CAMBRIDGE
MOBILE TELEMATICS

The Best Connected Insurance Value Propositions for Europe

A driver's perspective of the opportunities for new products and services in the European motor insurance market

Based on two surveys taken before and after the pandemic's first wave.

TABLE OF CONTENTS

FOREWORD

The months following the first wave of the COVID-19 pandemic have uncovered challenges few would have predicted and fewer still could have prepared for. The succession of lockdowns across Europe, the constant change in confinement rules, and the sectorisation of the economy have thrown out any remnants of routine.

For the motor insurance industry, it first meant customers were not driving and claiming back their premium. Second came the realisation that the ones who kept driving represented the worst risk, leading to a spike in claims severity. Lastly, the effects of the pandemic have accelerated the change in the mobility mix that started last year.

This report examines the consumer appetite in four European countries for new insurance value propositions and their acceptance of using telematics data at each step of the service delivery.

It is based on two surveys with drivers of all ages: the first conducted in January 2020 and the second in September 2020. It also refers to three past CMT studies to help add context to those results.

These surveys have been a testament to the changes seen this year and procure a remarkable illustration of our customers' priorities and demands.

Thomas Hallauer

Research & Marketing Director

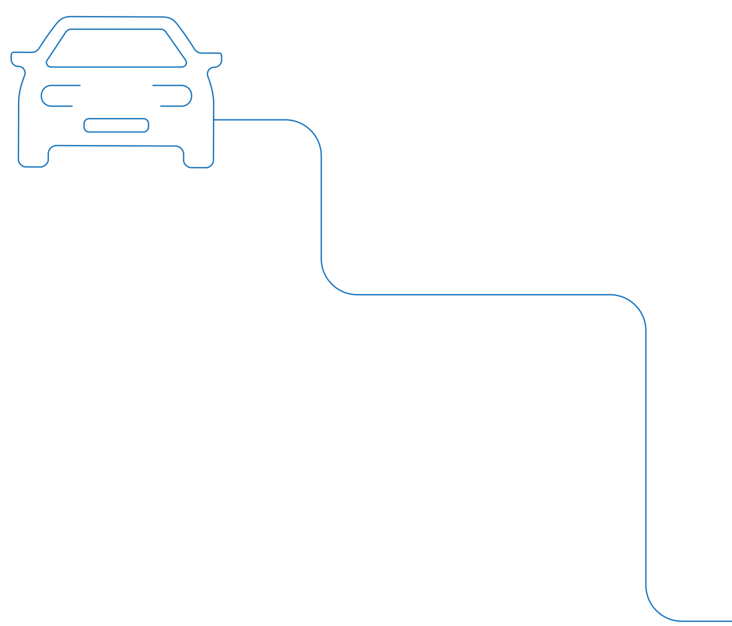
Cambridge Mobile Telematics

This report provides:

- An analysis of the benefits of connected insurance models today
- An overview of four markets' readiness and appetite for connected insurance
- A breakdown of the top value propositions used today
- An insight into European drivers' preferences in terms of value added services
- An analysis of the rewards that will most effectively motivate drivers and keep them engaged in a telematics programme

EXECUTIVE SUMMARY

- 81% of drivers in the U.K. have **changed how much they drive** because of COVID-19. Across Europe, the pandemic has also modified the reasons why people drive, their driving patterns, and the nature of the pool of drivers on the road. The riskier drivers are now disproportionally driving more; a quarter of them are young drivers.
- After the first wave, the EU market has become much more **heterogeneous** in its expectation of insurance offers.
- As a result, **previous models are not representative of commuters' risk during the succession of lockdowns**. Without individual driver data, insurers' traditional risk proxies are no longer predictive and may not come back to utility.
- The COVID pandemic is pushing people towards transacting via **online channels**, which is now the prime transaction method for up to 63% of the drivers.
- The **appetite** for connected insurance models has increased sharply since the pandemic started in Europe, with 65% of the population now likely to make the switch. In January 2020, "only" 49% of European drivers suggested they would be likely to try usage-based insurance.
- In terms of the value proposition and pricing models, the survey demonstrates a huge **shift away from "old school"** discount-based telematics (-58%) to Pay-As-You-Drive (+145%) models.
- Drivers are spending more time evaluating insurance prices. As a result, **Try-Before-You-Buy (TBYB) is attracting a lot of interest**. After first-wave lockdowns, the population interested in this model grew by 30% in France and Germany, and by 115% in Italy.
- The appetite for Value Added Services has also increased, with safety related options such as **rewards for safe driving** and **emergency roadside assistance** at the top of drivers' wish lists. **Claims assistance** using automatically generated reports was a close second.
- Strong differences exist between European drivers, particularly linked to their **experience with claims**. 26% of Germany found the process very easy while in other countries, 15% had a really bad experience with the claims process.



METHODOLOGY & AUTHORS

This report is based on various surveys commissioned by CMT to a neutral market survey agency. Most results come from **The Future of Car Insurance**, a survey ran in January and again in September 2020 with very similar questionnaires.

The **Future of European Insurance Survey** focused on European drivers' appetite for different pricing, services, and reward models. A total of 4,000 insured drivers from France, Germany, Italy, and the U.K. were interviewed twice about their perspective on issues such as choosing and buying insurance, insurance pricing models, and additional services.

Four samples of French, German, Italian, and British drivers with **age ranges proportional to the driving population** were used. Equal distribution was also given across genders, income, and geographical regions.

The age bands used in the report follow the generational cohorts and are referred to as such:

18 - 24: Generation Z (Gen Z)

25 - 39: Millennials

40 - 54: Generation X (Gen X)

Over 54: Baby Boomers (Boomers)

Other surveys quoted include:

The **Future of Insurance Survey** ran in 2019 and focused on U.S. drivers' appetite for different pricing, services, and reward models. A total of 1,000 people were interviewed concerning their perspective on issues such as road safety, distraction, insurance pricing models, and services.

The **U.S. Connected Insurance Market Sentiment Survey** ran in June 2017 and April 2019 and focused on 1,000 U.S. drivers' attitudes toward mobile telematics.

The **2019 Connected Insurance Market Surveys** conducted in the U.K., France, Italy, Mexico, and Brazil looked at market knowledge and acceptance for telematics in insurance. They ran throughout 2019 with 1,000 respondents each with equal distribution between age, gender, and geographies.

The **Insurance Rewards Survey** focused on U.S. and U.K. drivers' attitudes towards various types of rewards for safe driving. It ran in January 2020 with 500 drivers in each country with equal distribution between age, gender, and geographies.

Thomas Hallauer

Research & Marketing Director

Cambridge Mobile Telematics

Thomas has gained 20 years of operational marketing experience in the domain of telematics, usage-based insurance, and fleet management. He is an expert in new products and services notably in the connected insurance, autonomous vehicle, and electronic tolling industries. Thomas organised more than 25 international conferences and is a frequent blogger on the above.

Before CMT, Thomas spent six years at PTOLEMUS Consulting Group where he edited and co-wrote five studies and more than 10 papers including the "UBI Global Study," the reference document for the telematics insurance market published in 2013 and 2016, and the "Mobile Insurance Study" in 2018, highlighting the market shift towards mobile platforms.

Ian Murphy

Director of Marketing & Communications

Cambridge Mobile Telematics

Ian began his career as a newspaper journalist, covering politics, business, technology, and sports. After years covering beats about business and technology, he transitioned to marketing by using his experience as a reporter to create digestible narratives for complex technological ideas – translating Engineer to English. He began working with CMT in 2019 as a content strategist, and now leads the marketing and communications group.

Matteo Carbone

Founder & Director

IoT Insurance Observatory

IoTinsObs

Matteo created and manages the think tank IoT Insurance Observatory, which has aggregated almost 60 organisations between North America and Europe. The members include CMT, six of the top 15 U.S. P&C insurance groups and 11 of the top 30 European insurance groups. The Observatory vision is that insurance IoT represents a new paradigm for the industry, and its purpose is to promote IoT adoption in the insurance sector. First and foremost, this think tank is constantly observing and scouting the usage of sensors in different insurance business lines around the globe.

Second, it is interpreting best practices and pitfalls for its members, providing them the most globally relevant IoT insurance knowledge. Finally, it has the core deliverable of the story-telling of this knowledge through workshops and dedicated one-on-ones with each of the organisations which are members of the Observatory. Since its creation, the Observatory has delivered almost 1,600 hours of workshops and 19 plenary symposiums with all the members around the same table.

SUPPORTING COMMENTS

A substantial share of drivers is ready to switch to insurance coverage. **The new value proposition requested by customers is mobile, enriched with services, and telematics-based.** This is one of the key takeaways from a survey done with 4,000 drivers in four countries over six months by Cambridge Mobile Telematics (CMT), in partnership with the IoT Insurance Observatory.

Nothing happens overnight in the insurance sector. It takes many years to see the realisation of any market prediction. I've been lucky to work on insurance telematics for long enough to have gained a historical perspective on its evolution. The first time I had to deal with an insurance telematics programme was in 2007 with AXA Autometrica in Italy. Since then, I have worked on this topic with more than 100 players in 20 markets. Based on what I have learned from the experience of these insurers, I have written dozens of articles and debated at hundreds of conferences around Europe and the U.S.

At the end of 2014, I published an article that tried, for the first time, to rationalise the different insurance telematics use cases needed to move "from a niche underwriting solution focused on younger and low-mileage drivers to a mainstream solution broadly applied on motor portfolios." That short essay introduced best practices – including using telematics data to **change driving behaviour, improve claim management,** and **sell services.**

Yet, convincing insurers has taken time. There are many local myths about telematics that have affected each European market. Success stories, such as the HUK-Coburg journey with CMT in Germany, have debugged these myths year after year. The surveys presented in this report address the customer attitudes about services and channels of interaction, with the goal to further support insurers in building their own telematics-based business transformation.

This report provides an overview of European drivers' perspective of the telematics use cases with four surveys conducted two times. Once in January 2020, before the pandemic started, and again in September 2020 in the middle of the COVID-19 era. Only time will tell us which of these impacts on the declared preferences are here to stay and which instead will fade.

It has been an extremely thought-provoking task to help CMT – one of the members of the IoT Insurance Observatory – shape this survey and interpret its results in order to provide down-to-earth and actionable insights. I hope you find it useful.

Matteo Carbone
Founder & Director
IoT Insurance Observatory

A The Impact of COVID-19 on Motor Insurance

The shape of the European motor insurance industry has changed dramatically in 2020. At the time of writing this report in late 2020, the second wave of COVID-19 loomed, promising further damage to the economy and deeper change in the way people travel.

In this constantly changing landscape, insurers have to adapt; to do that, they need to understand their customers' frame of mind. Each will have their experience of how their personal life has changed and how the virus has directly impacted their driving habits. In terms of quoting and buying insurance, the industry needs a clear understanding of how social distancing will impact reach, acquisition, and onboarding.

ONE

COVID First-Wave Lockdowns have Changed Driving Behaviours

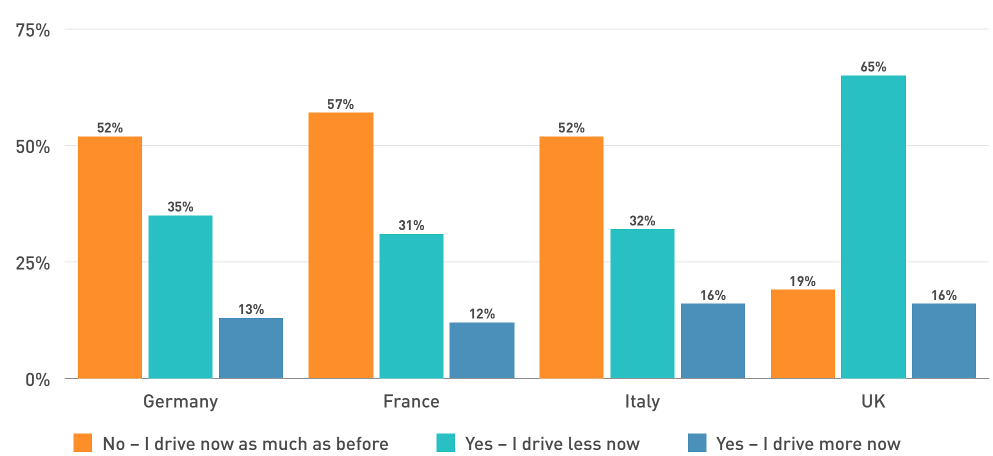
The vast majority of European drivers have changed their habits after the first COVID lockdown.

In the U.K., 66% of the respondents said their driving patterns changed and that they are now driving less. 29% of the respondents also noted that they drive for different reasons, and 26% now drive on different days. Work and commute was the main reason for the change in behaviour (58%). Less than 5% of respondents indicated their driving had not changed at all.

