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A Strategic Approach to Insurance Telematics

By aligning telematics programs closely with existing business strategy, insurance CIOs at small and midsize carriers can create telematics initiatives that are more effective, affordable, and manageable.

The auto insurance industry is on the verge of a quantum shift as more companies launch telematics and usage-based insurance (UBI) programs to incorporate individual driving habits into their risk selection and pricing practices.

Telematics—the use of advanced technologies that make it possible for sensors installed in cars or on applications on a driver's smartphone to gather data on driving habits—can help insurers create statistically accurate risk profiles, and match premiums more closely with actual risk, among other objectives.

While three of the largest national auto insurance companies are planning to introduce telematics programs nationwide by early 2014[1], some midsize and small insurers are finding the task of collecting and managing tremendous volumes of behavioral data daunting. Moreover, the complexity and cost of creating the models and capabilities required to analyze telematics data, and incorporate the output into current underwriting and business systems (e.g., marketing, rating, underwriting, billing, and claims) can tax IT and budgetary resources.

"These challenges have kept some insurers on the sidelines, which may put their CIOs in an uncomfortable position," says Andrew Goldberg, a director at Deloitte Consulting LLP. "Some companies may have insufficient resources to undertake initiatives comparable in scale and complexity to those currently being developed by larger insurers. This sets the stage for significant industry disruption as the largest insurers siphon off the best risks with pricing discounts, and leave other firms with the highest risk, highest cost customers."

In the face of growing interest within the industry and among customers in telematics and UBI programs, insurance CIOs—collaborating with business leaders—can jump-start telematics initiatives by aligning them with existing strategic goals. This step can help refine both their pilot programs and larger telematics initiatives, and make them more flexible, incremental, and cost-effective. "This process can help all companies—but particularly those with limited resources—streamline and focus their approaches before rolling out new telematics offerings to customers," says Bob Hirsch, a director with Deloitte Consulting LLP.

Overcoming Telematics Hurdles

According to Sandeep Puri, a director with Deloitte Consulting LLP, insurance carriers of all sizes are either launching or taking steps to launch insurance telematics pilot programs. Their goal, he says, is to understand what behavioral data reveals about their current risk and risk estimation methodologies. "Given

the cost, complexity, and data volume needed, relatively few small and midsize firms have gone on to launch full offerings, which could soon place them at a competitive disadvantage," says Puri.

Hirsch suggests that to overcome the operational and technological hurdles that stymie many telematics efforts, CIOs and stakeholders consider the following steps:

Focus on existing strategic objectives. As is often the case with emerging, potentially disruptive technologies, some companies may be tempted to tailor their business or product strategies to a solution's capabilities. Bad move, says Hirsch. "It is critical that telematics contributes to existing corporate objectives; otherwise, resources, systems, and managerial attention will be squandered pursuing ill-advised strategies, which can lead to initiative failure."

If, for example, an insurer wanted to attract low-risk drivers by providing a discount structure that rewards customers for good driving habits, it would design telematics systems and processes to support a usage-based business model. In this model, data flows one way, from a car to the company, where it is then stored and analyzed to determine a discount level. Moreover, this model could be extended to support other existing business goals as well. If another of the insurer's goals involved boosting its web presence, it could use its website, mobile apps, or social media to deliver feedback to customers on their driving habits.

"Taking this preliminary step of working with business stakeholders to determine how they want to use telematics to engage customers, and how that supports specific strategic objectives, can help CIOs create flexible, streamlined pilots as well as test the data management and analytics expertise they will need to run successful programs," says Hirsch.

Explore options for data sharing. To share costs and remain competitive, midsize and small insurers may eventually look for ways to standardize collection and management models in order to pool telematics data. In this approach, differentiation would come from how an insurer leverages data, not from how it collects it. According to Gartner Inc., "advancements and consolidation in the solutions market, which today is fragmented and diverse, as well as future business process outsourcing (BPO) services, will allow small to midsize insurers to offer pay-as-you-drive products without these substantial infrastructure investments."[2]

Monitoring the Digital Future

While a handful of large insurers currently lead the industry in telematics capabilities, advances in mobile, analytics, and cloud technologies will make it easier for smaller players to develop and implement telematics models that may level the playing field. By taking steps now to harness the disruptive power of telematics, smaller insurers can develop capabilities and expertise that will be critical if they hope to remain competitive.

Insurers can also position themselves to take advantage of future opportunities. "Auto insurance telematics is really about monitoring an individual's behaviors," Puri observes. "Correlations likely exist between how someone drives and what they may be interested in buying or how they maintain their home. By analyzing data provided by a growing variety of sensors—from wrist health monitoring devices to product and in-home sensors—we can gain valuable insights into consumer behavior and developing trends."

"Insurers need to develop telematics expertise and the ability to manage large amounts of this behavioral

data now," adds Goldberg. "Being able to gain insight into how a person 'thinks' will likely have implications for other lines of insurance, including homeowner's and small business insurance, life, disability, long-term care, and health insurance more broadly."

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[1] Nguyen, Charles. "State Farm's Usage-Based Insurance Program Grows Rapidly." Online Auto Insurance. January 24, 2013; Allstate Corporation Press Release. "Allstate Adds Six More States to Usage-Based Insurance Program." April 15, 2013; Ruquet, Mark. "Progressive to Reintroduce Free Snapshot Offer after Lackluster Debut." Property Casualty 360, March 15, 2013.

[2] Weiss, J, Harris-Ferrante, K, Leigh, S, and Haner, J, Predicts 2013: The Nexus of Forces Will Lead to Further Digitization of Insurance Value Chains, Gartner, November 27, 2012.

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