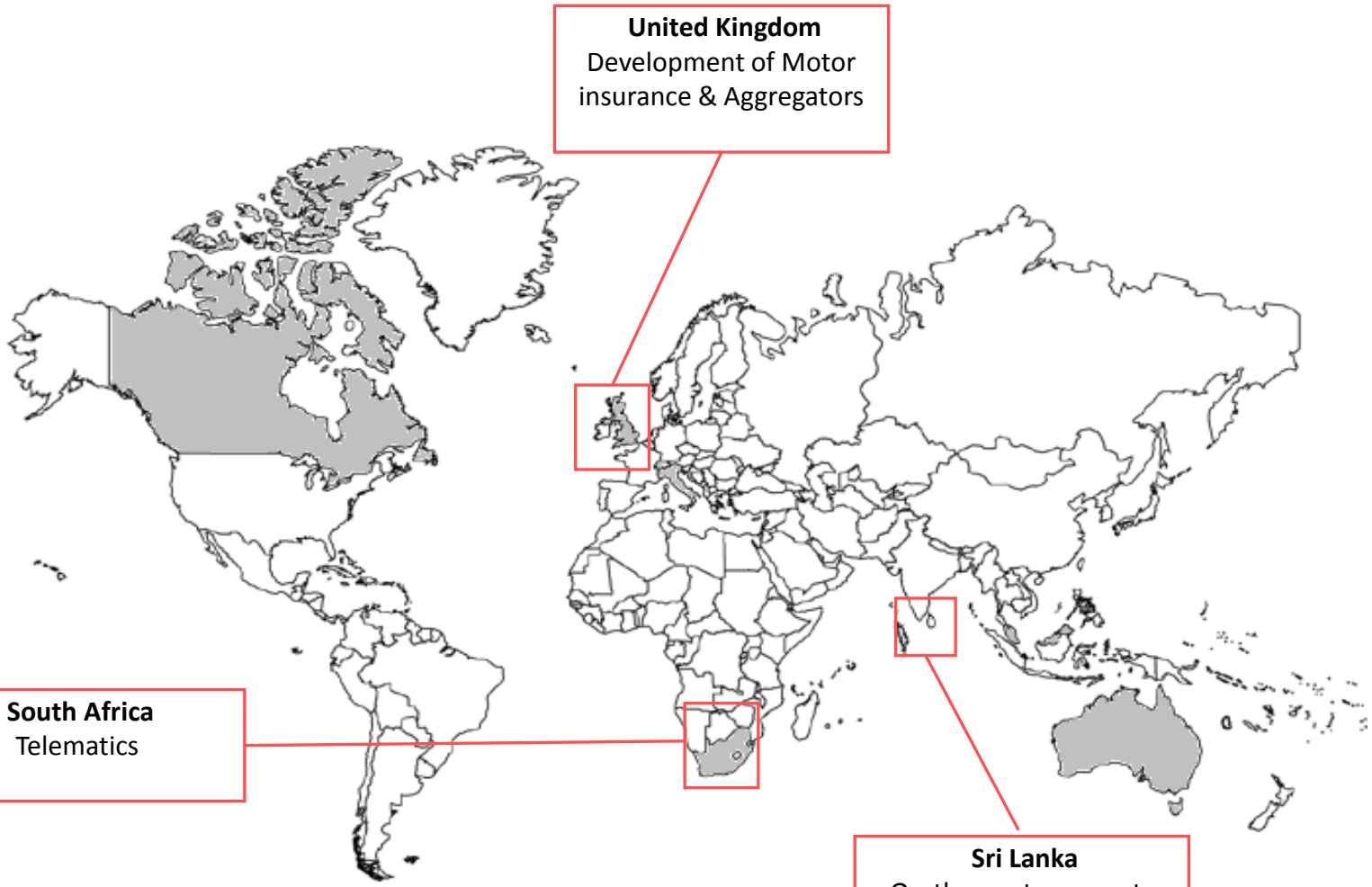
nmg CONSULTING

SHAPE YOUR THINKING

Developments in motor insurance

SAS 4th General Insurance Conference
31st May – 1st June 2012

Overview



United Kingdom
Development of Motor insurance & Aggregators

South Africa
Telematics

Sri Lanka
On-the-spot payments
"Guilt-free" motoring

Contents



- The evolution of motor insurance (UK)
- Aggregators (UK)
- Telematics (South Africa)
- Other innovations (Sri Lanka)
- What happens next?