60% of the drivers that continued to drive as usual or drive more than before the first wave are Gen Z (age 18-24), paying over £1,000 for their premium. By contrast, 80% of drivers over 54 have chosen to drive a lot less after the first-wave lockdown. This suggests that **the riskier drivers are now driving a lot more** than the safer ones on average.

The Pandemic had a Direct Impact on How much People Drove

Source: "Future of European Insurance Survey," CMT 2020



Conversely in **France**, 57% of the respondents confirmed their driving habits didn't change during the first-wave lockdown, the biggest share seen in the survey. 12% even suggested they drove more. Out of the people that changed their habits, 39% were now driving for different reasons. The biggest single factor changing their driving was that they had to change the date of their holiday (26% of responses). In comparison, work-related factors came later; employment conditions at 23% and commute at 15%.

Looking at age, 30% of the young drivers say they drive more now than before, again suggesting a switch from public transport to private vehicle. Similarly, out of the drivers paying the highest premium, 22% are now driving more than before lockdown.

Similarly in **Germany**, 35% of respondents said they drove less now than before, but 13% drove more. Again the main factor is that driving purpose has changed (43%). Work related issues (change in commute and employment) led 36% of drivers to change the way they drive, but family and holidays reasons were the most potent behaviour modifier with a combined 50% of responses (30% changed their holiday plans).

There, it is also the youngest drivers that are now driving more than before (24% of them) and 34% of the highest premium payers.

Altogether 55% of the European drivers have changed their driving behaviour since the first wave of COVID lockdowns.

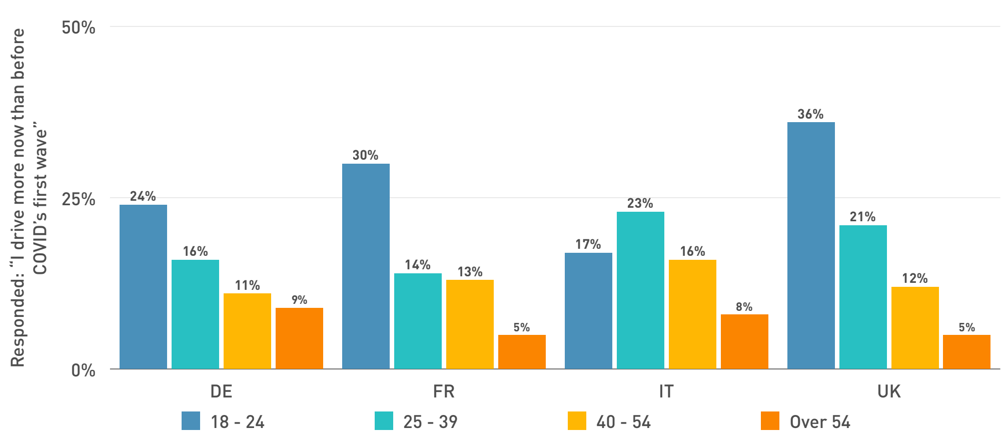
Italy was one of the first affected countries in Europe; 52% of its drivers are now driving as much today as before COVID, with nearly 16% driving more than before. Most of the population (65%) have returned to their old habits. Out of the drivers that were forced to change, 40% say they drive for different reasons now. Overall, the main factor of change was employment conditions.

Contrary to elsewhere in Europe, the Italian Gen X (age 40-54) is the group of drivers that increased the amount of driving after the lockdown was in place, not the youngest. However, the segment paying the most in premium ended up driving more post-first-wave lockdown enforcement.

The graph below shows the age of the respondent that said they drive more after lockdown than before. A disproportionate amount of young drivers have had to drive more during lockdown. This could be explained by the fact that essential workers – for instance in retail or grocery – are typically younger. Also, these drivers would not have had access to public transport in the same way as before.

Young Drivers Drove More During the First Lockdown Periods

Source: "Future of European Insurance Survey," CMT 2020



As the virus impacted each country at different speeds and with different results, the impact on the population's behaviour has also been heterogeneous. Notably, the U.K., which has not recovered from the first wave as fast as the other countries, is seeing a much more pronounced impact on post-first-wave mileage as well as change in driver behaviour. Germany on the other hand managed the first wave of the pandemic much better, as a result, the biggest impact of COVID there has been on private trips.

However, uniformly, it is the **most inexperienced drivers** throughout the four markets that are now **on the road more than before** with the older population choosing to stay home.

TWO

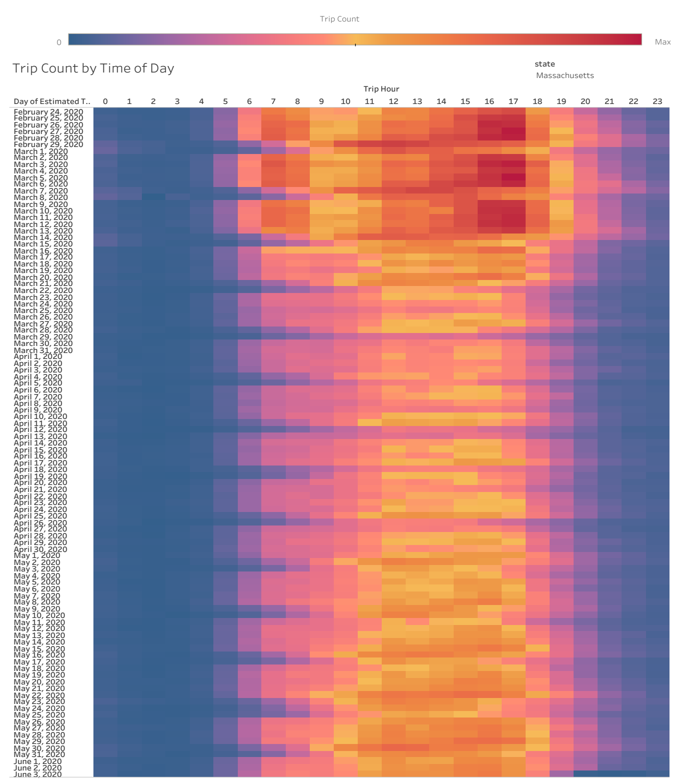
COVID First-Wave Lockdowns have Exposed Weaknesses in Current Insurance Models

As local governments began to react to the virus by locking down cities and regions, normal driving patterns disappeared. By the third week of March, morning (7:00-9:00 a.m.) and afternoon (4:00-6:00 p.m.) rush hours were gone. Later, as stay home mandates started to loosen, those heavy concentrations of traffic have not returned. Commuters are using their vehicles differently and there is no clear indication of if or when things will return to normal. As a result, **typical risk models are not representative of the commuters' risk**; without individual driver data, insurers' traditional risk proxies are much less predictive.

The chart to the right illustrates the massive disruption to normal driving patterns caused by COVID-19.

COVID Lockdowns' Effects on Rush Hour

Source: CMT 2020



In the U.K. too, driver segmentation has changed during this time and the expectation based on the survey suggests that a large portion of that change could be persistent. According to ComparetheMarket.com, 61% of drivers expect to commute by car post-lockdown, compared with just 34% before the virus outbreak. In London, 32% of drivers say they will drive to work, compared with just 20% before the first-wave lockdown.

The 2020 lockdowns also spurred auto insurers into discounting premiums or offering cashback. Without a single Pay-As-You-Drive (PAYD) insurance programme available, French insurers were in a tougher position to provide valuable market alternatives to their drivers. A few made the popular move to give their policyholders a rebate of around 10%. Yet on the whole, the industry is expected to wait until 2021 before it can really ascertain how claims have dropped in 2020.

B The Acceptance of Connected Insurance Today

ONE

Perception and Awareness

Consumers' interest in telematics is at an all-time high – and growing. The COVID crisis brought home the benefits of telematics to many drivers. Since then, a flurry of positive articles have reinforced that **telematics is the best way to save money** on insurance. This has been particularly the case in Germany since April 2020, in marked contrast with previous years.

Every week, professional insurance publications such as Versicherung Wirtshaft Woche have published neutral or positive items related to the "Telematik Tariffs." They **highlight the benefits** for the drivers and the insurance market instead of focusing on privacy concerns.

Capgemini Efma

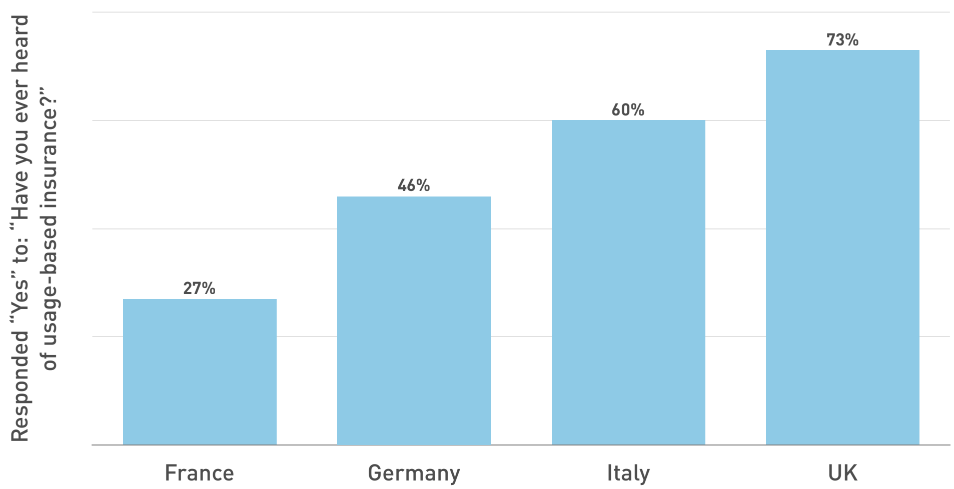
Consumer interest in telematics insurance programmes has risen by 45% since last year.

On average 51% requested it in 2020 versus only 35% in 2019. The COVID crisis has accelerated the trend even further and TBYB is a great solution to test out new value propositions.[1]

CMT surveyed drivers at the end of 2019 to find out how many were familiar with the concept of usage-based insurance. Specifically, they were asked if they were familiar with car insurance programmes that verify their daily safe driving habits and base their premium on it. 27% of French, 46% of German, 60% of Italian, and 73% of British drivers were aware and understood the concept of telematics-based insurance at the time.

UBI Awareness in Europe is Steadily Growing

Source: "Future of European Insurance Survey," CMT 2020

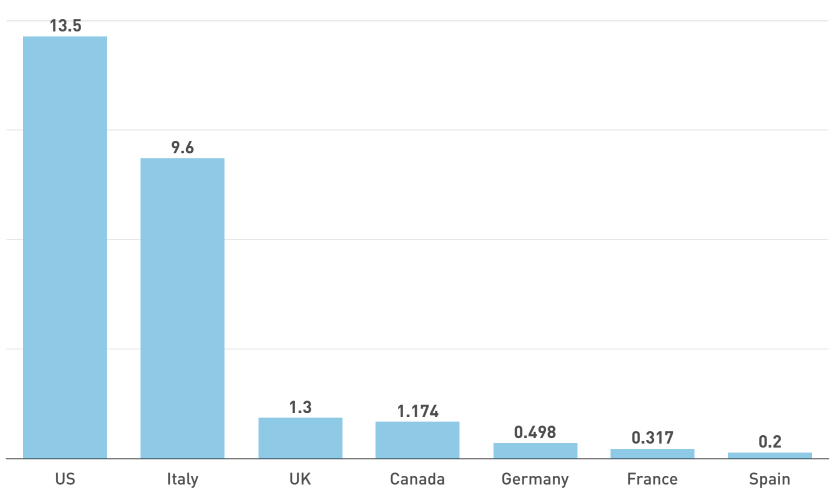


Awareness of telematics insurance among European drivers is growing steadily, in part due to the increased stream of information on how car insurance needed to change in the face of the pandemic.

