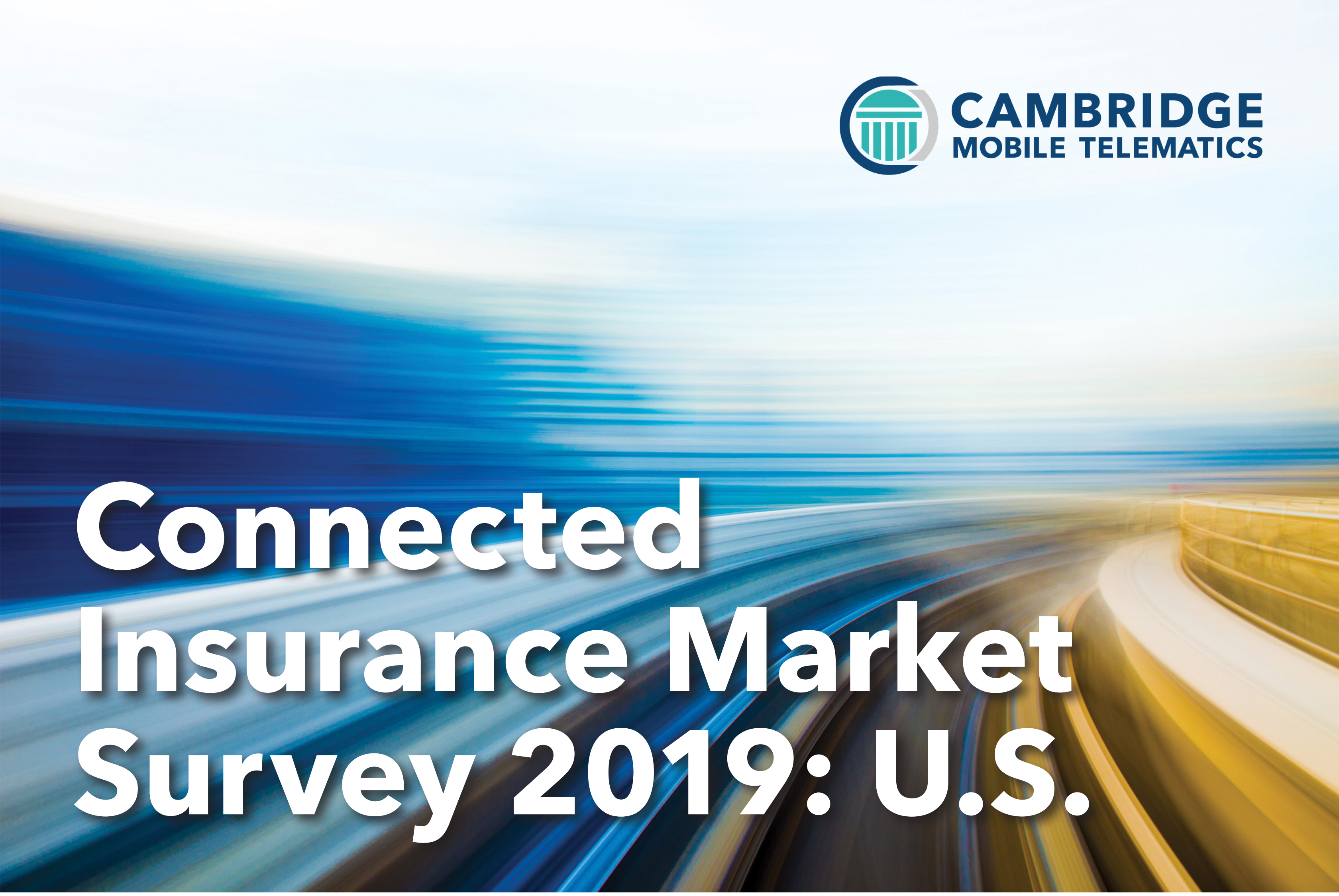


CAMBRIDGE MOBILE TELEMATICS

Connected Insurance Market Survey 2019: U.S.