The evolution of motor insurance (UK)

History (the UK)

- 1930s Road Traffic Act made Motor insurance compulsory in the UK
- Covered liability for injury or death to third parties
- Mid 20th century large composites dealing with most motor insurance
- Very little competition leading to monopoly in trade
- Composite insurers pooled their data to devise a schedule of rates and conditions
- Resulted in a Tariff

The evolution of motor insurance (UK)

Selective underwriting

- In the late 1960s the tariff was dissolved…
- Lloyds of London performed selective underwriting to schemes and used Brokers to sell their products
- Largest insurer of the day went bust: Vehicle and General as a result of the severe winter
- Resulted in high-street brokers servicing 50-60 insurance companies at any given time

The evolution of motor insurance (UK)

The rise of Swinton

- Use of brokers continued into the late 80s' early 90s'
- Development of the computer and the rise of Swinton
- Resulted in improved efficiency
- A very successful high-street broker model
- Many policyholders considered Swinton their Insurer

The evolution of motor insurance (UK)

Direct Line



- The 90s' saw the emergence of telephone based insurance…
- …the rise of Direct Line
- Iconic company (now part of RBS)
- Pioneered telephone insurance in the UK
- Became the largest provider of Motor insurance in the UK
- In recent years the telephone has been joined by a mouse to reflect online purchasing habits…
- …leading to the use of the internet



The evolution of motor insurance (UK)

The internet

- The use of the telephone was replaced by the use of the internet to purchase Insurance
- Leveraged on low operating and acquisition costs; savings were passed on the customers
- Elephant.co.uk



- Proliferation of internet usage in turn lead to the use of…
- …Aggregators in the mid 2000s'

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Aggregators (UK)

An overview

- Collect comparative insurance quotes and allow consumers to price-shop and buy online
- Changing the way business is being transacted
- Making the market much more competitive
- (Blamed for the unprofitability of the UK Motor insurance market)

Aggregators (UK)

Why they work

- UK customers used to purchasing online without intermediary advice
- Research in 2010 suggests that 51% of all private car insurance is purchased with the use of the internet
- Customers
  - appear to be open to new brands
  - Highly price-sensitive
  - View the internet as a low cost channel

Aggregators (UK)

Features

- Customers purchasing via the internet have different expectations for self-service facilities, more dynamic content etc.
- Aggregators have recognised this and invested heavily in the online “experience” to facilitate repeat business
- This is putting pressure on the relationship between the customer and the insurer
  - Relationship with Aggregator not insurance company

Aggregators (UK)

Recent developments

- Insurance companies declining appear on comparison sites
  - Using this as a differentiator
- Still possible to “carve out” profitable segments by developing customer analytics
- Broker that analyses all the pricing and offers discounts to sub-segments
  - Loss ratio running at approx. 55% (while average loss ratio is 80%)
  - More business channelled through Broker!
- Aggregators (rather than insurers) now trying to differentiate and looking at Telematics
  - The European Union gender ruling considered to be the catalyst for the industry’s interest in telematics….

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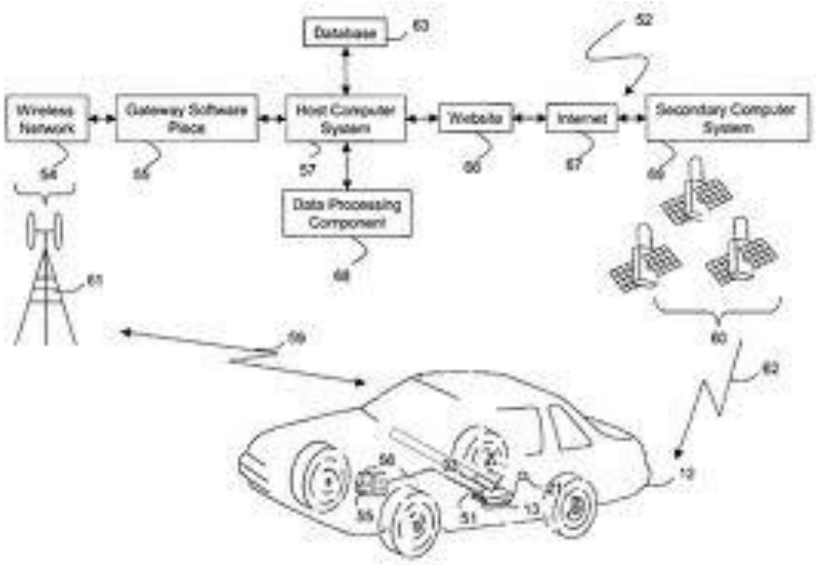