This is in line with the growth of visibility the industry has received in the last 10 years in those countries. The case for the U.K. young driver segment and the Italian market-lead, mature telematics market are well known. However, the French usage-based insurance market is still immature and lacks leadership to demonstrate what a successful proposition looks like. The greatest market growth today has – perhaps surprisingly – come from Germany, where there are now eight active programmes, the biggest of which is HUK-Coburg's Telematik Plus. The market size is hard to estimate precisely, but a suggestion was published by Berg Insight below:

Active Telematics-Based Insurance Policies in 2019 (millions)

Source: "Insurance Telematics in Europe and North America," Berg Insight 2020

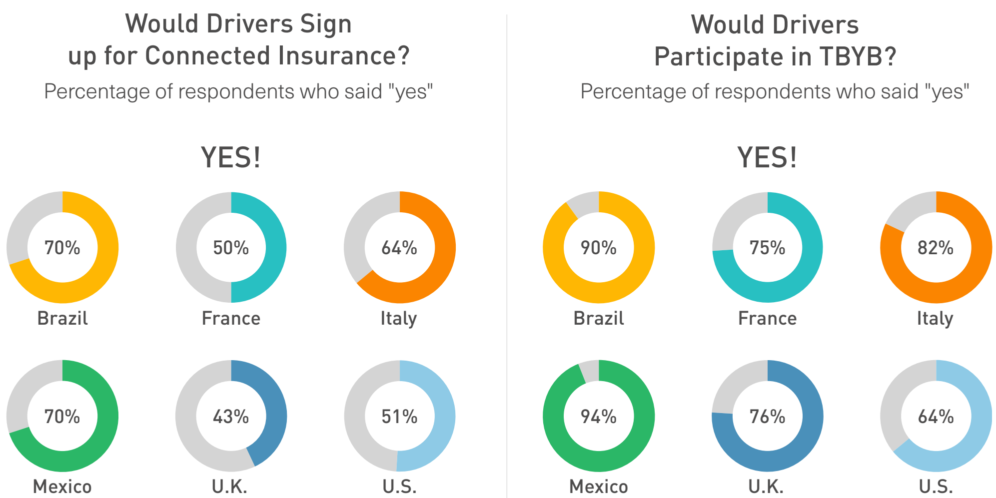


i. Measuring Market Readiness in Europe

In an earlier survey in 2019, CMT asked a number of respondents from various countries about their interest in usage-based insurance. The context was around digital services focusing on safety and the avoidance of distraction. The results of the survey showed how attractive this would be for drivers in general, **independently from the offering** being on the market in each country.

Source: "Worldwide Attitudes Toward Connected Insurance," CMT 2019

Note: Connected insurance in this survey is Try-Before-You-Buy.

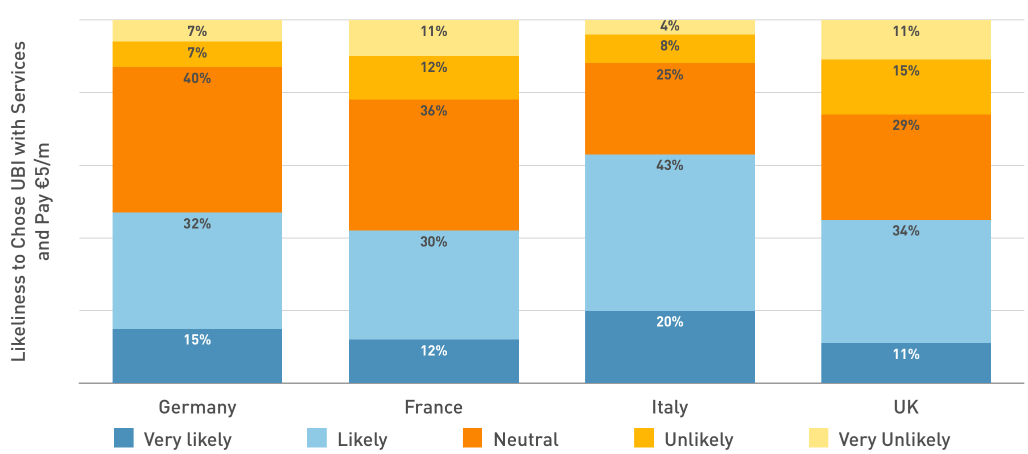


In January 2020, CMT looked more precisely at customer readiness **to switch to insurance telematics while paying for an extra €5 month fee for additional services** of their choice.

The result is displayed in the chart below.

The Appetite for UBI was Already Clear in Early 2020

Source: "Future of European Insurance Survey," CMT 2020



Germany and Italy were on par in terms of driver interest in telematics insurance at 85%. When the appetite was measured in the U.S. in early 2020, 63% were interested or neutral, and in Italy, the same percentage were interested or very interested – the highest in Europe. The lowest clear interest in France was still at 42% of the respondents, in a market where telematics insurance virtually does not exist. On average, **49% of the European population was likely or very likely to switch to UBI**, even with an additional charge of €5 per month for services.

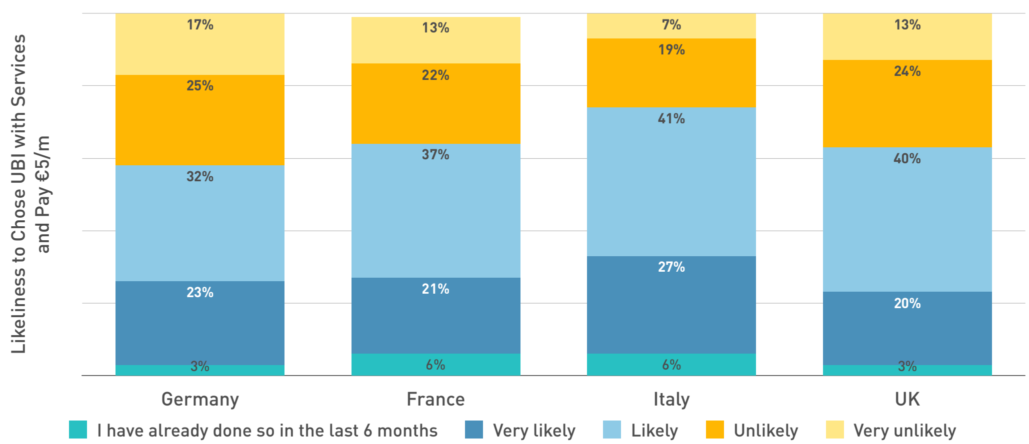
From 49% before first-wave lockdowns, 65% of European respondents are now likely to switch to telematics-based insurance, even if it costs them extra.

The results of the second survey, done in September 2020, illustrate how drivers have become more enthusiastic about the concept and how many have actually acted already.

As per the chart below, **an average of 3% of drivers have already made the switch to telematics** in the last six months. The others are overwhelmingly likely or very likely to switch at the next renewal if the offer is present. Italy is still in front with 74% of the respondents positive about switching to UBI. The U.K. and France are now equal at 63% of the respondents ready to switch. Germany grew from 47% to 58% of respondents willing to switch.

The Appetite for UBI Has Grown Rapidly during the First Months of the Pandemic

Source: "Future of European Insurance Survey," CMT 2020



ii. Segmentation of the UBI Opportunity in Europe

In **Italy**, the segment most attracted to UBI before the first-wave lockdown was Millennials paying €500-700 in premium (81%). By September, things had changed. Now, Gen X on the whole is the age group most actively embracing telematics (71%).

In the **U.K.,** drivers paying more than £1,000 in premiums were overwhelmingly in favour of telematics, whatever their age group. Post-first-wave lockdown, 80% of the Gen Z and 68% of the Millennials surveyed are now ready for telematics.

In **Germany**, the most attractive segment were Gen Z drivers paying €500-700 (83%), but the Millennials paying over €700 (65%) or under €300 (67%) were not far behind. Following the first wave lockdowns, the main segment to identify readiness is Millennials: 69% of that age group are ready and 5% have already made the switch.

In **France**, the most interested segment is the Gen Z group of drivers paying below €700 (73%) and the Millennials paying over €700 (60%). The September survey however reveals Gen X are now also a strong target segment with 64% of them likely or very likely to switch. Gen Z follows at 63%.

iii. Identifying the Segments Not Interested

In January, **11% of drivers in France and the U.K. felt it was "very unlikely"** they would change to telematics-based insurance, which was the highest proportion in Europe. Nine months later that sentiment has stayed the same in those countries, but now **17% of German respondents also felt very unlikely to switch, up from 7%**.

Drivers in the **U.K.** have the greatest reservations towards a switch to telematics-based insurance. This is significant because the country has the **second largest UBI market in Europe** by volume and by penetration. It is also the first market in Europe to reach a substantial number of active programmes at 29. At the same time, this is a market that has focused entirely on reaching the young driver segment: so much so that today around 60% of its young drivers are using telematics.

TWO

The Role of Connected Insurance in Pricing and Quoting

It is reasonable to assume that most insurance consumers would want to save money on their insurance premium, and that the immediate discount would matter most, not the renewal discounted price.

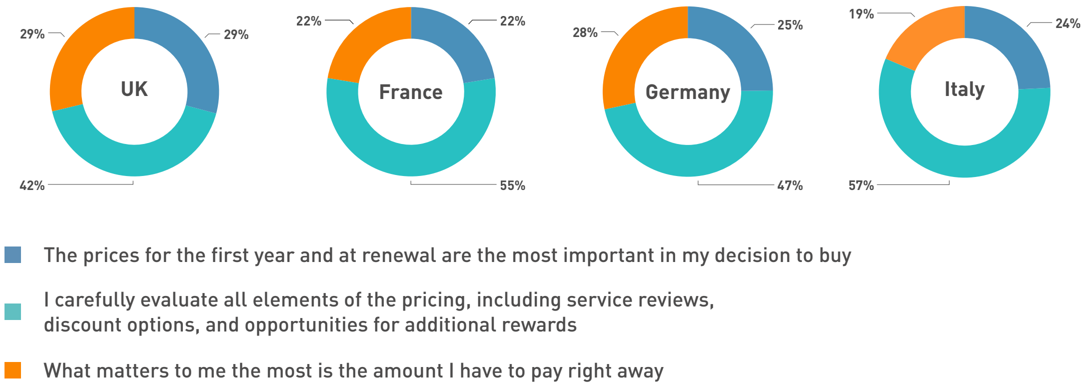
The survey results showed a different picture. In each country, respondents chose to have a **fair** price over **saving** money. However, behaviour varied between countries in the following ways:

Over 55% of the French and Italian drivers "carefully evaluate all elements of the pricing, including service reviews, discount options, and opportunities for additional rewards;"

Whereby 30% of the British drivers cared more for the price at renewal, and nearly 30% of Germans looked first at the amount they had to pay right away.

Most Drivers are Spending More Time Evaluating Insurance Offers

Source: "Future of European Insurance Survey," CMT 2020



In terms of finding a new policy, web-based research was the top choice – and even more so after the first series of lockdowns – with nearly 63% of drivers choosing that channel (compared to 57% pre-COVID). Notably, the **age of the respondents did not significantly impact** their choice.

In terms of getting an insurance **quote**, the majority of respondents chose one of the various digital channels (75% in the U.K., 54% in France, and 60% in Germany). In Italy, only 40% of respondents chose the digital channels, the lone outlier. The preferred method there is still based on a personal relationship with agents or brokers, however the percentage dropped from 59% pre-COVID to 51% following the first-wave lockdowns.

i. The Try-Before-You-Buy Model

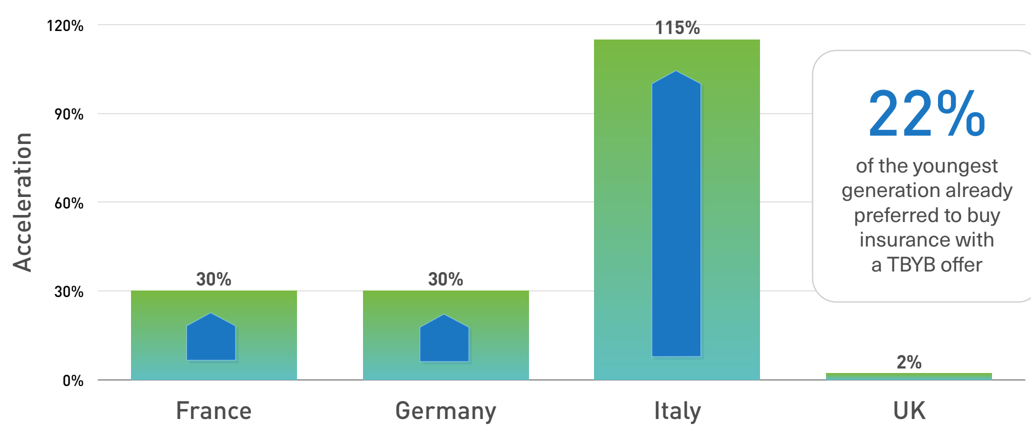
Buying insurance via an app, including the TBYB model, is still very much a novelty in Europe and few drivers understand it. Yet half the drivers choosing apps as a way to buy insurance chose the option to be scored in order to receive a fairer quote. When looking at age, it is very clear the newer generations (under 39 years old) are not only more app-focused but also understand the concept better.

For example, in the U.K., **22% of the drivers under 39 chose TBYB as their preferred channel to buy car insurance**. Throughout Europe, the share of drivers from all ages considering TBYB is accelerating since the onset of COVID:

Acceleration of TBYB as the Preferred Way to Buy Motor Insurance

(Between February and September 2020)

Source: "Future of European Insurance Survey," CMT 2020



In terms of **buying** insurance, only the U.K. has a majority of its drivers buying online. 55% of drivers were using price comparison websites for the whole process before COVID; today, it is up to 63%.

