

Summary

Executive summary

The integration of telematics technology constitutes the latest revolution for the automotive insurance industry. The concept of telematics is a portmanteau of telecommunications – long-distance communication – and informatics – the science of information. Telematics in general thus refers to the collection of information related to remote objects such as vehicles via telecommunication networks. The introduction of telematics technology in the context of automotive insurance is commonly referred to as usage-based insurance (UBI) or insurance telematics. Solutions of this type generally enable automotive insurers to improve pricing mechanisms based on actual driving data, gain better control of claims and differentiate their offerings to current and prospective policyholders. Variants of insurance telematics which have been popularised over the years include behaviour-based pricing models such as Pay-As-You-Drive (PAYD), Pay-How-You-Drive (PHYD) and Manage-How-You-Drive (MHYD).

The addressable market for insurance telematics is significant. A total of around 283 million vehicles were in use in EU23+2 in 2016, including over 247 million passenger cars. In North America, an estimated total of around 276 million vehicles were in use in 2016, out of which passenger cars and light trucks are estimated to represent almost 262 million vehicles. Some kind of basic automotive insurance is mandatory in most developed countries and there are in addition a number of subcategories of insurance that provide coverage for different types of unforeseen events involving motor vehicles. Motor gross written premiums in EU23+2 reached a total of over € 125 billion in 2015. The equivalent number for North America was US\$ 214 billion (€ 183 billion) in 2016.

The nascent insurance telematics market is currently in a phase of strong growth which is expected to accelerate in the coming years. Europe and North America so far represent the vast majority of all insurance telematics programmes and active policies from an international perspective, and the front-running national markets include the US, Italy and the UK. Berg Insight estimates that the total number of insurance telematics policies in force on the

European market reached 6.8 million at the end of 2016. Growing at a compound annual growth rate of 34.8 percent, the number of insurance telematics policies in force in Europe is estimated to reach 30.0 million by 2021. In North America, the total number of insurance telematics policies in force is forecasted to increase from an estimated 7.0 million policies at the end of 2016 to reach 35.2 million policies by 2021, representing a compound annual growth rate of 38.2 percent.

In the US, the top three insurers in terms of UBI policies have all introduced smartphone-based solutions to supplement or replace the previously used OBD dongles. Several US and Canadian insurers have during the recent year re-assessed and re-launched their telematics programmes. The European insurance telematics market is still dominated by insurers in Italy and the UK, with an estimated 5.3 million and 0.79 million policies respectively. Uptake on all other markets is considerably lower, with between 50,000 and 100,000 policies in Spain, Germany, Austria and France, and between 20,000–30,000 policies in Benelux, Switzerland and Scandinavia.

The insurance telematics value chain spans multiple industries. Insurers with notable presence in the insurance telematics market include Progressive, UnipolSai, State Farm, Allstate, Generali, Allianz, Admiral, AXA, Liberty Mutual, Intact and Insure The Box. Insurance players can either develop telematics programmes independently or rely on partners to varying degrees. Renowned telematics suppliers active in the insurance field for example include Octo Telematics, Vodafone Automotive, Viasat Group and LexisNexis Risk Solutions. Intelligent Mechatronic Systems, Cambridge Mobile Telematics, The Flow, TrueMotion, Modus and Scope Technologies are also notable players on the market. Automotive OEMs are increasingly taking an active part in the ecosystem. Examples include General Motors, Ford, Renault-Nissan, BMW, Daimler and Fiat. The insurance telematics market has seen significant M&A activity in recent years, involving diverse players from many parts of the ecosystem. Notable deals in 2015 include Generali Group's acquisition of the UK start-up MyDrive Solutions and CCC Information Services' acquisition of DriveFactor. In 2016, Willis Group and Towers Watson merged and Intact Insurance made an investment in Metromile. Later in 2016, Metromile acquired Mosaic Insurance. In 2017, the most noteworthy deal was Octo Telematics' acquisition of the UBI assets of Willis Towers Watson.