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- Conclusions

Telematics (South Africa)

Overview

- The next big thing in Motor insurance





Telematics (South Africa)

Overview

- Pay-as-you-drive
- Pay-how-you-drive
- In the early 2000 AVIVA stopped offering it's UBI product citing poor take-up (Young Driver product)
- Today, 55% of the top 20 Insurers in the USA and UK are either piloting or have implemented a Telematics based proposition in their personal lines offering

Telematics (South Africa)

Why it works

- In South Africa many of the top insurers have started competing in the Telematics space
- The cost of Telematics devices has dropped; flexible payment plans etc.
- There is a lack of credible data in this space, Telematic devices provide a wealth of information
- Motor manufacturers are installing Telematics devices as standard kit
- There is an increased governmental focus of road safety
- Can improve environmentally friendly driving

Telematics (South Africa)

Why it works

- There is self-selection and it improves driving behaviour
- Controllable
- Reduces reliance on traditional proxies, e.g.:
  - Make/Model
  - Driver details
  - Value etc.
- Can capture actual driving behaviour
- Ancillary services
  - Crash Alert
  - Tax Log Books
  - Panic Button Functionality
  - Geo-fencing

Telematics (South Africa)

What information does it record?

Start time	Start location	Use of seatbelt	Roads used	Acceleration
Use of brakes	Speed	Stop time	Stop location	Idling time
Lateral Movement	Distance	Time of day/night	Direction of impact	Impact severity
Driver – if camera installed		No. of passengers – if camera installed		

Telematics (South Africa)

How the information can be used

- Panic alert
- Route based charging
- Location area information
- Geo-fencing
- Vehicle location
- Incident alert
- Incident details
- Vehicle recovery
- Driver quality assessment
- Distance-based charging
- Taxation log books

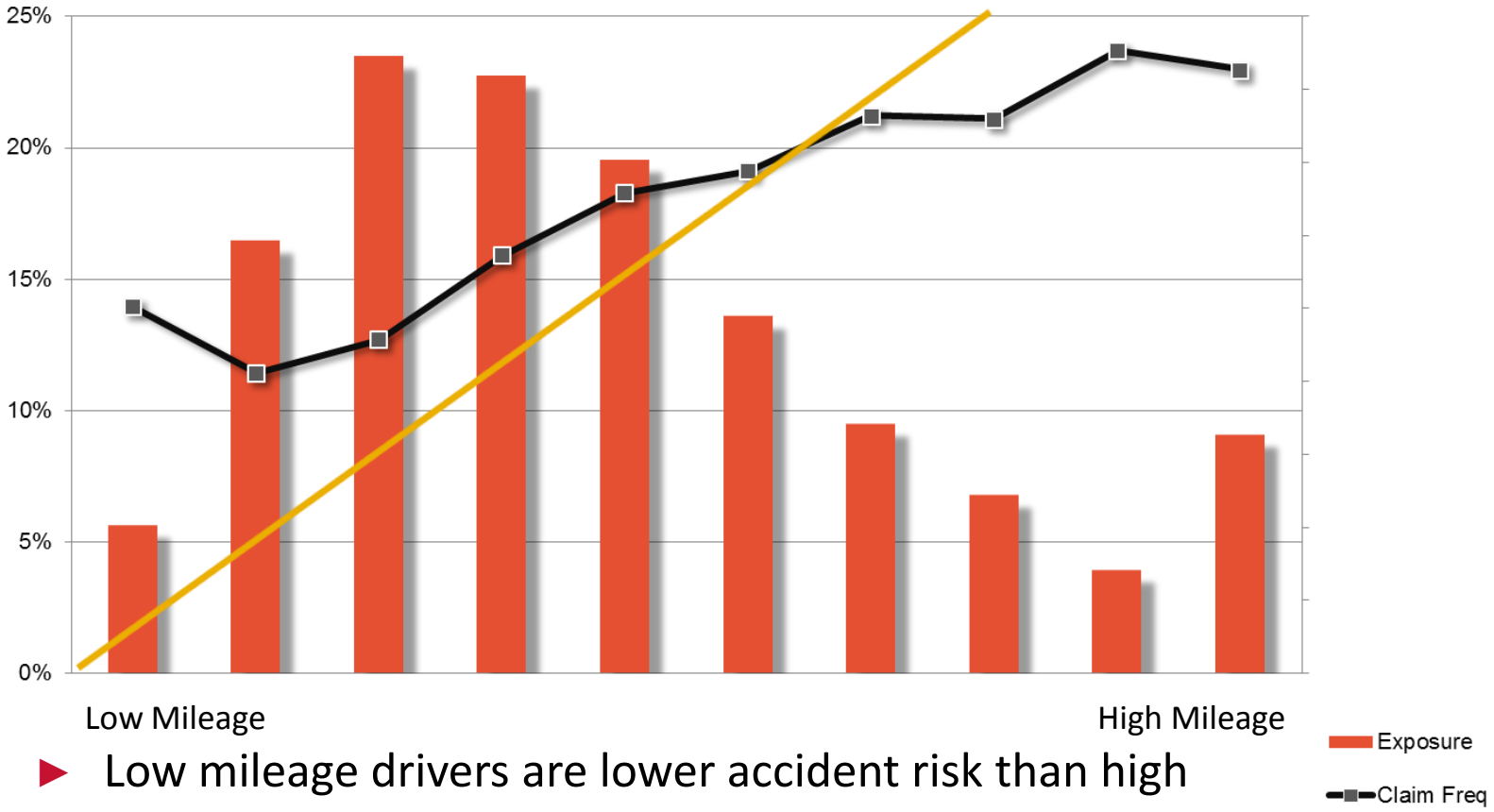
Telematics (South Africa)