Overall the key trend shown from this survey is that **consumers' interest is changing away from agents and brokers**, especially in Italy (-8%) and Germany. Only France seems to be bucking the trend with a small 3% increase.

Out of the digital users, the Gen Z and Millennial groups were more inclined to use an app. After the first wave lockdowns this has been accentuated with each country **growing their share of app-based purchase** by young drivers and Millennials.

In the U.K., **offline** buying represents a small fraction of the market and three quarters of that is done over the phone. In other European countries, the majority of offline transactions are done in person. When looking at the young driver segment, **phone** purchases represent the smallest channels in the four countries surveyed.

Germany is a case in point: 45% of the population (the largest share in the survey) preferred buying insurance from a person before the pandemic. This was even more so the case with Gen Z (56%).

Following the first wave, the new survey shows a different picture, **only 41% chose to buy in person** and out of Gen Z, the share was reduced to 45%.

The Pandemic has Changed the Balance in the Distribution Channels

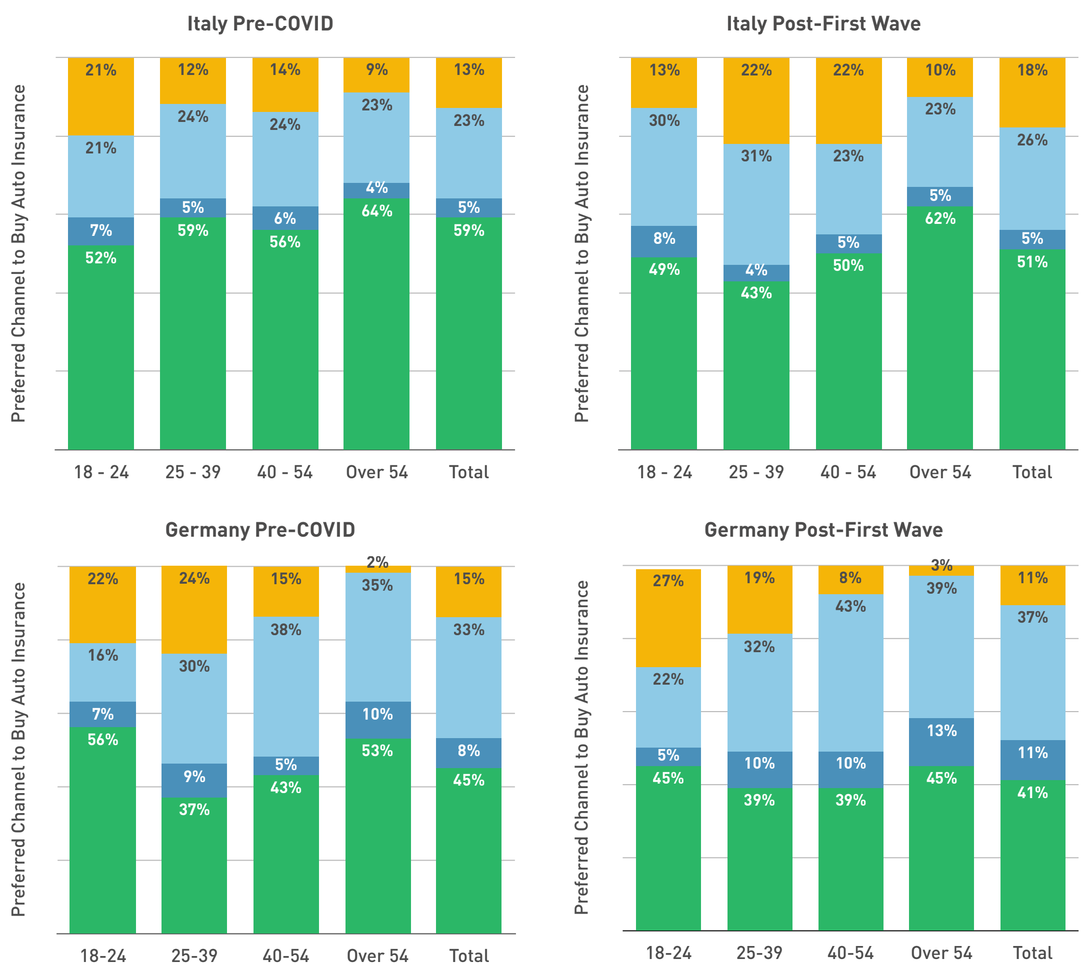
Source: "Future of European Insurance Survey," CMT 2020

Agent/Broker

Phone

Web

App



The Pandemic has Changed the Balance in the Distribution Channels

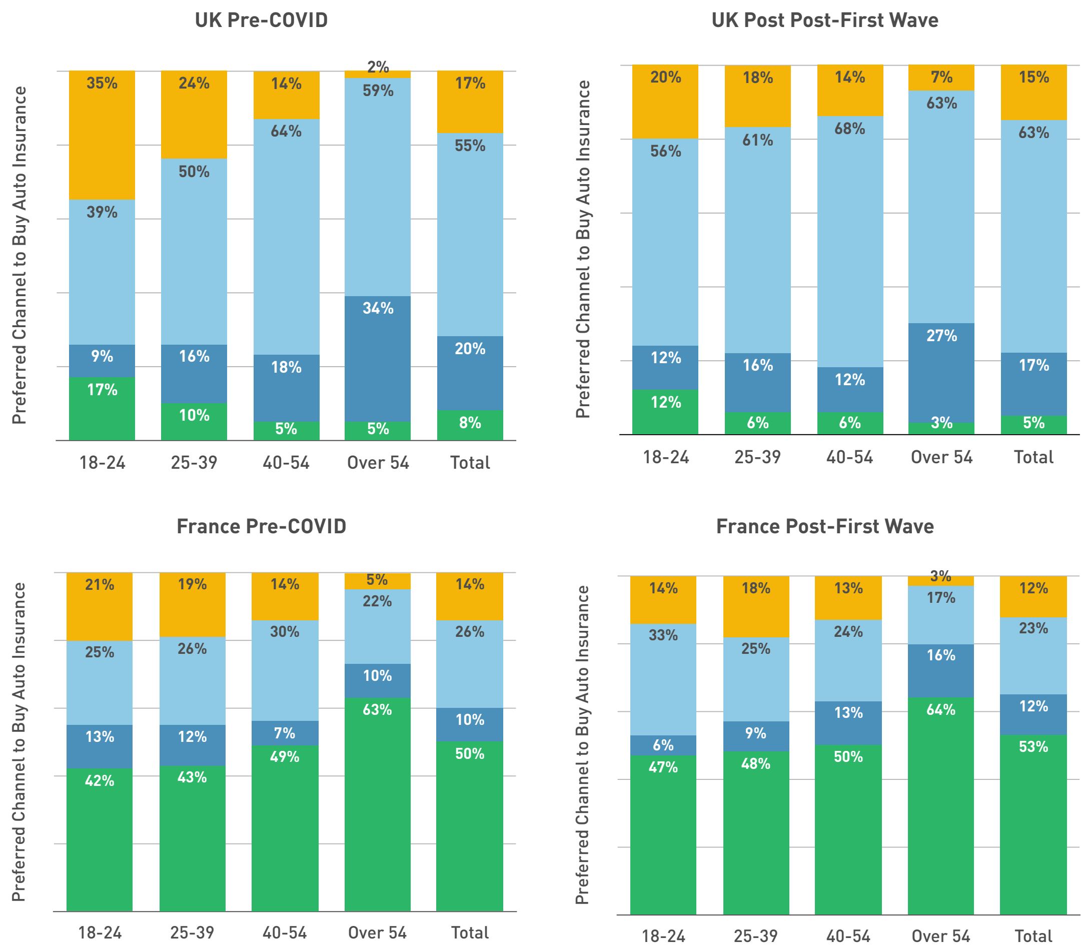
Source: "Future of European Insurance Survey," CMT 2020

Agent/Broker

Phone

Web

App



The pandemic has had a direct impact on digital distribution channels. Social distancing, working from home, and the general economic background have made buying online the default solution for many, regardless of age or location.

THREE

The Role of Telematics in Claims

In terms of filing claims, each country was shown to have their own preference. Italian drivers prefer to submit a claim directly with their broker. British drivers clearly favoured the phone. French drivers were split between using a website and claiming in person. Only German drivers did not have a clear preference.

This general trend should not hide the fact that digital claims using the **web or an app** was favoured by 40% of Italians, 45% of British drivers, 39% of French and especially **49% of German drivers**. Ultimately, this is not surprising since this model is not widely used yet; it's new and rising in popularity.

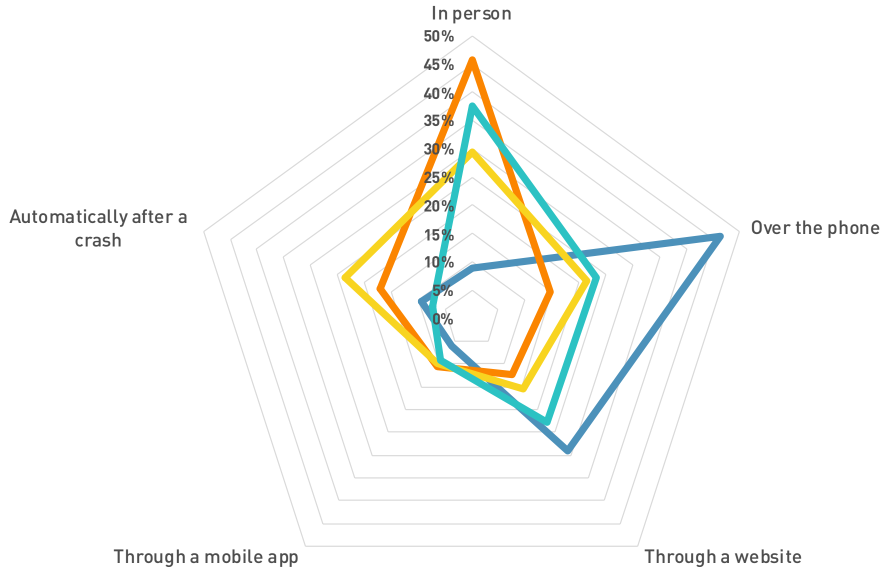
Germany is the market most ready for digital claims; 23% of the respondents there welcome automated claims using telematics data with all information pre-filled to speed processing. This compares with only 7% of the French respondents, the lowest appetite in this survey group, likely due to exceptionally low market awareness of the product.

Digital Claims Processing Now Attracts 43% of Respondents

Responses to: "What is your preferred method for submitting a claim?"

Source: "Future of European Insurance Survey," CMT 2020

UK
Italy
Germany
France



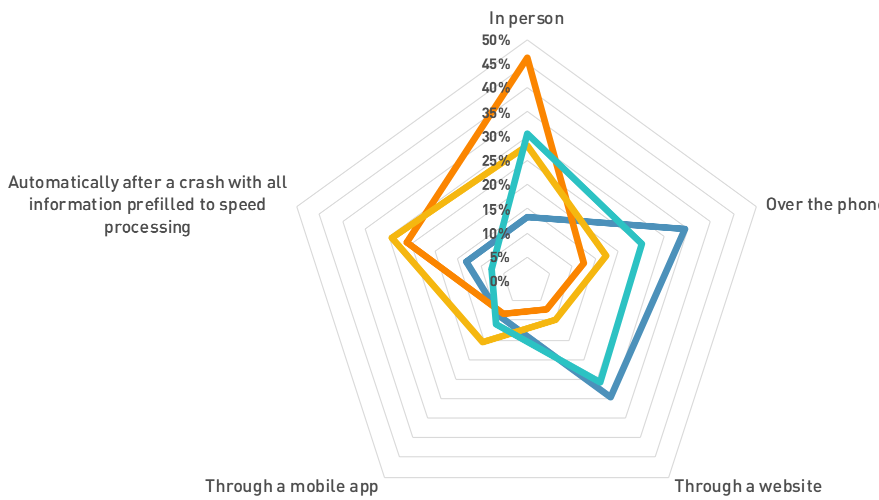
Looking closer at the responses, it is clear that claims management is still expected to be a personal experience that will continue to require **empathy**. Looking at the new generations, drivers in Germany (36%) and Italy (39%) are the most excited by an automated claims process after a crash that enables all information to be prefilled to speed processing.

