The Insurance Telematics Tsunami: a worldwide phenomenon

Presentation offered to readers of the Insurance Telematics Study abstract
PTOLEMUS is the first strategy consulting firm focused on telematics and geolocation

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, 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**
Our expertise is built on the diverse sectors we have served:

Telecom operators
- vodafone
- TIM
- Bouygues Telecom
- Orange
- SFR
- Sprint
- kpn

Telecom infrastructure providers
- Ericsson
- Nortel Networks
- TeleBilling
- Orga Systems
- androcn
- Alcatel-Lucent

Consumer electronics makers
- NOKIA
- Connecting People
- VIIZIO
- Motorola

Positioning solution providers
- CNES
- Andrew
- TechnoCom
- TruePosition
- ThalesAlenia Space
- Thales
- Sopico
- Nestor
- EGIS

OEMs & telematics vendors
- TomTom
- Toyota
- Qualcomm
- Evogi
- Philips
- Magell
- Lysanda
- BTN
- Qoros
- Peugeot
- Citroen
- Valeo
- Teli
- Siemens
- Cognizant
- SIEMENS
- COYOTE
- SafeFleet
- Octo
- Intel

Content & application providers
- ESRI
- ORACLE
- Comedi
- ArchiFiles
- BMJ Group
- INTERMAP
- NAVTEQ
- MICHELIN
- NAVTEQ
- Cognizant

Insurers & assistance providers
- Aioi Nissay Dowa Insurance
- MS&AD INSURANCE GROUP
- Aon general assistance
- The Hartford
- Vea
- Europ Assistance
- Desjardins
- RSA
- General

ITS operators & regulators
- Ansaldo STS
- European Commission
- European Union
- Nomad Digital

Financiers
- Leonardo & Co
- Hellman & Friedman
- Cinven
We recently published the Insurance Telematics study: the most comprehensive report written on the subject

- 410 pages of analysis on the PAYD / PHYD market based on:
  - 83 interviews in 18 countries
  - 230 figures (charts, tables...)
  - 2 years of research
  - Our experience & vision of the ecosystem incl. OEMs and TSPs

- Case studies & learnings from ALD Automotive, Amaguiz, Coverbox, Discovery Insure, GM OnStar, Hollard Insurance, Insurethebox, Liberty Mutual, MAIF-MACIF, Norwich Union, Octo Telematics, Progressive, Solly Azar, State Farm, Unipol, Uniqa, Zurich

- A handbook of suppliers' solutions including our own evaluation & ranking

- 10-year market forecasts
  - Countries’ readiness to telematics
  - Forecasts for the US, Italy, the UK, France, Germany and Russia

- Insurer's telematics market model results in 4 markets

- A complete set of recommendations to underwriters, TSPs, OEMs, MNOs and governments

- A strategic analysis of the value chain evolution including
  - The impact of eCall
  - The impact of the smartphone

Note: A free 60-page abstract can be downloaded from www.ptolemus.com/insurance
In this report, we analyze UBI opportunities by countries:

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All European countries will experience the UBI take off:

New telematics-enabled policies (in millions) in the European personal line market

Source: PTOLEMUS global market forecast model (www.ptolemus.com/insurance)
In Europe, regulatory drivers are creating the spark that will initiate / accelerate the take-off*:

Several measures are combining to form a chain reaction:

- The deployment of the eCall telematic device in all new type-approved passenger cars and LCVs** in the EU by 2015 will create a strong incentive for OEMs to leverage their investment to generate new insurance & diagnostics revenues

- The gender ruling, in place since January 2013 creates a new major anomaly that insurers will be able to correct only with telematics

- The deployment of ERA-Glonass*** Russia from 2014 will have the same effect than the e-call, in Russia

- The Monti law, which could make telematics a mandated offering for Italian MTPL insurers could boost the market by promoting early standardisation and bringing all insurers to telematics

Note: * Depending on countries; ** Light Commercial Vehicles; ***ERA Glonass: Equivalent of eCall for Russian market
Europe will remain the dominant UBI market in the personal line segment

Key local drivers

• The Italian and UK markets clearly stand out as highly attractive breeding grounds for telematic models and companies
  - High levels of fraud & theft and high car penetration in Italy
  - High level of fraud & churn, dominant role of the web channel and high car penetration in the UK

• Numerous other markets also have attractive conditions eg.
  - High mileage and claims frequency in Germany
  - High claims frequency in Austria
  - High average claims in Switzerland, Sweden & Finland

Source: PTOLEMUS UBI market forecasts
Motor insurance fraud has become an organized crime business in the UK and in Italy

- Italy is the country with the highest rate of motor insurance fraud in Europe.
The evolution of motor premiums in Italy and in the UK shows that markets are not efficient:

The 5 times increase in motor insurance premiums is a sign that the UK market is not efficient.