Features

- Can price the risk more accurately…
- …provides underwriting predictability
- Self-selection of better drivers
- Reduction in premium “leakage”
- Improved driving
- Brand value – considered fairer
- Improved claims processes / able to mitigate fraud
- Customer loyalty, satisfaction and retention
- Difficult for competitors to replicate

Telematics (South Africa)

Driver behaviour statistics

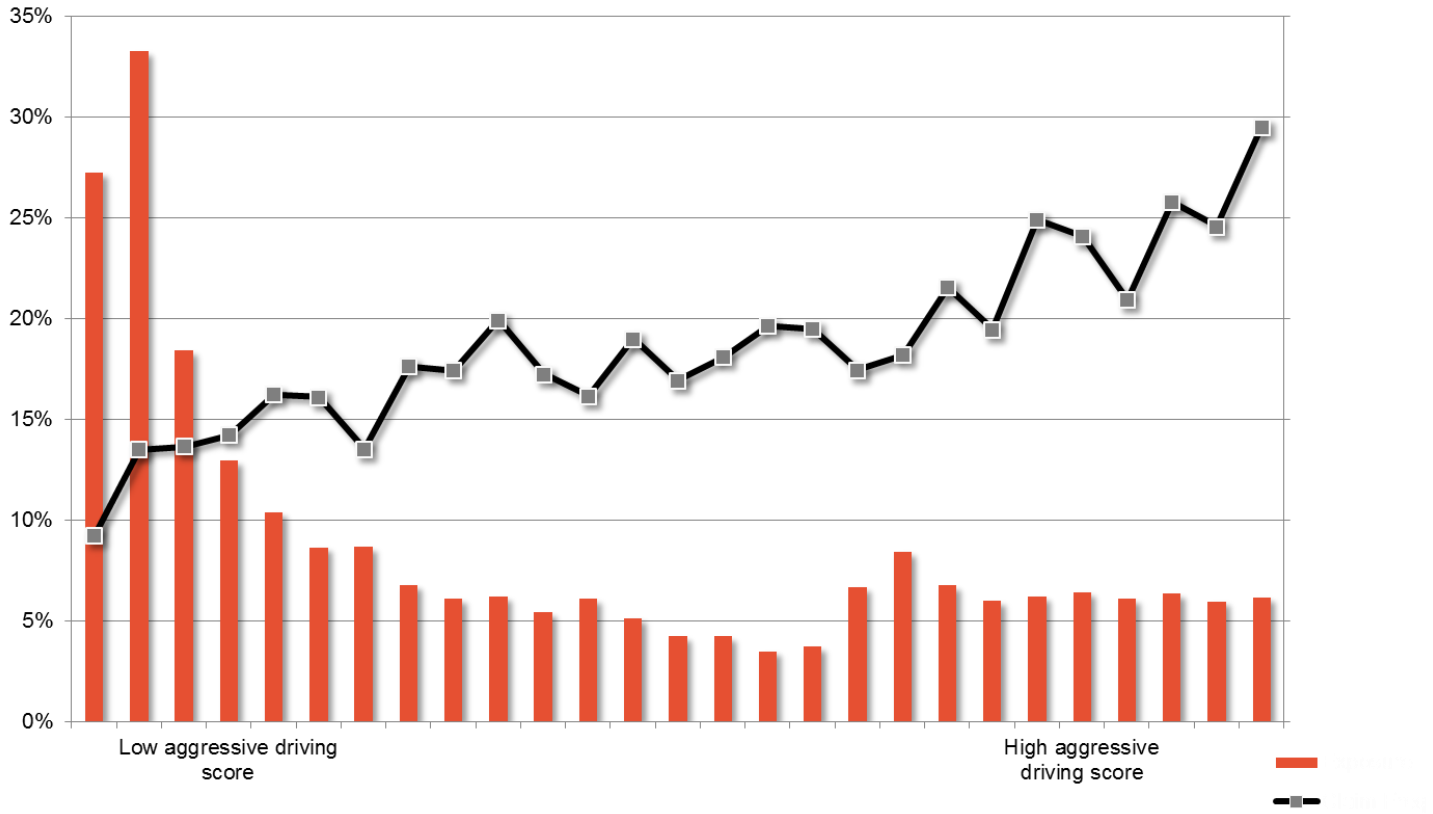


- Low mileage drivers are lower accident risk than high mileage drivers

*Telematics Based Insurance presentation, NMG Rendezvous Feb 2012, South Africa

Telematics (South Africa)