Nearly 50% of Young Drivers Prefer Digital Claims Processing

Responses to: "What is your preferred method for submitting a claim?" by 18 to 39

Source: "Future of European Insurance Survey," CMT 2020

UK
Italy
Germany
France



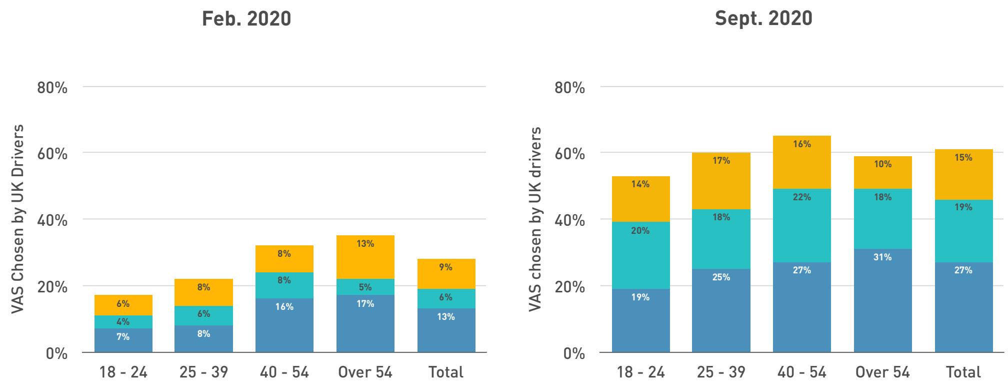
Isolating the two younger groups of drivers clearly shifts the preference towards more automated, more convenient ways to process the claim. When isolating these two age segments, the digital solutions are favoured by more than half of German and British drivers and more than 40% of French and Italians.

When looking at **digital claims service** (see definition below), there has been a marked difference between the drivers' expectation before and after the onset of COVID. As illustrated below, the demand for help with claims processing, a certified report in case of crash or automatic emergency assistance in the U.K., has grown by 150% overall.

UK's Demand for Claims-Related Services has Increased After the Pandemic's First Wave

Source: "Future of European Insurance Survey," CMT 2020

- Help with claim processing
- Certified report in case of a crash
- Automatic emergency assistance

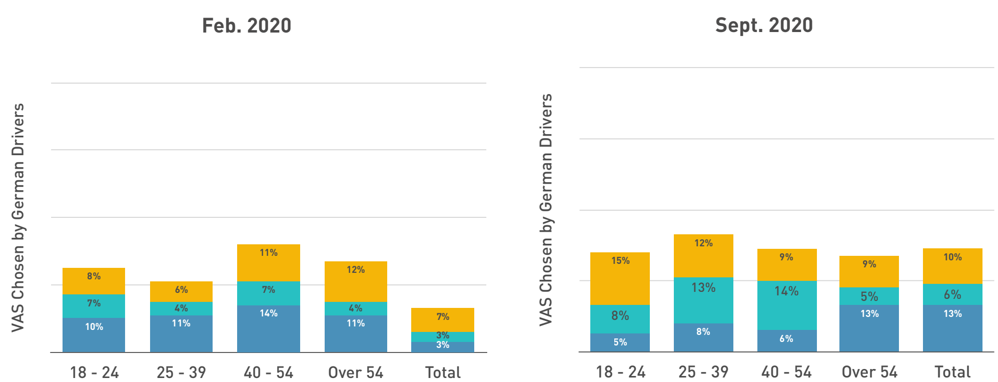


In Germany, the demand for claims services has increased by 123% after the initial lockdowns. All ages are asking for the service more or less equally overall, but emergency assistance is particularly appreciated by the older generation. Gen Z are more interested in claims filing assistance.

Germany's Demand for Claims-Related Services has Increased After the Pandemic's First Wave

Source: "Future of European Insurance Survey," CMT 2020

- Help with claim processing
- Certified report in case of a crash
- Automatic emergency assistance



In Italy and France, the trend was not as strong between the two surveys. It is however noticeable how Italy has more interest in claims services overall than any other country.

The demand for claims assistance services in Europe is very high and rising with different patterns between countries. In the U.K. and Germany, the demand has more than doubled since the onset of COVID.

C Delivering the Right Insurance Value Proposition in 2021

ONE

Connected Insurance Value Propositions and Their Appeal

i. Pre- and Post-First Wave Lockdown Results per Country

In order to understand how European drivers would react to several connected insurance products, CMT identified five value propositions used around the world and asked respondents in two surveys to pick which one attracted them the most. The value propositions are all quite similar but their application is slightly different and varies country by country. They were chosen to represent existing offers on the market today.

Below are the five value propositions and their simplified definitions:

PAY PER USE

- A simple proposition that pins premium to distance
- Pay at the beginning or the end of the period based on exactly how much you drive
- Get extra benefits for driving safely
- Often dubbed PAYD, this model used to require a device plugged into the vehicle; app and IoT solutions now suffice

PERSONAL RENEWAL

- The classic American UBI model. Variations of this model change the period in which data is collected, when discounts are eligible to be paid and how frequently feedback is provided to the driver
- Get a small discount upfront (5%) for signing up with a potentially large discount (max. 30%) at renewal depending on your driving behaviour

PAY HOW YOU DRIVE

- The distinction with this model is that drivers can receive incremental premium repayment throughout the programme in the form of a dividend based on telematics data and claims history
- Get a small discount upfront (5%) for signing up with a potentially large discount (max. 20%) at renewal depending on your driving behaviour
- Get extra cashback monthly based on driving behaviour (max 15%)

DISCOUNT-BASED INSURANCE

- The classic Italian UBI model, with the biggest overall discount
- Get a large discount upfront for signing up (max 20%)
- Get discount at renewal based on behaviour (max 30%)

REWARDS-BASED INSURANCE

- The only model with non-cash rewards for safe driving to drive loss mitigation and risk reduction. It is designed to lower loss frequency and severity through variable incremental benefits based on continuous engagement with the customer
- Receive vouchers on monthly gas bills based on driving behaviour (max 50% of premium value)
- Get discount at renewal based on behaviour

Before the pandemic, the most popular offer was the offering with the biggest upfront discount (around 34% of all respondents). The second most popular was the Rewards model (from 19 to 29%).

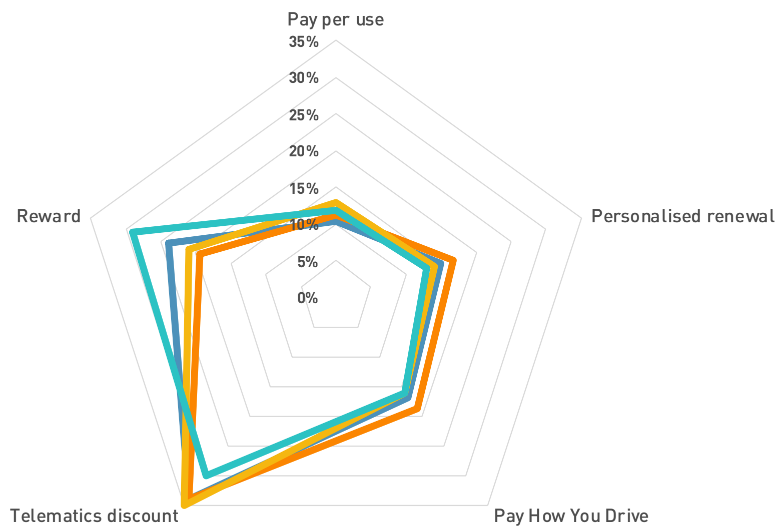
While there is a surprising amount of cohesion between the countries on this question, the response from French drivers was much more balanced between Telematics (30%) and Rewards (29%).

Interest for Distance-Based Insurance has Grown 145% Throughout the Pandemic's First Wave

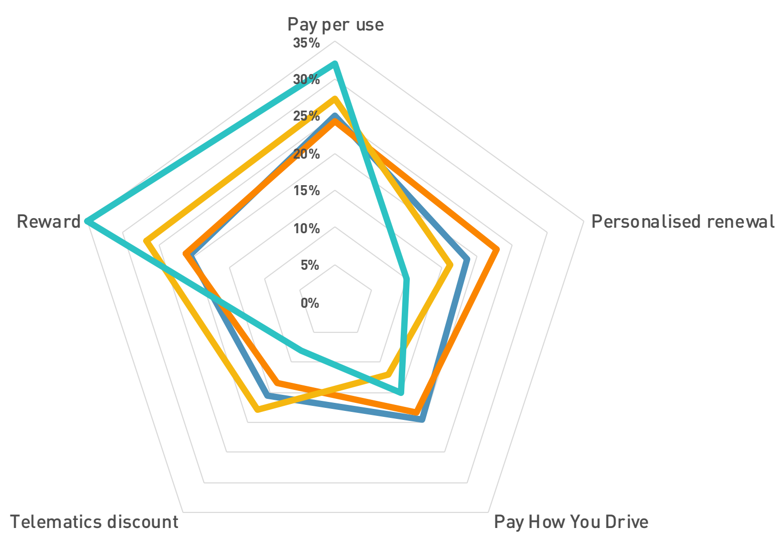
Source: "Future of European Insurance Survey," CMT 2020

- UK
- Italy
- Germany
- France

Value Proposition Preferences Before the First Wave



Value Proposition Preferences After the First Wave



The responses to the second survey were remarkably different. First, they were **much less cohesive**, perhaps a reflection of how the virus impacted the four countries differently. Again the French drivers are significantly different in their expectation of insurance value propositions. The September survey does however confirm French drivers' **appetite for reward-based insurance**.

Secondly, there is a clearly **marked shift from the telematics proposition based on discount to the mileage-based model**. Looking at the two averages between the four countries, the interest for distance-based insurance has grown by 145% between January to September 2020. At the same time, the three discount-based models that represented 65% of the preference overall before COVID now only add up to only 47% of the choices.

The biggest shifts are seen in the U.K. and France, where the attraction of distance-based insurance has nearly tripled since the beginning of the pandemic.

ii. Identifying the Most Potent Segments

Before COVID, the younger respondents in **Italy** prefered the **rewards model** (top choice at 32%). 25% of drivers paying less than €300 also chose the rewards model as their second choice (after telematics at 29%).

In the U.K., the second choice overall was also the rewards model. Like in Italy, 33% of Gen Z respondents preferred that model. Also drivers paying between £500-1,000 were as interested in the rewards model as in that segment's first choice (telematics).

These are two markets with strong historical discount offerings and the two biggest markets by volume in Europe. Yet the survey suggests that **young drivers may prefer rewards-based programmes**. It does make sense when one considers they may not be paying for their own premiums anyway and would be more motivated by rewards for safe driving.

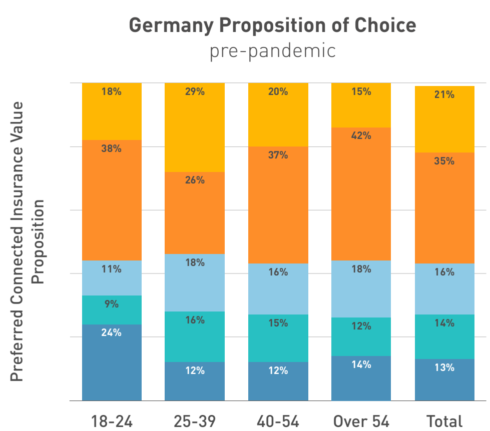
The same appetite for rewards-based insurance could be seen in France, especially with the younger generation (43.8% of the Gen Z and 31% of Millennial groups). **There are no such products on the market today**.

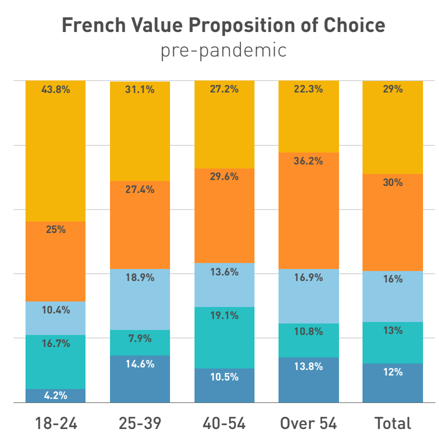
The **German** drivers preferred the telematics discount-based model overall. However, it displayed differences between generations that were much more marked than in other European countries. The Boomers and Gen X were emphatically more interested in the telematics model. Gen Z opted heavily (24%, second choice after telematics) for the distance-based model, and Millennials preferred the rewards model (29%).