Analysis of American consumer attitude toward mobile telematics

How including safety in your Usage-Based Insurance value proposition matches your customer's expectation

May 2019

Introduction

Revolutions in artificial intelligence have granted the insurance industry access to some of the most sophisticated **tools that reduce accidents**, improve risk selection, boost customer satisfaction, and reduce fraud.

Technology has enabled a **closer insurer-customer relationship**; however, there is a gap between the capabilities that are available to insurers, what consumers want, and what is in the market today.

At the same time, **vast new datasets** are now available to insurers and a driver's risk data has never been so accurate, granular, and personal.

As technology advances, the future solutions and challenges of car insurance are **colliding in the mobile space**. The customer relationship will increasingly be managed through an app with a growing set of features and services: this is **connected insurance**.

These are still early days. A major opportunity exists between the number of consumers who would participate in a connected insurance program and those who have been offered one at point of sale.

In this report, we examine **consumer attitudes** towards this new concept of connected insurance, and how it has changed from 2017 to 2019.

We also looked at the options for insurance carriers to develop tomorrow's connected offerings. In this survey report, we discuss:

- An analysis of how consumers view **insurance pricing** today, and how they would prefer to be rated.
- The background of consumer views and fears associated with **sharing driving data**.
- How to **move past roadblocks** that have impeded growth of telematics programs in the past.

PLUS, strategic takeaways on:

- How technology can unlock **new business models** matching consumer expectations with carrier return on investment.
- How communication on **specific features** can dramatically enhance adoption.

Executive summary

- The top two business values of telematics insurance models - **drivers self-selection bias** and **pricing segmentation advantages** - are generally well understood by insurers.
- A few insurers have already gone beyond the first steps. Embracing TBYB programs as a sales tool and using continuous monitoring apps to improve driving behavior, they have unlocked increased retention and direct **financial performance success**.
- Yet, **wide-scale adoption** of telematics-based insurance programs remains elusive for the majority of insurance carriers. This survey identifies the components that have hindered that adoption by **comparing consumer attitude** towards insurance pricing, communication, and value proposition with **features** and **outcomes** consumers find attractive.
- The bottom line is that connected insurance programs **require driver engagement** both to sustain **improvements in driving behavior** and increase retention by building awareness from policyholders on the value that they are receiving from their insurance companies.
- The most successful connected insurance programs have all **started with their end consumers in mind**. They have adapted their value proposition to balance both consumer expectations and business results to drive long-term competitive advantage.
- They have followed their customers priorities, which the survey confirms is focused on **family**, **safety**, and **privacy**.
- **Technological advancements** in mobile sensing, IoT, and artificial intelligence and the data quality generated are making it possible to **deploy new business models at scale** in a way insurance carriers can sustain.

The models providing connected insurance

Telematics-based pricing, or Usage-based insurance (UBI), has been the most common connected insurance services offered to drivers since 2010.

Between the three core models of pay-by-miles, behavior-based (up-front combined with variable mid-term or renewal discount), and Try Before You Buy (TBYB), the UBI market is estimated to encompass **eight million**

drivers in North America today. This is below 10% of the entire market*.

Insurance pricing is a complex topic: 75% of consumers believe they have some clarity around how insurance companies set their policy rates. However, when asked how they preferred their rates to be determined, there was a **strong rejection of some of the main pricing factors used today**.

In fact, 74% of respondents prefer if their insurance rates are based on how safely they drive. Ultimately, there is an opportunity to **help consumers understand how their prices are determined**, and pair that with their expectations.

This is critical to building future customer strategy; while many of today's connected insurance programs are traditionally based on price, we are seeing a number of key players expanding their business models and offering **value-added services (VAS)** as part of insurance - both in the consumer and the commercial fleet markets.

These services are generally **based on safety**; helping drivers reduce their risk or protecting them in case of a collision.

In the past, some may have mistaken VAS as an **added marketing cost** to differentiate the insurance offer. Based on our data, it transpires that consumers have a positive bias towards features that fundamentally **improve the carrier/ policyholder relationship**.