Driver behaviour statistics

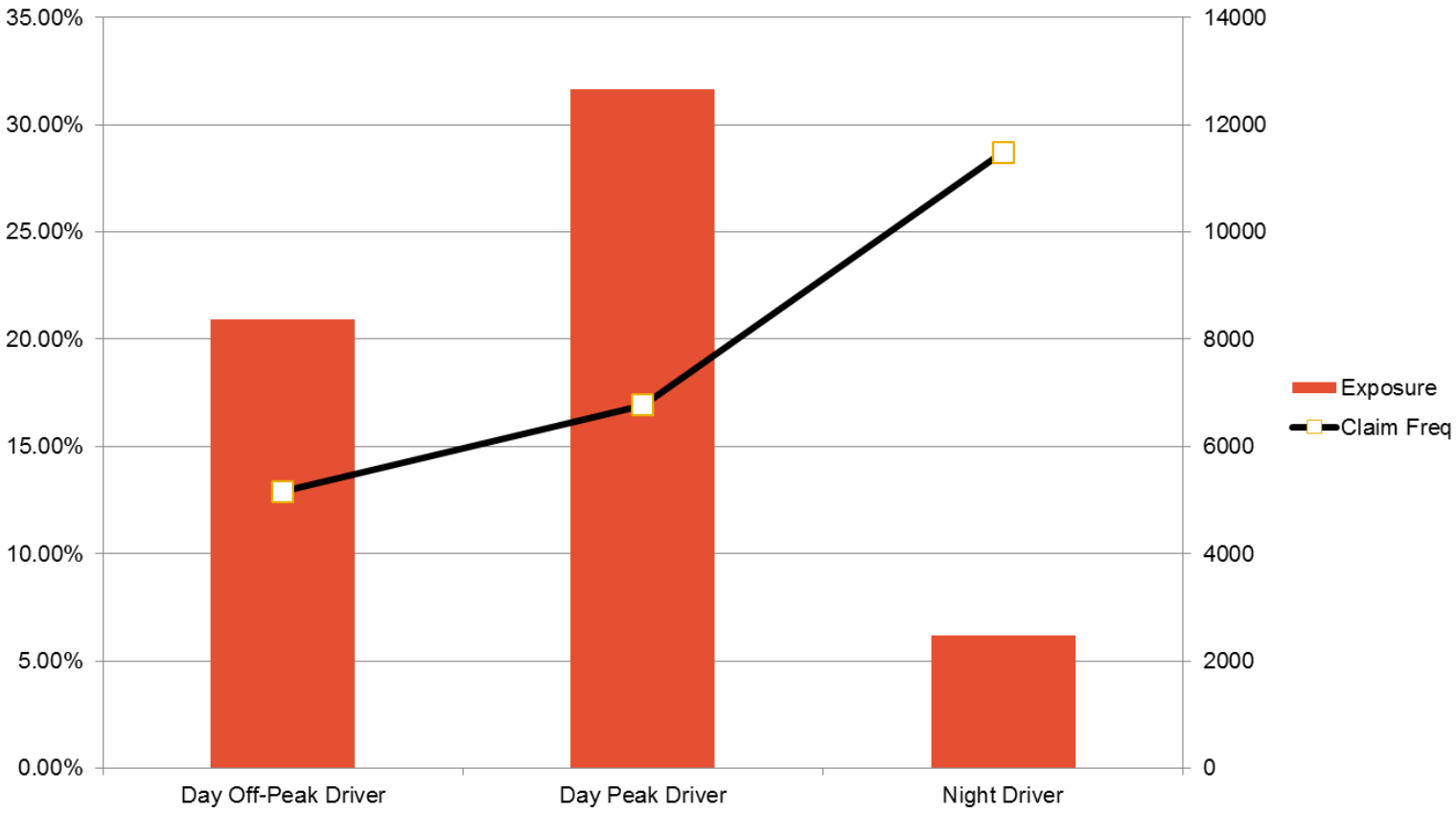


- Aggressive drivers are more likely to have accidents