Value Propositions: Finding the Sweet Spot

Source: "Future of European Insurance Survey," CMT 2020

Pay per Use
Personalised Renewal
PHYD
Telematics
Rewards



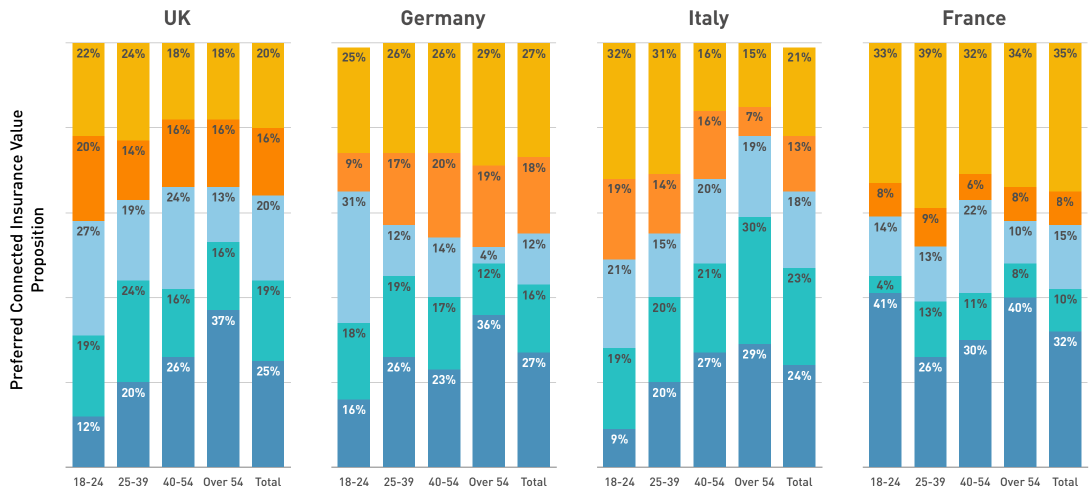


The results from the same survey done nine months later showed how preferences have evolved after the first wave.

Age Segments Define the Value Proposition Preferences more than Country

Source: "Future of European Insurance Survey," CMT 2020

- Pay per Use
- Personalised Renewal
- PHYD
- Telematics
- Rewards



The picture of the four markets' appetite split suggests there is **increasing interest for distance-based models as drivers grow older**. The trend is less visible in France because the young drivers there overwhelmingly support the model (41%, one of the strongest responses in the whole survey).

Besides France, age groups **over 54 are the biggest proponents to PAYD**. The younger segments are more split: in Germany and the U.K., they prefer the PHYD model (with monthly cashback), in Italy, it is the rewards model that works best for them.

This is coherent with the earlier findings that **young drivers have been least affected in their driving since the onset of the pandemic**. Older drivers have a clear benefit to switch to distance-based insurance, especially as they are generally against behaviour-based rating.

For the **Millennials** the choice is clear: in each country surveyed this segment **prefers rewards-based insurance** with the split a bit more balanced in the U.K. (24%) and more obvious in France (39%).

When CMT asked 1,000 randomly selected drivers in five countries the question...

"Is your current motor insurance policy price based on your driving behaviour with the help of an app or a device in the car?"

The response has been **"yes" at 30% consistently throughout**.

This has taken place in four different languages and has also occurred in previously conducted surveys using different phrasing of the question.

While we can only stipulate whether there is a singular reason for this, this result could suggest many drivers with normal insurance products do still feel that their insurance is connected and monitoring their driving. More research is needed, but insurers should be aware that **the difference between the corporate app and a telematics app** may not be as obvious as it seems.

iii. Determining the Most Compelling Rewards

Rewards-based programmes are now seen as one of the biggest opportunities for connected insurance. Examples of such products have been rare in Europe, so it is important to first define them adequately.

Rewards are non-cash incentives for safe driving behaviours and long-term improvements in a usage-based insurance programme using gamification techniques.

This model is the only one able to actively change the risk level of your pool. With **distraction taking the centre stage as the most risk predictive criteria**, insurers are looking at building ecosystems of partners to generate rewards in exchange for branding visibility.

In a separate survey in 2019, CMT asked U.K. drivers **what would motivate them to improve**. The answers did not match the commonly held belief that money is the sole motivator.

According to a 2020 survey titled "Insurance Rewards Survey, U.K.," 36% of 1,000 Bristish drivers surveyed would be motivated to become a better driver by a discount, 32% would prefer weekly rewards such as gift cards, 18% would rather have independent feedback on their driving, and 14% would benefit more from a contest comparing their driving with family and friends.

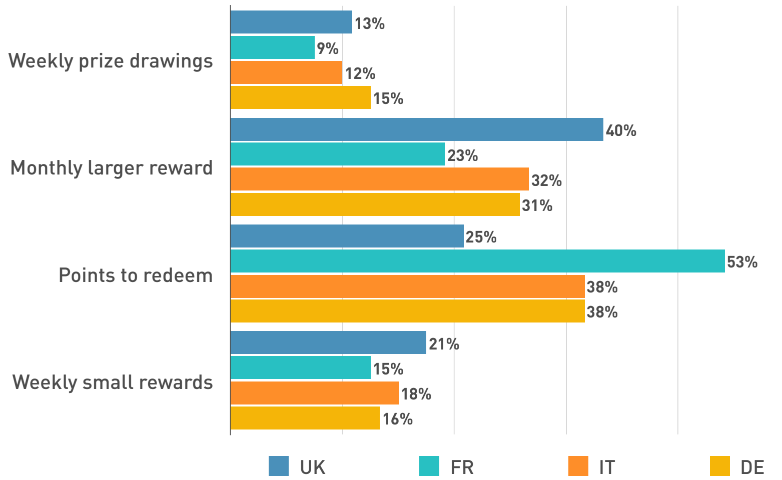
So in conclusion, 64% of the population interviewed suggested they would prefer non-financial rewards.

CMT then asked all four panels what type of rewards they would prefer:

- Eligibility to **weekly prize drawings** based on their driving score for things like VIP experiences, travel, sporting events, or concerts
- **Monthly larger rewards** for improvement of their driving behaviours (based on personalised driving challenges they would receive)
- **Points generated by their driving** score that they could redeem for gift cards at leading retailers
- **Weekly smaller rewards** (such as free smoothies) for streaks of safe driving behaviour (no distraction, no speeding, etc.)

How Do Drivers Prefer to be Rewarded for Safe Driving?

Source: "Future of European Insurance Survey," CMT 2020



The response came emphatically and coherently across markets. The **points to redeem** was the most attractive model. Such a model is perhaps better recognized as linked to the concept of loyalty programmes which give participants not only benefits but also status.

These results infer that **ego is the key motivator**. Insurers running loyalty programmes have the opportunity to partner with associated brands and develop loyalty from their base at a much lower nominal cost.

A monthly larger reward seems to be the second most attractive model. Here, the key motivator is the recurrence and the possibility to win something of real value. The caveat is that **the challenge is personal** and based on individual improvements, that way the insurer can be sure that only drivers showing long-term risk improvements are rewarded.

TWO

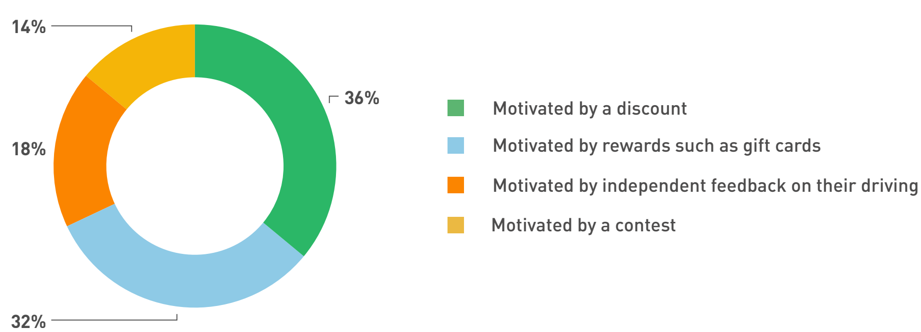
Value Added Service Strategies

Pre- and Post-First Wave Lockdown Results per Country

CMT proposed 16 different value added services (VAS) to the surveyed and asked them to choose a maximum of five. The reaction between different pools of respondents varied: Italian and French chose 2.8 services on average from the list, whereas Germans and British only chose only 1.4.

What Motivates UK Drivers to Improve

Source: "Future of European Insurance Survey," CMT 2020



The services were organised into the following categories:

SAFETY/ SECURITY

- Rewards for safe driving behaviours
- Active monitoring anti-theft device
- Automatic emergency assistance in case of severe crash
- Information about how teens and family members are driving

CLAIMS/ACCOUNT SERVICES

- Certified report in case of a crash that you can use in the claims process
- Help with claim processing
- Personalised insurance offers

RECOMMENDATIONS

- Personalised driving improvement
- Fuel efficiency recommendations
- Pollution reduction suggestions

INTEGRATED SERVICES

- Alexa (or equivalent) integrated into your car
- Automatic payment of parking/road/fuel station tolls from account
- Integration of other services (public transportation, ride and car sharing services, food delivery, etc.)

LOCATION-BASED SERVICES

- Car finder (find out where your car is parked)
- Car maintenance reminders
- Weather information

i. Per Country Assessment Pre-COVID

In **Italy**, the biggest interest in value added services is around providing **rewards** for safe driving, where 42% of the respondents chose that option. The share was even larger when considering age: 56% of Boomers chose rewards.

The second choice was **safety**; 36% of the respondents asked for emergency assistance from their insurers. Another 23% were interested in receiving help to process claims such as a certified report (23%).

Location-based services was also an appealing area for Italian drivers; 34% asked for a car finder feature in the app. Notably, 31% of the respondents asked for personalised insurance offers, the highest in Europe. The request came mostly from the Boomers segment (39% asked for the service).

In France, the key services requested were all around claims and safety. Rewards for safe driving did not appear in the top five, unlike the other countries surveyed. **Crash detection** and **emergency assistance** were the first services French drivers requested from their insurer. In terms of segments, the demand came strongly from Millenials and Gen X (33%).

Closely following safety services were **claims processing** assistance and certified reports to help with **claims reporting**. Both requiring a mobile app and telematics data, something that is still not available in the French insurance market to date and that Gen X again are the first asking for at 38%.

In Germany, the first choice went to **rewards**, asked for by over 20% of the respondents. The second service chosen was emergency assistance (17%), with help with claims processing coming third (14%). For both services, the segment of choice is Gen X, especially if the driver has been in a collision in the past.

Rewards took the first spot and **emergency assistance** took the second spots in the U.K., similar to the response from the groups in Germany. Other services requested ranged from personal insurance offers (13%) to monitoring of teenagers and family members (12%). Safety and security services were prioritised by the older generations (40 and over). Rewards for safe driving was the service most requested by Millennials (35%) and emergency assistance was most requested by Gen X (38%).

In order to analyse the choices from drivers already **set on switching** to usage-based insurance, CMT segmented the result using the response to a separate question: "How likely would you be to change your current insurance policy for the one you just chose, with the extra services and a £5 monthly charge?" This provided a better picture of the appetite from drivers to receive extra services **they have paid for**.

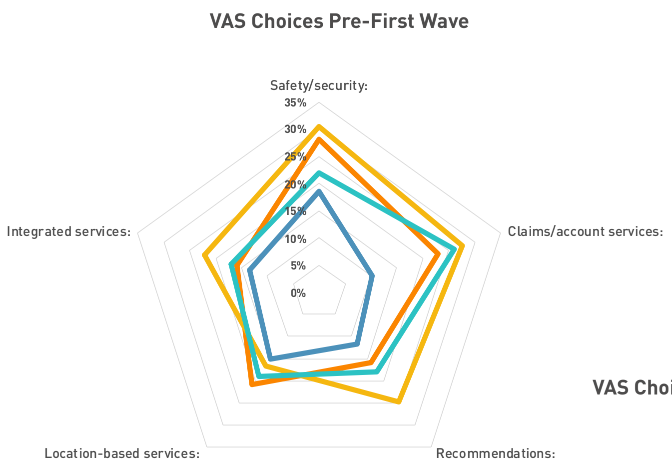
In this case, the slant towards **safety and claims** is even stronger as the graph below shows:

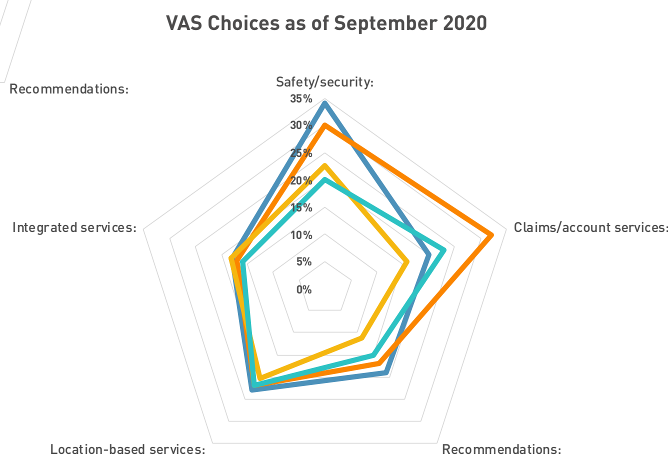
Drivers Pro-UBI More Likely to Favour Safety and Claims-Related Value Added Services (VAS)

(Percentage of the service chosen)

Source: "Future of European Insurance Survey," CMT 2020

Note: Respondents could choose a maximum of five services from the list of 16. Categories definition as detailed on page 27.