Today, very few carriers are leveraging the positive bias that consumers have towards value-added services. In our survey, we found that despite nearly **ALL communication around connected insurance is based around price**, 23% of the people offered connected insurance put the **safety feature** as a major criteria impacting their decisions.

When the safety features are explained, **83% of respondents would choose** the product.

We also see that while the vast majority of respondents that already signed up for connected insurance did so for the discount,

Remarkably, of those who were offered telematics insurance, the acquisition rate was a staggering 50% in 2019 (versus 46% in 2017).

they are much more **favorable to the safety benefits**.

So, it is perhaps not surprising that carriers worldwide have tested and successfully deployed TBYB sales programs that measure users' safe driving behaviors. After a period of time a quote is made available to the user that is based on their driving.

The **economics of smartphone-centric insurance** has made this model possible.

At a minimum, the evolution of telematics beyond black boxes and plug-in devices represents a significant customer acquisition opportunity. One of the largest take-aways from this survey is around consumer sentiments to TBYB programs.

Drivers are ready for smartphone-centric pricing. For example, 64% of drivers surveyed would download an app that tracks their driving for two weeks to get more personalized quotes.

Today, the majority of carriers with over $2 billion in auto premiums in the U.S. have a connected insurance offer, but **the share of drivers who were offered telematics-based policies in 2019 is a paltry 27%** (up slightly from 22% two years ago).

Globally the programs with the highest adoption rate include continuous monitoring and safety features in addition to rewards or discounts.

Consumers continue to want their premiums to be based on how they drive

Factor	2017	2019
Gender / Age / Marital status	3%	3%
Where you park or live	4%	3%
Credit score	4%	5%
Vehicle make & model	7%	7%
How safely you drive	74%	75%

5 ways to impact telematics awareness and adoption

Improve awareness

Regarding UBI, **64%** of U.S. drivers (up four points from 2017) **are familiar** with products that base pricing on driving behavior monitored via smartphone app.

That said, the penetration of telematics in the U.S. insurance market is still **under 10%**. Drivers are aware of the offerings and prefer prices to be set based on their own driving behaviors, but there is **still a gap between preference and action**.

As simple as asking?

Only 27% of respondents have ever been offered a telematics program - up five points from 2017. There remains a significant opportunity to grow the number of individuals offered. Increasing communication at the point of sale will help grow this effort.

