

# Connecting Cars to Insurance The New Data Broker

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## The Time for Telematics is Now

Until very recently, the costs of having a telematics device installed in a car limited take up, but the use of smartphone apps has encouraged insurers, brokers and aggregators to take an initial stab towards incorporating this into existing offerings through broker offerings or partnerships with a number of niche telematics players.

The increasing number of connected cars means insurers can expect to receive similar data, without the hardware and operational costs of a telematics device or the vehicle association difficulties of the smartphone. There has been rapid growth in connected car adoption – since 2013, in the U.S. and U.K. alone, connected cars are estimated to be growing their share of the car parc at 10 per cent per annum, while China is experiencing growth of 25 per cent per annum. By 2020, it has been estimated that 250 million vehicles, or one in every five cars on the road, will have some kind of wireless network connection.

## Telematics Data as an Enabler in Insurance

Regardless of whether telematics usage based insurance (UBI) is offered using data collected by car manufacturers through the connected car, the telecom through the phone network or third party apps on smartphones, it represents a huge opportunity to insurers and aggregators. Global Positioning System (GPS) devices produce a data record every second.

However, it is the granularity of data from the connected car that will be game-changing, as it will allow insurers to offer personalised premiums (and additional products and services) based on a more acute understanding of the risk and lifestyle factors posed by each customer's driving behaviour.

### A New Approach to Pricing

The data that is supplied from connected cars provides an objective history (untainted by customer trip recording bias of smartphone data) and can be accessed by the insurer instantaneously at the point of

quote. For aggregators, this makes it the pivotal data set that will give aggregator quotes that competitive edge in an environment where the existing questions posed to potential customers only supply part of the answer.

### A New Way to Measure Risk

Insurers used to rely on a world of proxy factors correlated with claims outcomes but which do not accurately pinpoint the root causes that led to an accident in the first place. Telematics data, on the other hand, provides information about the actual state of the risk at each point in time, making the discovery of the root cause possible.

With data this granular, examining the data generated by a customer over the policy period alone, however, will be very limiting as it only gives a sum of the exposure to a claim. By analysing telematics data in conjunction with maps (road network and relevant attributes), weather data, traffic flow statistics and other data sources, insurers can start to examine risk factors in a far more individual and granular way.

For instance, suppose that Mr A and Mr B have a similar risk profile from a traditional perspective. They live next door to each other in the suburbs and both drive around 12,000 miles per year. An insurer might be tempted to offer them the same motor insurance rate (other details being the same). However, the data reveals that Mr A does a daily commute to the capital city in the rush hour, plus some extra business miles, whereas Mr B works from home, and has a passion for visiting his holiday home by the seaside each weekend. With this additional information, insurers are likely to reassess and decide that these people were very different risks.

By finding the patterns in the detail and then testing their significance on perils like collision and theft, underwriters can put together insurance ratings with far more confidence. The insight generated by new data matching will also be invaluable for creative product and service development as well as for enhanced marketing activity.

### Prevent Loss

Forward facing radars together with the connection



of the vehicle to infrastructure, give connected cars the ability to see around corners and other cars, meaning that crashes can be prevented with seconds to spare. Traction control systems can sense slippage on a wheel, and the car can send data to other cars approaching that location, warning other drivers of the hazardous conditions.

These will not prevent the customer from getting into a car when inebriated, or stop theft, but they can influence the incidence of claims and prevent losses accumulating.

## Four Areas that Insurers Need to Address to be Successful in Telematics

### 1. Data Quality

Insurers will need to find a way to get access to all of the telematics data, not just a subset of it. For insurers, this means partnering with either the car manufacturer or the telecoms service provider. Such partnerships are still in their infancy, and there are many areas where 'best practice' business relationships are not yet clear.

Many telematics providers have focused on the device engineering or data transport Telematic Service Providers (TSP) services, and typically framed their design around the historic needs of the theft tracking business case. This has led to cutting corners on the data collection, and a dumbing down of the data stream produced, purely for the purposes of keeping costs

low without any consideration for alternatives that could maintain the business value of the primary use case - insurance.

Take telecoms companies for instance. As a data transport provider they would view the acquisition of part of the telematics value chain as a growth strategy. They could expand into data hosting as a transport hub for various connected car services. However, their lack of expertise in the device, installation and service delivery areas will cause them to outsource many components of this value chain with an unpredictable impact on data quality.

### 2. Telematics Data in Isolation will Yield Limited Insights

Understanding how one customer's driving behaviour might impact the risk factors is just one aspect of telematics data. The true value of the data lies in its ability to inform other business aspects. When telematics data is analysed in the context of location-based datasets for the driving environment, for example, it is then possible to accurately associate the driving behaviour and resulting claims risk to build a much more predictive model. That is when insurance companies can really put together a valid pricing strategy that makes sense.

### 3. Customer Trust and Privacy

How customer data is handled is central to maintaining trust and reputation for the insurer - telematics data is no different. Customer attitudes towards sharing their data seem to be softening as customers get



interfaces in the connected car, all jostling for strategic control of the customer – through data.

If the insurance industry does not have a strategy around dealing with the data from telematics, the likes of Google Android Auto and Apple CarPlay could be well placed to snatch away the data controller and aggregator roles, relegating the insurer to a position of wholesaler.

In the extreme, the policy year could cease to be the unit of risk, and the car takes on the role of broking each and every journey based on flight paths and occupancy. Insurer A may take the motorway sections, Insurer B the urban physical damage and insurer C the liability umbrella. Administration of this in the old world would have been unthinkable, but now the technology means it is just a click away.

## The Telematics Race

While telematics data is all the rage, it is just part of a bigger data puzzle that the insurance industry needs to piece together.

In using and analysing telematics data in combination with other data sources, and putting those insights into the hands of those managing the day-to-day operations of an insurance provider, the right decisions can be taken at the right time – for the benefit of customers as well as the company. Success in building the operational capability to manage new data is what will enable insurers to maintain their competitive edge against a threat landscape of new market entrants, evolving partnerships, and changing business models.

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used to having smartphone devices that allow tech giants like Apple and Google and Telematic Service Providers (TSPs) to track their location. Many people are also happy to share their buying behaviour with supermarkets and search activity with Google.

This change in customer attitude could give aggregators for the insurance market (the consumer champion brands), and Apple and Google (for the apps market) an advantage as customers are already willing to entrust their personal data to these data brokers.

In order to build trust with customers, however, insurers will have to demonstrate that they can store, manage and use the data in line with industry and national data protection regulations. Sensitive information such as vehicle location and speed will need to be kept securely and shared only if the consumer has opted-in to share it.

## 4. Threat of New Market Entrants

The telematics space is shaping up to be a crowded battleground with automotive manufacturers, telecoms and tech giants that provide the platforms, apps and

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EB9202 10.15



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