While the spread of service requests has remained fairly balanced, a clear slide is noticeable towards more drivers requesting safety, security, and claims services in the September questionnaire. Primary research with European insurers also confirmed that with many drivers continuing to work and spending less during the first lockdown, insureds have **not decreased their expectation for added services**.

Safety services are still the top segments in all countries surveyed after the first wave. **Emergency response** was the biggest request in France (34%) and Italy (43%). In those countries, the request for assistance with claims processing was also high on the list (38% in Italy and 26% in France).

After the first wave, as part of the safety and security categories, the **rewards** for safe driving option was the biggest draw in the U.K. (43%) and Germany (26%). This is consistent with the result of the first survey and still represents one of the biggest draws throughout.

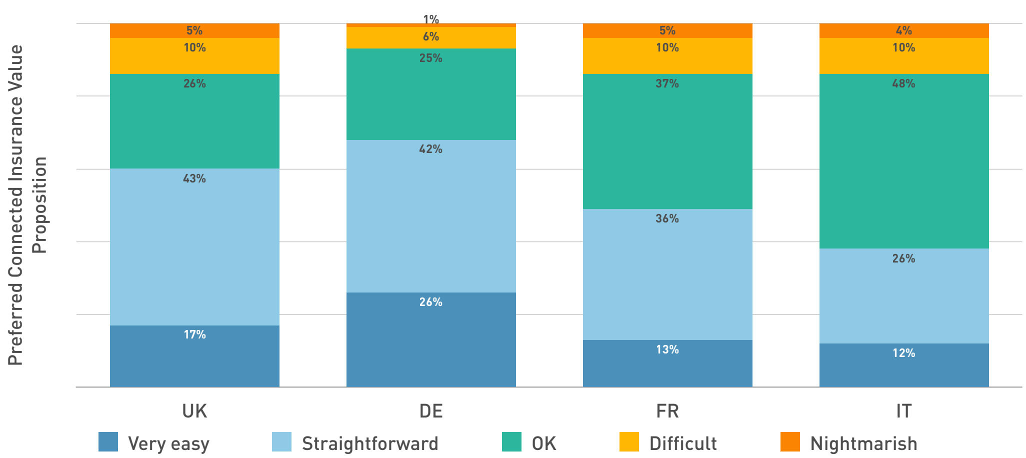
Each group of respondents chose more of the services offered in September than in January. This could reflect the necessity in people's mind to hunt for more services with perceived value even if there is a cost attached.

This is particularly true for claims related services. In all countries, the three services in the claims category represent a **clearly defined gap**. When filtering by respondents that have previously had a claim, the results went up by between 2 and 4 percentage points.

To understand this more precisely, CMT asked about the drivers' claims experiences. While the majority found the process straightforward or very easy, a substantial minority reflected on problems they had and too many respondents talked about a "nightmarish process."

Drivers' Experience with Claims Varied Wildly Across Markets

Source: "Future of European Insurance Survey," CMT 2020



There are two clearly defined camps here: Germany where claims experience is generally good, and the other countries where 15% of the drivers have had horrendous experiences.

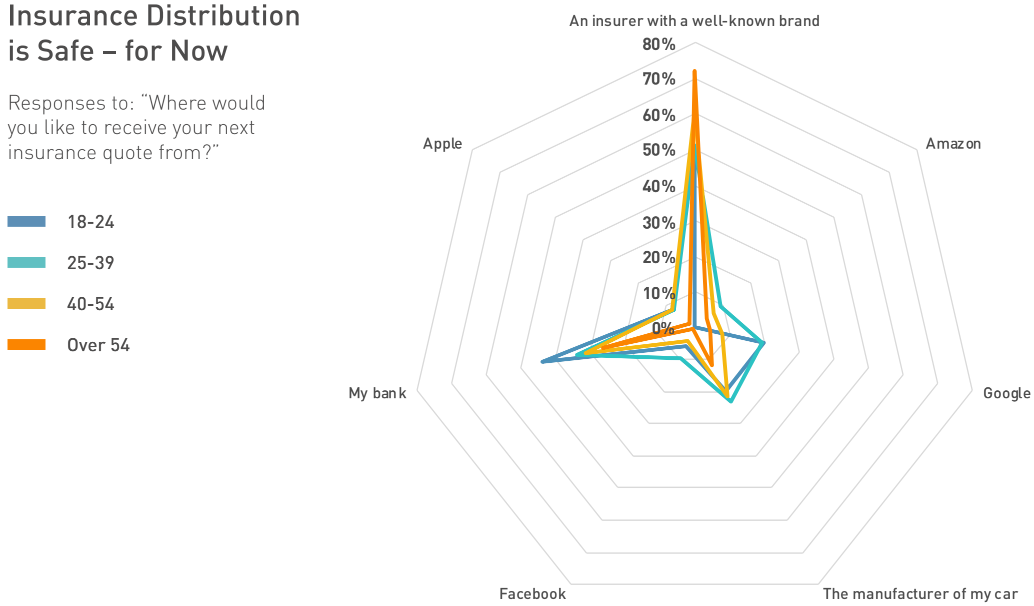
ii. Where Future Competition Lies

As OEMs take more of a role as insurance brokers and suppliers of the data to price insurance, CMT asked drivers in Europe who they expected would provide car insurance to them in the future.

The four countries responded in similar ways. **Insurers are still the main provider of the future**, but competition is rising: banks and car manufacturers are in front. The graph below shows the response by age for French drivers. This picture is fairly similar across the four nations.

Insurance Distribution is Safe – for Now

Responses to: "Where would you like to receive your next insurance quote from?"



It is the younger drivers here that have the strongest appetite for insurance provided by OEMs. The second spike comes from **banks**, while in the U.K. and Italy, the older drivers are choosing banks in high numbers, away from the classic insurance providers. In France, **44% of young drivers** expect their banks to provide car insurance.

The third-highest point of interest is **Google**, the country where the biggest proponents for Google to provide insurance is **Germany**. 23% of the Gen Z and Millenials there chose the web service giant as a potential car insurance provider. An average of 20% of the other countries' Millennials also did.

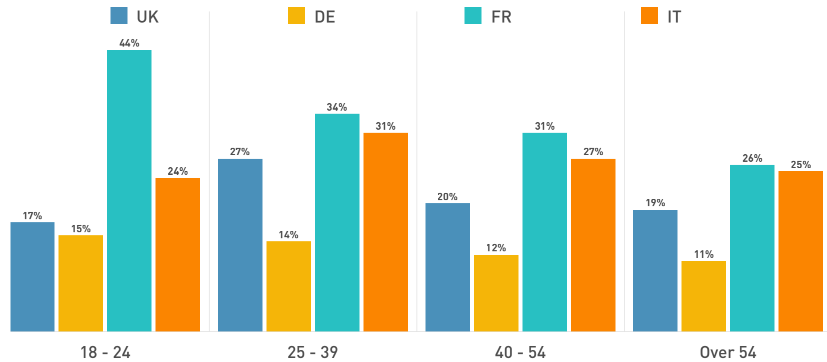
Relationships with banks, web-based companies, or car manufacturer brands are very different across Europe. The survey highlights how **banks** for example are much more popular in France than Germany. The **level of trust** that a population will have for specific entities is a prime factor in understanding why drivers would want to switch to them.

This is clearly illustrated by the fact that the last brand on the list to be chosen are Amazon and then Facebook. Universally it is known that those companies gather a lot of data about their users, but the level of **trust** is not there for all age groups – especially in Europe.

Illustrated below is how the different age groups in different countries picked among three alternatives:

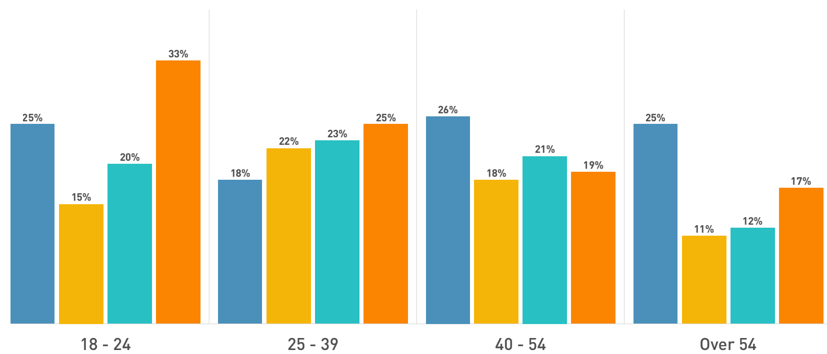
Drivers Who Would Prefer to Receive Motor Insurance from Their Bank

Source: "Future of European Insurance Survey," CMT 2020



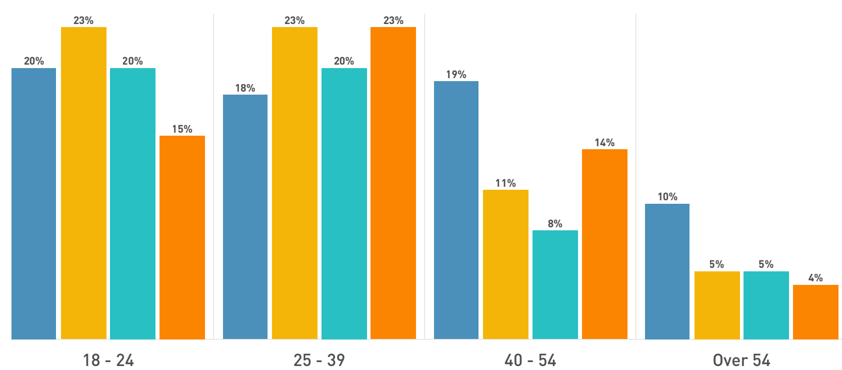
Drivers Who Would Prefer to Receive Motor Insurance from Their Car Manufacturer

Source: "Future of European Insurance Survey," CMT 2020



Drivers Who Would Prefer to Receive Motor Insurance from Google

Source: "Future of European Insurance Survey," CMT 2020



The spread of interest across country, age group, and stakeholders illustrates how the insurance market is constantly challenged with changing trends. While none of those changes could happen suddenly, the resilience of the model is based on people's habits and the perception that it is risky and difficult to become an insurer.

Habits change, technology permeates our way of life daily and many banks as well as some car manufacturers such as Tesla and GM have led the charge in creating new insurance propositions. Today, these are not ready for volume or/and capable to price risk based on vehicle data, but drivers have shown they have an open mind and don't mind waiting.

D Connected Insurance Value Demonstration

The original idea behind using telematics data in the insurance sector was to monitor a vehicle's usage to price insurance based on the policyholder's driving behaviour. Today, it allows insurance companies to reward those who opt into **safe driving or distance-based programmes** based on risky behaviours, scoring, and GPS monitoring.

As technology evolves, it allows for new, more robust business models. This has been particularly noticeable since **smartphone-centric insurance has introduced a brand new direct and constant channel of communication** between the insurer and the insured. In what is often coined as the age of connected insurance, the service has evolved to become app-centric and complete with mobile sensor data that informs state-of-the-art analytics and feedback to the drivers.

Together with frequency and richness of interaction, connected insurance brings another benefit. By selecting the risks, influencing driving behaviour, and using the crash data efficiently during the claims handlings process, carriers are able to accelerate claims management and benefit from increased efficiencies.

While there may be an infinite number of variations in the driver value proposition, most connected insurance programmes follow one of the three business models.

ONE

Three Types of Business Models for Connected Insurance

TRY-BEFORE-YOU-BUY (TBYB)

Underwriters can attract the safest drivers using an on-boarding app that scores end users using smartphone sensors. This model changes the dynamics of the typical quoting, underwriting, and binding process by using **risk data up front**. Insurers can then tailor risk selection and pricing based on an individual's driving behaviour as opposed to relying on external variables like address and age.

Using this model is also a great way to introduce the benefits of insurance using a driving behaviour-centric message. Potential customers benefit from a personalized quote based on their driving data which is a more equitable way to price.

BEHAVIOUR-BASED INSURANCE (BBI)

In this model, insurers offer new policyholders entry, mid-term, and/or renewal discounts based on their driving behaviour. The programmes are essentially focused on price segmentation, risk assessment, and retention. The rating criteria often include distraction, acceleration, distance, and driving time. Those continuous engagement programmes also utilize feedback to improve driver behaviour and reduce risk.

PAY-AS-YOU-DRIVE (PAYD)

In its basic form, PAYD or Pay-Per-Mile/Kilometer programmes use sensors to identify how much is driven during a certain period. Insurers charge a variable base rate and a per-mile fee.

It is a simple model that is identifiably fair and promotes reduced mileage and sustainable mobility. Since the pandemic, the model has found renewed proponents. Some insurers have also started to consider prepaid miles as well as rewards for safe behaviour such as free additional miles/kilometers.

i. A New Wave of Distance-Based Insurance

Upcoming PAYD models will emulate leasing or smartphone contracts by introducing a choice of packages that curbs the monthly bill uncertainty of basic PAYD programmes. At the same time, they are incorporating varying degrees of flexibility such as the integration of behaviour-based pricing. Three new models are detailed below.