*Telematics Based Insurance presentation, NMG Rendezvous Feb 2012, South Africa

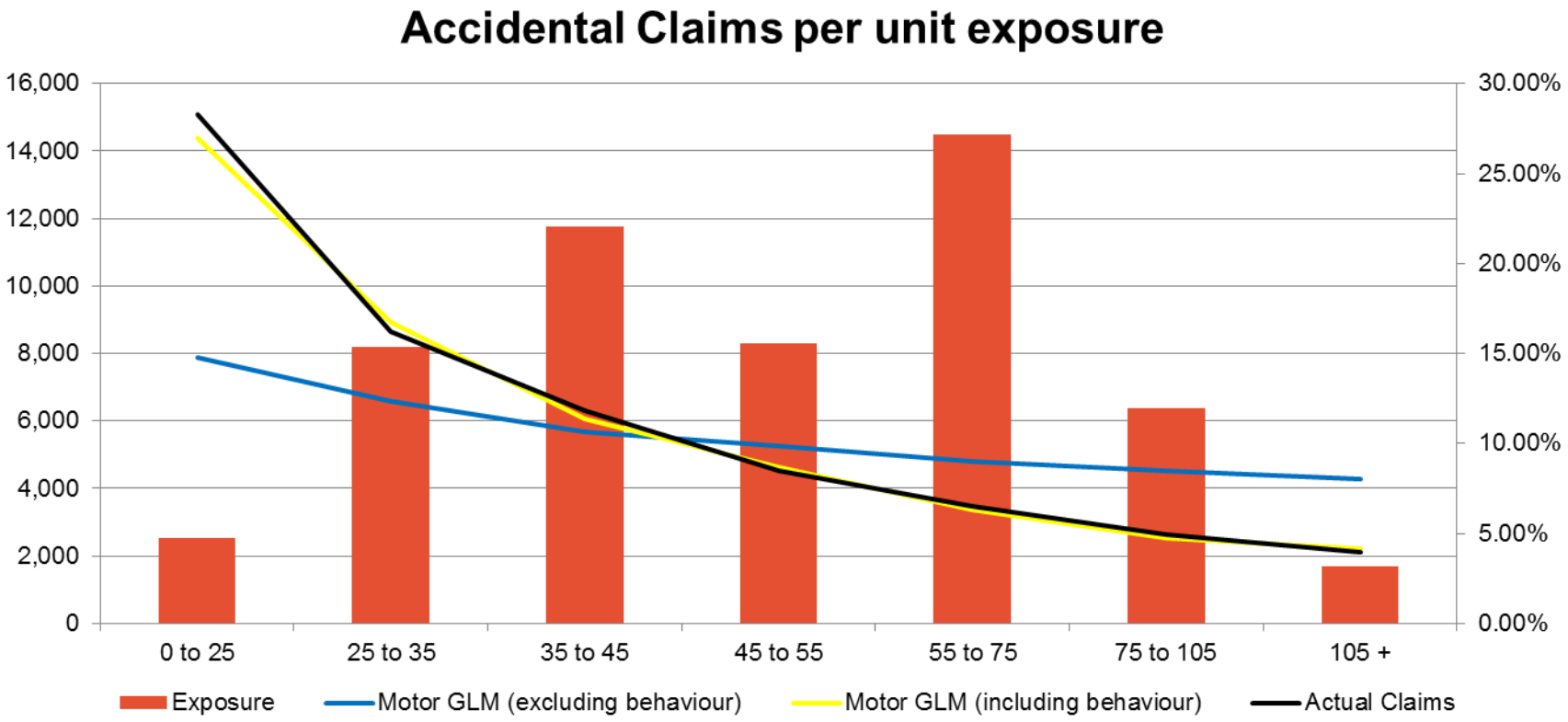
Telematics (South Africa)