• In Italy, classical premiums are in average 58.1% higher than in the rest of the Eurozone (source: ANIA). This goes in line with a national average cost of claims far above the average, reaching 3658 euros. (Source: ANIA)
Germany has a very high claim ratio and claims are raising again

A very high claims ratio

Breakdown of premiums & claims in 2011

Gross written premiums
Gross claims

MTPL
Full own damage
Partial own damage
Motor accident insurance
We identified pricing opportunities for telematics in all 4 major countries

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<th>Markets</th>
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<th>Key pricing anomalies identified</th>
<th>Pricing opportunities for telematics</th>
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<td><strong>UK</strong></td>
<td>Age, Gender, Location, NCD status</td>
<td>Increase of claims, Pricing largely based on NCD status, Growth of fraud, Gender ruling, Fronting, Low mileage drivers / Second cars</td>
<td>Safe young drivers, Safe female drivers, 25-35 drivers, Fraud detector, Low mileage drivers</td>
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<tr>
<td><strong>Italy</strong></td>
<td>Age, Gender, Location</td>
<td>Increase of claims, Growth of fraud &amp; theft, Gender ruling, Fronting, Low mileage drivers / Second cars</td>
<td>Safe young drivers, Safe female drivers, 25-35 drivers, Fraud &amp; theft detector, Low mileage drivers</td>
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<tr>
<td><strong>Germany</strong></td>
<td>Age, NCD status</td>
<td>NCD status does not reflect lower risk, Gender ruling (Young women), Fronting, High mileage drivers, Theft</td>
<td>Safe young drivers, Safe female drivers, Safe 25-45 drivers with low NCD, Low mileage drivers, Theft detector</td>
</tr>
<tr>
<td><strong>France</strong></td>
<td>Age, Gender, NCD status</td>
<td>Gender ruling, NCD status does not reflect lower risk, High mileage drivers</td>
<td>Safe young drivers, Safe female drivers, Safe 25-45 drivers with low NCD, Low mileage drivers</td>
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European insurers have already begun jumping on the bandwagon, starting with policies for young drivers:
We expect the growth of the European commercial UBI market to be slower

**New telematics-enabled policies (in millions)**

Europe commercial line market

**Key local drivers**

- **The most attractive markets for commercial UBI include**
  - The UK, which has the highest penetration of fleet management systems
  - Benelux, for the same reason

- **In Europe, regulatory drivers will also play a role**
  - The eCall mandate by mid 2015 will fasten the penetration of telematics in LCVs
  - The ERA Glonass mandate by 2014 will have an even bigger effect in Russia as it will apply to both LCVs and HGVs
  - As tachograph start being integrated with FMS, the Tachograph regulation will push truck telematics
  - The mid-term effects of HGV road charging programmes being rolled-out in numerous countries on UBI remain unclear

- **However, Europe also has several barriers to fleet UBI**
  - More constraining social laws, with trade unions often having a de facto veto right
  - Lower acceptance of driver tracking in a professional context
  - Lower penetration of FMS than in the US
  - Only one insurer, Zurich, has deployed a major programme

Source: PTOLEMUS UBI market forecasts; Note: LCVs: Light Commercial Vehicles; HGVs: Heavy Goods Vehicles; FMS: Fleet Management System
In Europe, OEM's UBI policies will grow rapidly at the end of the decade but represent less than 20% of all policies in 2020.

Source: PTOLEMUS market forecasts model
As to date, UBI launches have mainly been in Europe and in the United States.
But Asia also has a rising interest in insurance telematics.
If we take the case of Japan: it is the world leader in terms of telematics penetration

Availability of telematics in car models (%, 2010)

- Embedded phone telematics
- Mobile phone telematics

**Japan**

**USA**

**Canada**

**Italy**

**UK**

**France**

**Germany**

**Korea**

**China**

Source: iSuppli
And Japanese insurance premiums are relatively high

Average premiums for voluntary automobile insurance (FY 2011, in €)

- Private passenger cars - Standard size
- Private passenger cars - Small size
- Private passenger cars - Light four-wheeled
- Average personal line
- Commercial passenger cars
- Light four-wheeled cars - Freight
- Private freight vehicle
- Commercial freight vehicle
- Average commercial line*

Average across all 78.6 million vehicles: €463

Note: * Does not include numerous special vehicles such as trucks, buses, etc.
Car OEMs are increasingly embedding telematics; Honda is one of the examples:

- The Internavi Linc is a new service (2011) that uses the information network of the Internavi Premium Club: an information service for the company’s vehicles, which enables its users to receive traffic information, maintenance information, a history of fuel cost, by using a PC, mobile phone or smartphone.

- **Services provided by Internavi:**
  - Real time traffic (VICS&Probe)
  - Traffic prediction
  - Roadside assistance
  - Real time earthquake and weather notification
  - Yahoo and Google local search
  - Eco driving information
  - One to one direct message

Source: Honda and the IHS
A number of foreign competitors present in Japan have already launched UBI offers in other countries:

- 19 foreign insurers are present in the Japanese motor insurance market

- Several of them, such as Axa and Zurich play an important role, eg. Axa Direct is the number 7 direct insurer

- **Zurich** has already launched its **Zurich Fleet Intelligence** programme in the US, UK and Germany, together with telematic service providers such as Greenroad or Qualcomm

- **Axa** has performed many trials and recently redefined its strategy with the objective of obtaining "telematic data" to improve its underwriting
The tsunami* is coming worldwide. Uncertainty is only about time.
Time for insurance telematics has come
Insurers will not be the only one to offer connected services

Numerous players will offer connected car services
Conclusion

Do you want to be the Kodak of your industry?

No one can afford ignoring the reinvention process of its own industry...
It is now time for all insurers & OEMs globally to prepare for the upcoming upheaval

- Insurance telematics has reached its tipping point
  - Gender ruling and eCall implementation in Europe
  - New technologies & business models
  - Chain reaction in one market after the other

- This is just the beginning
  - Panic will start with mass self-selection

- OEMs can make their eCall business plan from insurance telematics

- For auto insurers, this is about mid-term survival

Bridging the gap between ideas and realities
Conclusion

Do react, now...