1: Variable Mileage Plan

Drivers choose their monthly distance-based plan on top of a fixed annual subscription. Each month, they can change the size of the plan. An element of behaviour can be included in the calculation of the annual subscription of the next year.

2: Rolling Top-Up

Drivers pay a premium including a set of miles of their choice. Once they run out of miles, they can top up. There are no annual renewals, the top ups continue as long as the drivers want. However, in order to keep the drivers engaged, insurers can opt to calculate the top-up costs based on the driver's behaviour score.

3: Monthly Miles Rewards

Drivers pick a fixed distance contract in which the premium is paid at the end of each month. A reward is attributed to the drivers each month they drive less than the threshold. At renewal, their new initial fix mileage contract is priced, according to their score.

Whichever model is chosen, **customers always favour simplicity**. Consultants such as Deloitte recommend insurers make pricing simpler and more **transparent**. In the case of PAYD, this may look like charging a fixed fee plus an amount for usage such as distance driven, for example.

This is a trend that some strategists suggest will move the industry closer to **"invisible insurance."** The leasing market could be first to benefit from such models whereby coverage is automatically provided as part of the car purchase or lease agreement. This means that the customer does not need to arrange insurance. Of course the leaser is in a position to update the leasing/insurance cost based on vehicle usage.

The Five Key Benefits of Connected Insurance Programmes

The benefits of the above models will vary depending on implementation and the chosen value proposition, however the following core advantages can be used to benchmark any new offer.

i. Better Risk Selection

Risk selection happens both at the acquisition and renewal stage. **Self selection** still plays a key role in risk selection in markets where usage-based insurance is not limited to niches like the young drivers segment, such as in Germany.

In South Africa, Discovery Insure identified that its Vitality Drive customers were 10% less risky than other drivers with equivalent profiles. In such mature markets, self selection is now so prevalent that analysts are witnessing **negative selection** as risky drivers are less likely to participate in telematics programmes.

Telematics programmes trigger a natural selection segmentation. Harvard research found large profits and welfare gains from introducing monitoring. Safer drivers self-select into monitoring, with those who opt in becoming 30% safer when monitored.[2]

By contrast, in the U.K., self selection benefits are much lower because most behaviour-based programmes are targeting young drivers. The price difference between young drivers connected insurance and classic insurance has become so apparent to insurers that first-time drivers no longer have a choice.

Telematics data also **complements static variables** to determine risk more accurately and at an individual level. Better underwriting decisions can be taken using a TBYB programme or using various value propositions in a Pay How You Drive programme.

A U.K. study from Lexis Nexis found evidence that demonstrated drivers who enroll in telematics-based Pay How You Drive insurance become safer: enrollees reduced their fatal accident risk by about 50%. UBI drivers also decreased their daily hard-braking frequency by an average of 21% after six months.[3]

ii. More Accurate Pricing

Sensor-based individual scoring is an option on existing products or on standalone connected insurance products. It can be facilitated by telematics partners such as CMT with actuarial teams able to monitor the quantity and level of risk exposure throughout the period of coverage. Accordingly, on the basis of the information gathered by each driver, the "telematics-enhanced score" can be used by the insurer as a multiplier or an integrated element of their pricing structure.

Connected insurance greatly improves driving behaviour since premiums are based on **factors drivers have control over** such as speeding, cornering, harsh braking, and acceleration. Unlike static criteria that placed them into predetermined risk segments, these criteria can be more transparent and fairer.

iii. Relationship-Building Services

Value added services (VAS) consist of policy-related ancillary services sold or provided as part of the offer. They are generally – but not always – based on positioning and connectivity. These services represent an opportunity for the carrier to distinguish itself from the competition. They are also generating new opportunities for interaction and stronger ties between drivers and carriers, which in turn **impact positively on retention**.

The most common connected services are roadside assistance and emergency response in case of collision or vehicle breakdown. Mobile sensing, artificial intelligence, and IoT devices are used to recognise collisions and trigger an alert. The information can then be automatically fed into the **claims system**.

Capgemini
Efma

Today's drivers are more accustomed to mobile-centric services. Daily transactional online and mobile app usage for Gen X and older has doubled in two years to 64% in 2020. In parallel, consumers trust their online research more (86% of pioneers, 49% of followers) and social advice more than insurance agent/brokers (71% of pioneers, 38% of followers).[1]

iv. More Efficient Claims

Claims management and loss control improvement are areas where telematics helps **improve both customer experience and combined ratios** substantially. The same technology can be used for crash detection and alerts.

Following a crash, **IoT or mobile sensor data** can accelerate claims detection (FNOL), provide better claims descriptions, as well as triage claims and engage the right repair network. This process also detects fraudulent claims.

Research from ANIA, the Italian National Association of Insurance companies, concluded that the claims frequency of vehicles with telematics for drivers aged 18 to 25 in Naples was 26.8% lower than for the same segment without telematics.[4]

In this model, insurers benefit from reduced loss adjustment expenses. For the drivers, the benefits are tangible: rapid response in case of crash and faster claims resolution.

As an illustration, the **IoT Insurance Observatory** has mapped out the international claims programmes with the best results:

- Up to 75% of claims in the telematics portfolio were handled within one hour
- Reduction in the average time to settle a claim by up to 10% in the telematics portfolio
- Reduction in the amount paid for third party liability claims (change in the liability, denied, and waived claims) by up to 15% of the telematics-based claims
- Decrease in the average severity of up to 11% on the telematics portfolio

v. Effective Risk Reduction

Risk reduction from behavioural change using rewards-based programmes is an opportunity many insurers have started to understand. **Gamification** and **rewards** mechanisms have demonstrated markedly a more pronounced impact on driver behaviour than discounts. With **distraction** becoming a more important tool to measure risk, insurers are now able to use their connected insurance app to measure, provide feedback with, and motivate drivers to stop using their phone while driving.

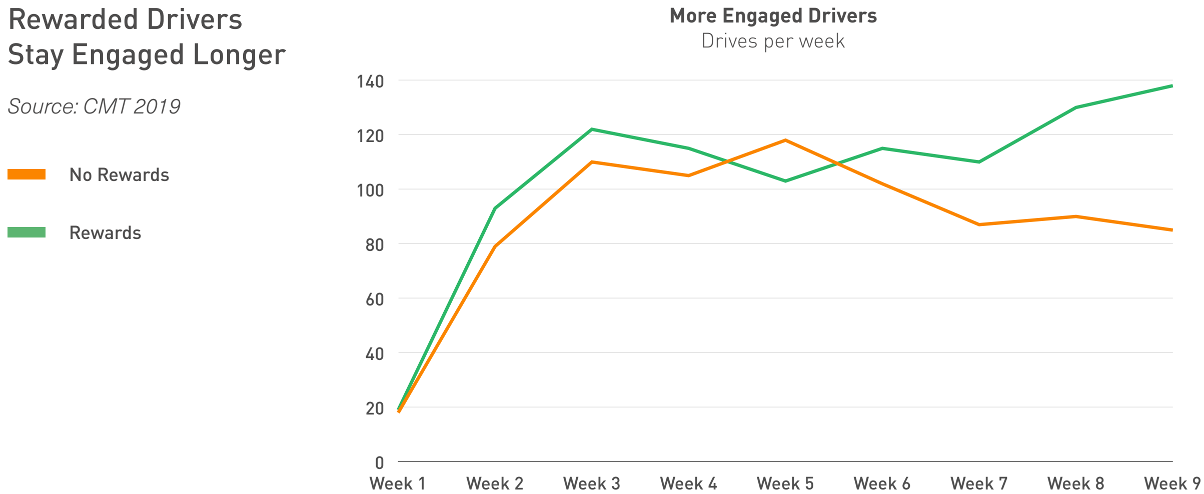
Accurate data and continuous feedback are both essential to behaviour change. Gamification programme design variations including **reward types**, **amounts**, and **timing** are all factors that can amplify the rates at which risk reduction occurs within a connected insurance rewards programme.

Discovery Insure in South Africa is leading the industry in its effort to establish best practices in behaviour change. Vitality Drive is to date the most successful insurance product with published demonstrable results in terms of driving habit improvement. According to Discovery Insure's 2018 Integrated Annual Report:

- Customers joining Vitality Drive achieve an average of **17% improvement in driving behaviour** within one month.
- Vitality Drive customers that remain in the programme result in a **25% lower absolute loss ratio** compared with customers who leave.
- Vitality Drive has a **17% lower loss ratio** on matured book compared with top four personal lines competitors.

Rewarded Drivers
Stay Engaged Longer

Source: CMT 2019



Risk reduction can also be implemented through safe driving contests. Since 2016, CMT has been **partnering with municipalities** and insurers to specifically address distraction. While promoting safer driving in the community, these contests provided participants the opportunity to compete for prizes for safe driving scores, promoted wide-scale driver behaviour change, and generated multiple benefits for the sponsoring insurers.

CREDIT SUISSE

Policyholders using app-based telematics auto insurance policies are 15-25% more profitable than non-telematics ones.

Why does it matter? Credit Suisse suggest a 1% decline in accident frequencies would boost earnings per share levels by about 9%.[5]

Each competition offered eligible participants the chance to win prizes for monitoring and changing their own behaviour. Award categories addressed the core problems each region was trying to mitigate, including **least distracted**, least speedy, and most trips taken on public transport.

For example, the Boston's Safest Driver contest in 2019 resulted in:

33%
overall reduction of dangerous behaviours

57%
reduction in hard braking

48%
reduction in distraction

38%
reduction in speeding

vi. Remaining Objections

When exploring drivers' sensitivities and the reasons why they would avoid telematics, previous sentiment surveys run by CMT have identified three areas of concern:

- 20% of drivers are **unconvinced of the programme's benefit** – specifically they will end up paying more for auto insurance.
- More common are the **fears over privacy** and data; the biggest concern was over the loss of privacy and control over personal data.
- This was supplemented by concern over **personal data being shared** with third parties, including the police.

There is a gap between the perception and the reality of the vast majority of telematics programmes in the market. The opportunity to overcome these objections is to **communicate clearly, openly, and honestly** with all facets of the programme.

At the same time, when looking at what insurers could do to make telematics programmes more appealing, 54% of respondents mentioned the **need for reassurance** that their personal information would not be misused and 55% would want to know that their rate would not increase.

CONCLUSION & RECOMMENDATIONS

COVID-19 has been a demonstrable force of **division and polarisation** at many levels of our society. From an insurance perspective, it has challenged the way risk is evaluated in a way that makes it impossible to use old tools to underwrite.

The working drivers market is now behaving very differently depending on their **sector of activity** and targeting those as new segments could be a useful way to classify risk more efficiently.

From a customer perspective, some drivers have benefited from the situation by reducing their costs. In turn, European insurers have reported an increase in **value added services adoption**, particularly in roadside assistance. This is in line with the findings of this report in terms of demand.

Universally among insurers, the successive lockdown periods have shown to decrease **claims frequency**, for obvious reasons; some insurers quoted a **drop of 16%.**

At the same time, all saw an increase in severity and claims cost. This could be explained by a mix of several factors:

- **Rising cost of repair** linked to garage closures and the disruption of the supply chain.
- The **change in traffic patterns** that have left the roads empty for the few motorists left to enjoy – CMT's telematics data has shown a sharp increase in over-speeding activity during the first lockdown.
- As this report has shown, the age groups that have continued to drive or increase their mileage are the young drivers, statistically, **the riskier segment**.

In this context, new business models have been created that help respond to unique market circumstances. **Connected insurance** provides the drivers the flexibility they now need since they drive less or differently. At the same time, **it provides insurers with the information needed to price risk appropriately**. The result is a huge surge in connected insurance adoption post-first wave seen in many markets worldwide with the resurgence of the mileage based offers backed by a 145% increase in customer interest illustrated in this study.

REFERENCES

1. Capgemini, Efma. [2020]. World Insurance Report, worldinsurancereport.com.
2. Jin, Y., Vasserman, S. [2019, December]. Buying Data from Consumers, harvard.edu. Cambridge, MA.
3. Jarvis, G. [2019, July]. Insurance Models for a Telematics Driven Future, TU Automotive. https://www.tu-auto.com/insurance-models-for-a-telematics-driven-future/.
4. Associazione Nazionale fra le Imprese Assicuratrici. [2020]. Italian Insurance 2019-2020, Ania. ania.it.
5. Credit Suisse. [2020, January 7]. P&C Insurance/Brokers 2020 Industry Preview.

CMT's mission is to make the world's roads & 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 more than 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.

CAMBRIDGE
MOBILE TELEMATICS

cmtelematics.com (800) 941-7177