

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 communications – and informatics – the science of information. Telematics in general thus refers to the collection of information related to remote objects such as vehicles via telecommunications 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 299 million vehicles were in use in the EU23+2 in 2017, including over 259 million passenger cars. In North America, an estimated total of around 286 million vehicles were in use in 2017, out of which passenger cars and light trucks are estimated to represent almost 271 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 € 132.3 billion in 2017. The equivalent number for North America was US\$ 231 billion (€ 204 billion) in 2017.

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 10.3 million at the end of 2018. Growing at a compound annual growth rate of 36.0 percent, the number of insurance telematics policies in force in Europe is estimated to reach 47.9 million by 2023. In North America, the total number of insurance telematics policies in force is forecasted to increase from an estimated 10.6 million policies at the end of 2018 to reach 49.8 million policies by 2023, representing a compound annual growth rate of 36.2 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 North American insurance carriers are also exploring claims-related insurance telematics as well as adding distracted driving parameters in UBI. The European insurance telematics market is still dominated by insurers in Italy and the UK, with an estimated 7.7 million and 1.2 million policies respectively. Uptake on all other markets is considerably lower, with between 150,000 and 300,000 policies in Spain, France and Germany, and 40,000–70,000 policies in Scandinavia, Switzerland, Austria and Benelux.

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. Targa Telematics, Redtail Telematics, Trak Global Group, Cambridge Mobile Telematics, The Floop, TrueMotion, Modus, CalAmp, Mobile Devices and Scope Technology are also notable players on the market. Automotive OEMs are increasingly taking an active part in the ecosystem. Examples include General Motors, Honda, Renault-Nissan, BMW, Daimler and Hyundai. 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 2017–2018 include Octo Telematics' acquisition of the UBI assets of Willis Towers Watson including the DriveAbility Score and Trak Global Group's acquisition of IMS.