

Vehicle telematics will change the world of motor insurance pricing

By Peter Franken and Niels van der Laan

Without a doubt vehicle telematics will have a big effect on the insurance industry. Actually, it already has. But before we go further into details, let us first explain what we mean by telematics. Wikipedia defines telematics as typically being any integrated use of telecommunications and informatics: "The technology of sending, receiving and storing information via telecommunication devices in conjunction with affecting control on remote objects". Strictly stated, the term has evolved to refer to the use of such systems within road vehicles, in which case the term vehicle telematics may be used.

So how do telematics already affect our daily lives? In the broadest definition of tracking remote objects, receiving and storing information, the use of social media like Facebook/Twitter and also the use of a cell phone is already well established in our daily routines. Many people are willing to tell the world where they are and what they do. Even if people don't share it deliberately, information is collected and used for all kind of commercial purposes (think for instance of the advertisements on Google which are based on your search history).

Open to sharing

Although privacy is a hot topic, people share more and more of their personal life to the outside world. We believe this is a trend that will continue. Within 10 years many of us will probably be sharing information even more easily than today. And even though there is also a lot of resistance to these developments, in general we are getting more used to the fact that we can be followed and

tracked anywhere. With sufficient guarantees that our information is not 'misused', we think that many of us will be open to sharing certain personal information such as our location at any moment in time.

Back to vehicle telematics: what does this trend mean in relation to insurance, and more specifically, motor insurance? Are people willing to share information about their driving behaviour in return for a lower price? How rapidly will telematics be used to influence current motor insurance pricing?

Trust

In our view, the market will move in the direction that telematics becomes commonly used in non-life pricing. However the question is how rapidly people are willing to embrace vehicle telematics. It's not the technical side that is the critical factor for the speed at which this evolves. We are already technically capable of implementing it. If policyholders are willing to share more detailed

information on where, when and how they drive, insurers will be able to take that into account in their tariffs resulting in more differentiation with reduced prices for the better drivers and increased prices for the malicious ones. In our view the critical factor for success of vehicle telematics will first of all depend on the trust people have in insurance companies not misusing the data and secondly the difference in price (partly as a trade-off for the risk that the insurer will actually misuse this trust).

Common practice

As a result of the financial crisis, trust in the financial industry

including insurers is low, which takes time to overcome. Although in the US and UK the market for telematics is slowly developing, especially for specific groups of insured such as younger drivers, we don't expect telematics to take off significantly before trust is restored. In the meantime each insurer will need to form a view on how and when to start using the existing potential of vehicle telematics in their day to day business. In our view it is not so much a question of whether telematics will become common practice in motor insurance pricing, but when.

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