Driver behaviour statistics



*Telematics Based Insurance presentation, NMG Rendezvous Feb 2012, South Africa

Telematics (South Africa)

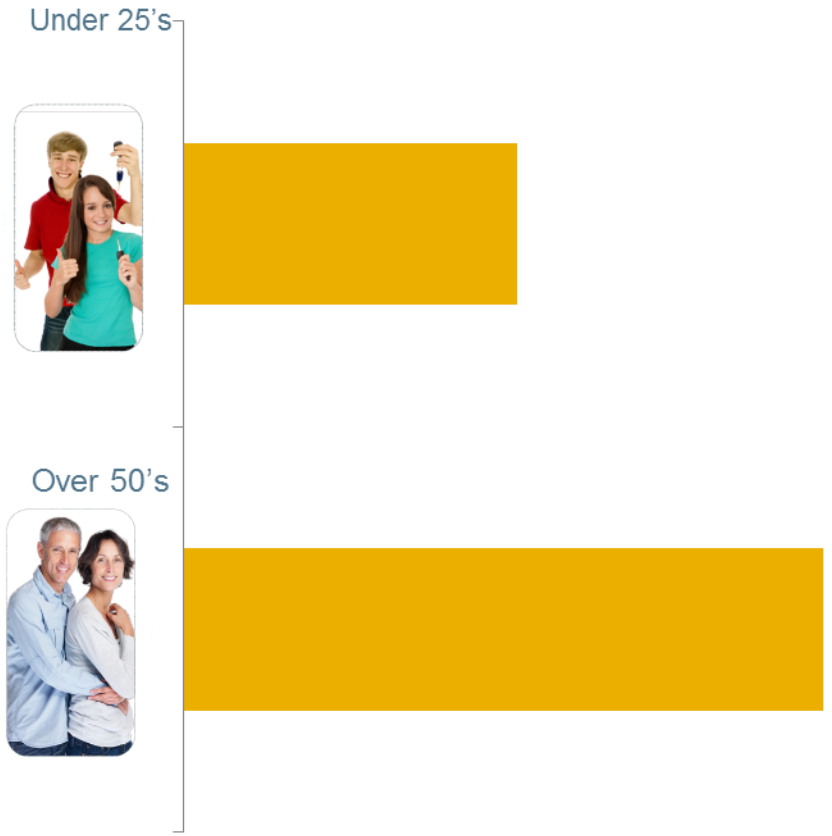


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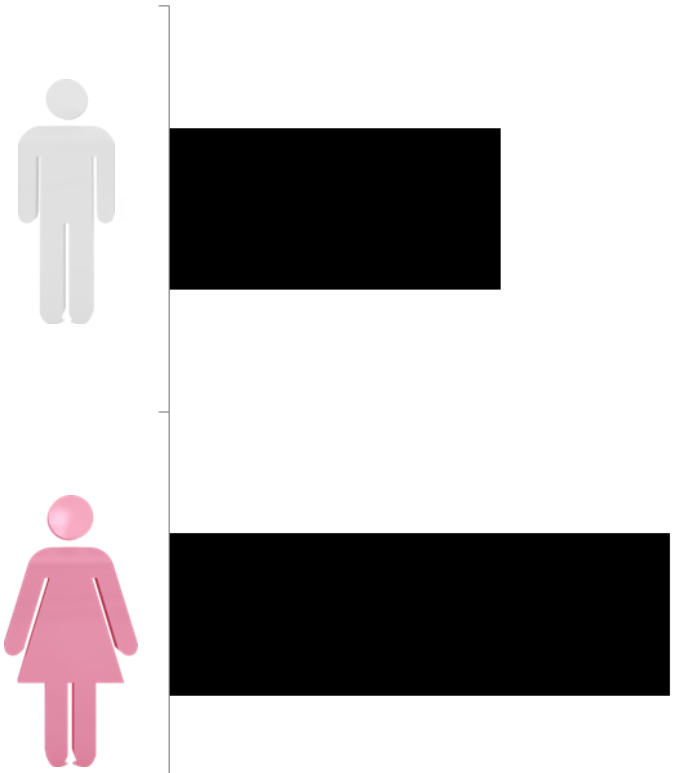
Telematics (South Africa)