Identify the reasons behind the upward trend in acceptance

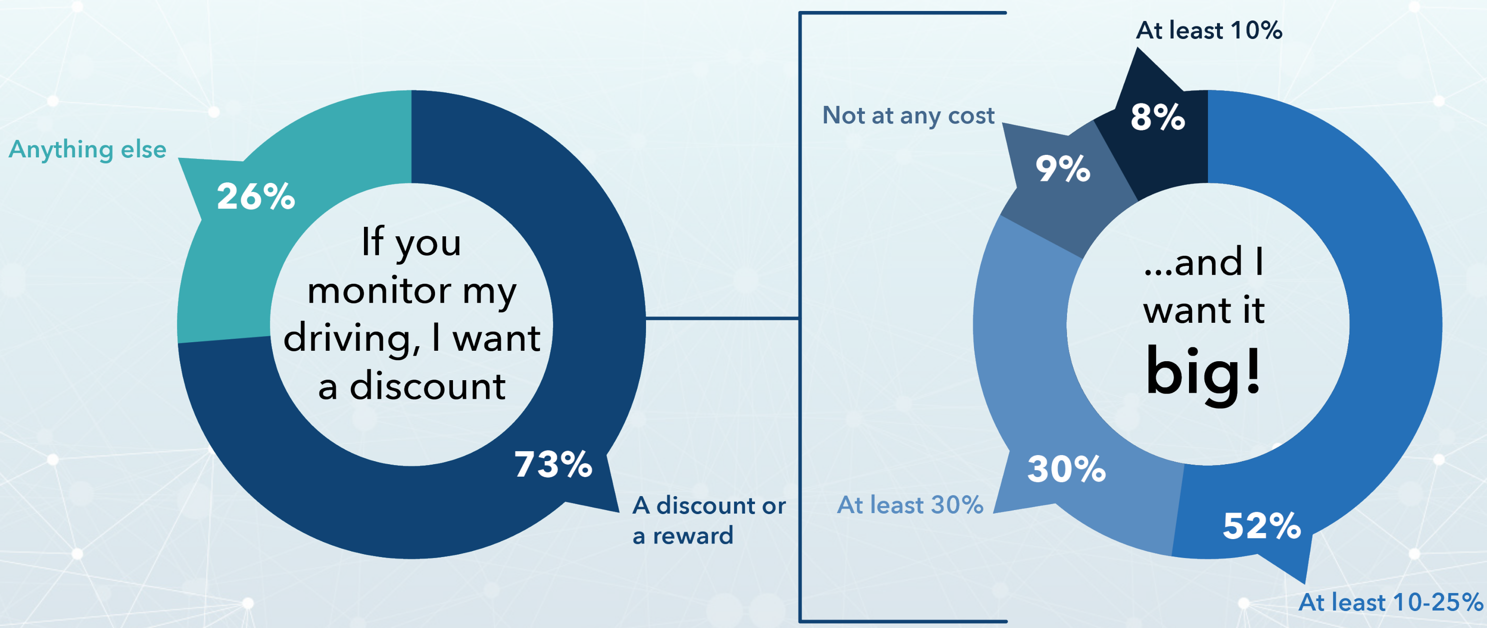
In 2017, for those who were offered telematics-based insurance solutions, **46% enrolled. In 2019's survey, this increased five points to 51%**. The majority (65%) of respondents were offered pricing-focused programs.

In 2017, we asked drivers what would motivate them to improve. The top three answers: **discounts, rewards, and real-time feedback**.

In 2019, we dove deeper into discounts.

When asked about the size of the discount needed to participate in a program that monitored their driving in real time, **81% said the discount needed to be 20% or higher**.

A small proportion (8%) would agree to less than 10% and at the other end, 9% would simply not accept to be monitored, whatever the discount.



What's really the driving force behind this? **A consumer's perception is shaped by what has been communicated in the market**. From the start, the major marketing messages around telematics have all included significant discounts at the core.

Today, 88% of the mobile insurance programs worldwide are based purely on a lower price.*

Foster adoption

Historically, the driving force behind the adoption of telematics has been an exchange between the consumer and the insurer: **monitoring for discounts**. However, our research indicates consumers are interested in much more.

The 2019 survey found 83% of drivers are more interested in an insurance company's product **if it offered tools to keep their families safer on the road**. On top of that, **78% prioritized emergency roadside assistance** as the most important feature of a family insurance product, while 60% are interested in trip-by-trip safe driving analysis for them and their families.

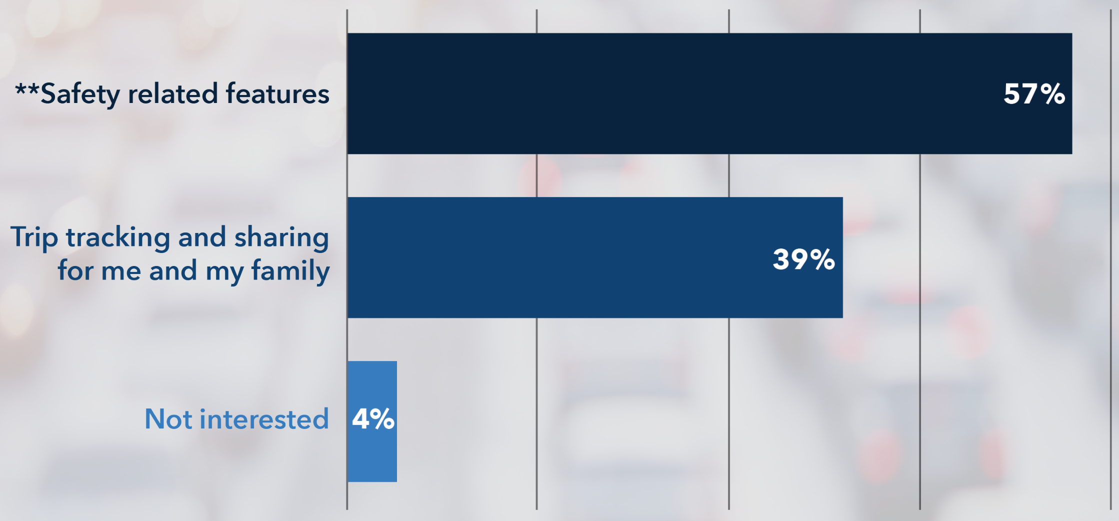
With advancements in technology, insurance companies can automate these services via mobile telematics.

