Advisory topic: Telematics

Industry Maturity Index: ***Now***

Why this is important: The insurance industry is using telematics devices to gather data about the behavior of its customers, whether it is driving, home activities or other behavior that impacts the customer's insurance policy. This valuable information is already being used by some insurers to assess risks and establish appropriate premiums. It has been used in commercial fleet situations for several years and is now becoming more commonplace in the personal lines arena. Technology advances will continue to substantially improve the cost, convenience and effectiveness of telematics devices.

What is it? The textbook definition of ***telematics*** is the branch of information technology that deals with the long distance transmission of computerized information. It is a general term that refers to any device that gathers and transmits data in real time. In the insurance industry it has come to mean data about behavior that affects insurance premiums and acceptable level of risk. Telematics can be applied to tracking and diagnostics such as driver behavior, fuel management or maintenance scheduling, but it also includes GPS and navigations systems. Auto policies with premiums based on the telematics data is also referred to as *usage-base insurance.*

Broad Implications / Uses:

- More accurate assessment of risk and pricing – better drivers pay lower premiums, adversely data collected on less-than-perfect drivers results in higher premiums. This results in spreading the premium dollars more fairly.
- Behavior modification, particularly youthful drivers
- Benefits to driver: More accurate data in claims situations
- Auto: telematics attached to the vehicle not the driver – multiple drivers makes it difficult
- Lack of a clear regulatory and consumer protection framework
- Concerns about hacking
- Concerns about using personal data for other purposes beyond insurance rating
- What happens to data collected with consumer is no longer a customer of a certain carrier? Is data destroyed?

Economic Impact(s):

- More competitive markets.
- Telematics provides consumers with the ability to control their insurance costs.
- This is poised for rapid growth in the United States. Studies estimate that 40-to-70 percent of all auto insurers are expected to use telematics by 2020.
- Potential savings to insurers for reduction of loss exposures.

Insurance Industry Implications:

- Telematics has the potential to create more competition, promote loss prevention and result in more accurate and fair pricing.
- Carriers must overcome the privacy and security questions before they will obtain bigger consumer buy-in.

- As innovation grows in the insurance sector, more and more carriers will be using telematics for home & auto insurance, shifting traditional underwriting processes to more "black box" underwriting.
- PAYD (Pay as you Drive) and PHYD (Pay How You Drive) models are already out there.

Recommended Actions:

Agents -

- Be familiar with insurers who offer telematics and the potential premium savings available
- Educate customers on the benefits and potential pitfalls of telematics.
- Ensure consumers understand how data is being used by the carriers.

Carriers -

- Insurers should obtain consent before collecting telematics data from consumers.
- Data collected should be portable and standardized.
- Carriers should be transparent on how data is being used – privacy & safety concerns.

Consumers -

- Consumers should have ownership of, control of, and access to the data collected by telematics devices.

Examples/Resources:

NAIC - "Usage-Based Insurance and Telematics"
NAIC - "Usage-Based Insurance and Vehicle Telematics: Insurance Market and Regulatory Implications"
Verisk - "Insurance Telematics: What is it? And why we should care?"
SAS Telematics - How Big Data is transforming the auto insurance world
IIABA whitepaper on "The Use of Telematics Data for Insurance Purposes" *(TBA - still under development)*

Evolving Technology Caution:

Technology advances will continue to substantially improve the cost, convenience and effectiveness of telematics devices. However, as this technology evolves there are also increasing risk for "hacking" and other exposures that can affect safety and security.

Call to Action:

- Be familiar with insurers who offer telematics and the potential premium savings available.
- Educate customers on the benefits and potential pitfalls of telematics.
- Ensure consumers understand how data is being used by the carriers.

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