without cars pay for those who own a car (due to the fact that other insurance activities subsidise the loss making automobile insurance business).

Therefore, the **current system goes against fairness** but also against safety, against the preservation of the environment and even against a better protection against risks.

In our view, **this is not the most efficient model any longer**. Moreover, it is not sustainable. Such high levels of losses will be difficult to support in the long run as the profitability of other sectors deteriorate, notably life insurance.



**Figure 27: European motor insurance average combined ratio (in %)**



Note: Combined ratio = (Claims expenditure + operating expenses) / gross earned premiums on home territory  
Source: CEA

While the sector could initiate a large cost-cutting exercise (as has been the case in the Netherlands for instance), we believe that an improved evaluation of risks and a more active management of drivers' behaviours could offer significantly better prospects to insurers.

**In other words, the motor insurance offers favourable conditions for a change towards more modern methods of risk pricing.**

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