Advancements in Technology + New Business Models = Higher Adoption.

* Source: PTOLEMUS Mobile Insurance Global Study

Telematics is the only dataset used in insurance that is owned by the consumers. For them to opt-in, the exchange cannot be perceived as weighted to the insurer's sole benefit.

Which features do you want to see in your auto insurer's app?



** Defined as: roadside assistance, emergency calls, driving safety feedback, driving while texting alerts

Identify and overcome the objections

When exploring drivers' sensitivities and the reasons why they would avoid telematics, we found **three main areas of concern**.

- Drivers are unconvinced of the program's benefit and worry their monthly **premiums will increase**.
- There are still fears related to **loss of privacy and control** over location and personally identifiable information (PII).
- There is also worry over personal data being **shared with third parties** including the police.

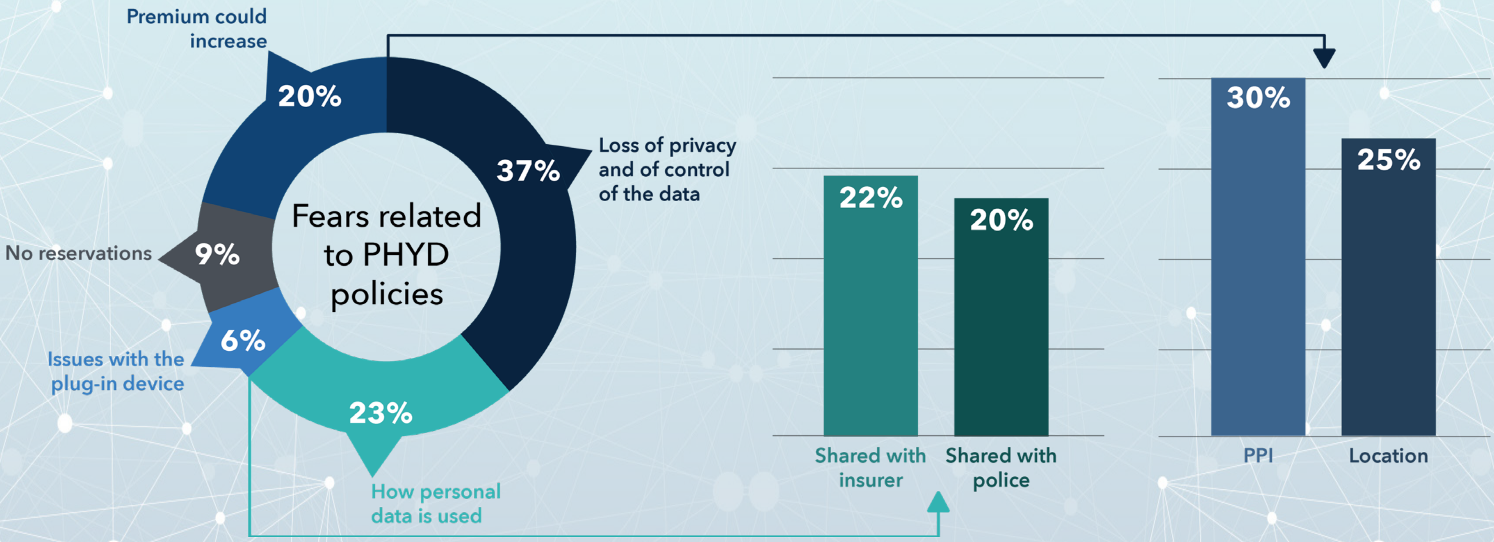
There is a gap between perception and reality of telematics programs in the market. The opportunity to overcome these objections is to **communicate clearly, open, and honestly** about all facets of the program.

At the same time, when looking at what insurers could do to make telematics programs more appealing, 54% want reassurance that their **personal information would not be misused** and 55% answered that their rate would not increase.

Insurers can overcome the negative perception between privacy and discount by placing safety and family protection at the top of the conversation.

In 2017, data and privacy were on top of mind when presented with telematics services

In 2019, data sharing is seen as the biggest concern



Key takeaways for insurers

- Consumers are highly likely to participate in a **TBYB** program.
- Safety features like **crash notification and emergency roadside assistance** have the ability to out-perform or augment the adoption rate of discount-only programs.
- **Communication is key** to overcoming privacy fears. The same consumers who hesitate to participate in a connected insurance program actively use other programs that track speed and location.
- Increases in adoption rate may be as simple as **asking more often.** The frequency at which consumers have been offered a telematics-based program has not grown significantly from 2017 to 2019.
- When consumers are offered telematics, the **close rate is in excess of 50%**.
- Consumers would prefer their insurance **pricing to be based on driving behavior** versus other factors beyond their direct control.
- Consumers have unrealistic expectations on the size of the discount needed to participate in a connected insurance product: **discount alone may not be enough to drive wide-scale adoption**.

How we can help you

New technologies have the power to open new business models

The DriveWell platform powers **safety** and **engagement functionalities**, alongside all models of connected insurance. As a result, carriers using DriveWell have implemented and **scaled impact alert**, First Notice of Loss, and **crash reconstruction**.

These carriers have monitored and improved the driving behavior of their customers. DriveWell's engagement and feedback suite has **demonstrated its positive impact on safety**, with reports of 20% less-severe claims and 34% fewer crashes.

- CMT's team includes experts from the insurance, technology, and consumer engagement space.
- Through understanding the dynamics of the driver, carrier, and distribution methods, CMT's collaborative team can help you design, build, and implement a connected insurance program that meets your business needs.

Get started

Our **customer success group** is constantly studying the evolving consumer behavior of our active programs and are ready to help deploy these insights into results for our partners.

To learn more about implementing mobile telematics or to better understand how a telematics program can impact your customer experience and pricing methodologies, visit CMT's online resources or contact Ryan.

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Survey methodology

This report is based on two surveys commissioned by CMT to a neutral market survey agency. A total of 1,200 people were interviewed on their understanding of Usage-Based Insurance in the U.S.

- Surveys conducted in 2017 and 2019
- Equal split in three age cohorts 18-29, 30-44 and 45-59
- Equal distribution among U.S. states
- Equal split across genders

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About Cambridge Mobile Telematics

CMT's mission is to make the world's roads and drivers safer. Since its first product launch in 2012 that pioneered mobile usage-based insurance, CMT has become the world's leading telematics and analytics provider for insurers, rideshares, and fleets. CMT's DriveWell platform uses mobile sensing and behavioral science to measure driving risk and incentivize safer driving, while its Claims Studio reduces the claims cycle time with real-time crash detection, crash reconstruction, and damage assessment using telematics and artificial intelligence. CMT has over 50 active programs with insurers and other partners, improving safety for millions of drivers every day around the world. Started based on research at MIT and backed by the SoftBank Vision Fund to fuel its rapid growth, CMT is headquartered in Cambridge MA.

To learn more, visit **www.cmtelematics.com** and follow CMT on Twitter **@cmtelematics**.

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