Behavioural insights

Driver performance scores: Results by age



Driver performance scores: Results by gender



*Telematics Based Insurance presentation, NMG Rendezvous Feb 2012, South Africa

Telematics (South Africa)

Trip data*

05:04:31PM	Speed violation	133	1,118.0	near N14; 1.6 km NE of Springbok
05:06:30PM	Speed violation	133	1,122.2	near N14; 5.5 km NE of Springbok
05:06:48PM	Speed violation	134	1,122.8	near N14; 6.1 km NE of Springbok
05:07:26PM	Speed violation	133	1,124.2	near N14; 7.3 km NE of Springbok
05:08:06PM	Speed violation	133	1,125.6	near N14; 8.7 km NE of Springbok
05:09:21PM	Speed violation	134	1,128.5	near N14; 11.6 km NE of Springbok
05:11:20PM	Speed violation	143	1,133.2	near N14; 16 km NE of Springbok
05:12:37PM	Speed violation	133	1,136.2	near N14; 18.8 km NE of Springbok
05:13:35PM	Speed violation	137	1,138.9	near N14; 20.9 km NE of Springbok
05:15:55PM	Driving;GPS unlocked	0	1,143.4	near N14; 25.2 km NE of Springbok
05:16:32PM	Speed violation	149	1,147.0	near N14; 27.9 km NE of Springbok
05:18:55PM	Driving;GPS unlocked	0	1,150.8	near N14; 31.4 km E of Springbok
05:19:02PM	Speed violation	150	1,153.6	near N14; 33.7 km E of Springbok
05:20:26PM	Speed violation	133	1,157.1	near N14; 37.2 km E of Springbok
05:21:33PM	Speed violation	150	1,160.5	near N14; 40 km E of Springbok
05:23:55PM	Driving;GPS unlocked	0	1,165.1	near N14; 44.6 km E of Springbok
05:24:32PM	Speed violation	162	1,168.9	near N14; 47.6 km E of Springbok
05:26:55PM	Driving;GPS unlocked	0	1,172.9	near N14; 51.6 km E of Springbok
05:27:02PM	Speed violation	163	1,176.1	near N14; 54.3 km E of Springbok
05:28:46PM	Harsh Braking	146	1,180.8	near N14; 59 km E of Springbok
05:31:05PM	Driving	0	1,185.8	near N14; 59.2 km E of Springbok
05:33:05PM	Driving	0	1,185.8	near N14; 59.2 km E of Springbok
05:33:29PM	Ignition off	0	1,185.8	near N14; 59.2 km E of Springbok
08:43:10PM	Ignition off	0	1,185.8	near N14; 59.2 km E of Springbok
08:45:30PM	Ignition off	0	1,185.8	near N14; 59.2 km E of Springbok
08:47:55PM	Ignition off	0	1,185.8	near N14; 59.2 km E of Springbok
08:50:15PM	Ignition off	0	1,185.8	near N14; 59.2 km E of Springbok
08:51:08PM	Battery Tamper;Ignition off	0	1,185.8	near N14; 59.2 km E of Springbok
08:57:13PM	Battery Tamper;Start up	0	1,185.8	near N14; 59.2 km E of Springbok
08:59:15PM	Battery Tamper;Driving	0	1,185.8	near N14; 59.2 km E of Springbok
09:00:19PM	Battery Tamper;Ignition off	0	1,185.8	near N14; 59.2 km E of Springbok
09:02:40PM	Battery Tamper;Ignition off	0	1,185.8	near N14; 59.2 km E of Springbok
09:05:00PM	Battery Tamper;Ignition off	0	1,185.8	near N14; 59.2 km E of Springbok
09:06:07PM	Battery Tamper;Start up;GPS unlocked	0	1,185.8	near N14; 59.2 km E of Springbok

*Telematics Based Insurance presentation, NMG Rendezvous Feb 2012, South Africa

Telematics (South Africa)



What are the challenges?

- Expensive IT infrastructure required to collect driving data, to integrate UBI scores with the current system
- Product must appeal to the market and be profitable
- There may be legal and regulatory issues
- Sourcing the best device for the product
- Practical considerations:
  - Logistics associated with installation
  - Start up delays, bad signal, GPS drift, signal skip
  - Battery drain (multiple aftermarket devices)
  - GPS freeze

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Other innovations (Sri Lanka)

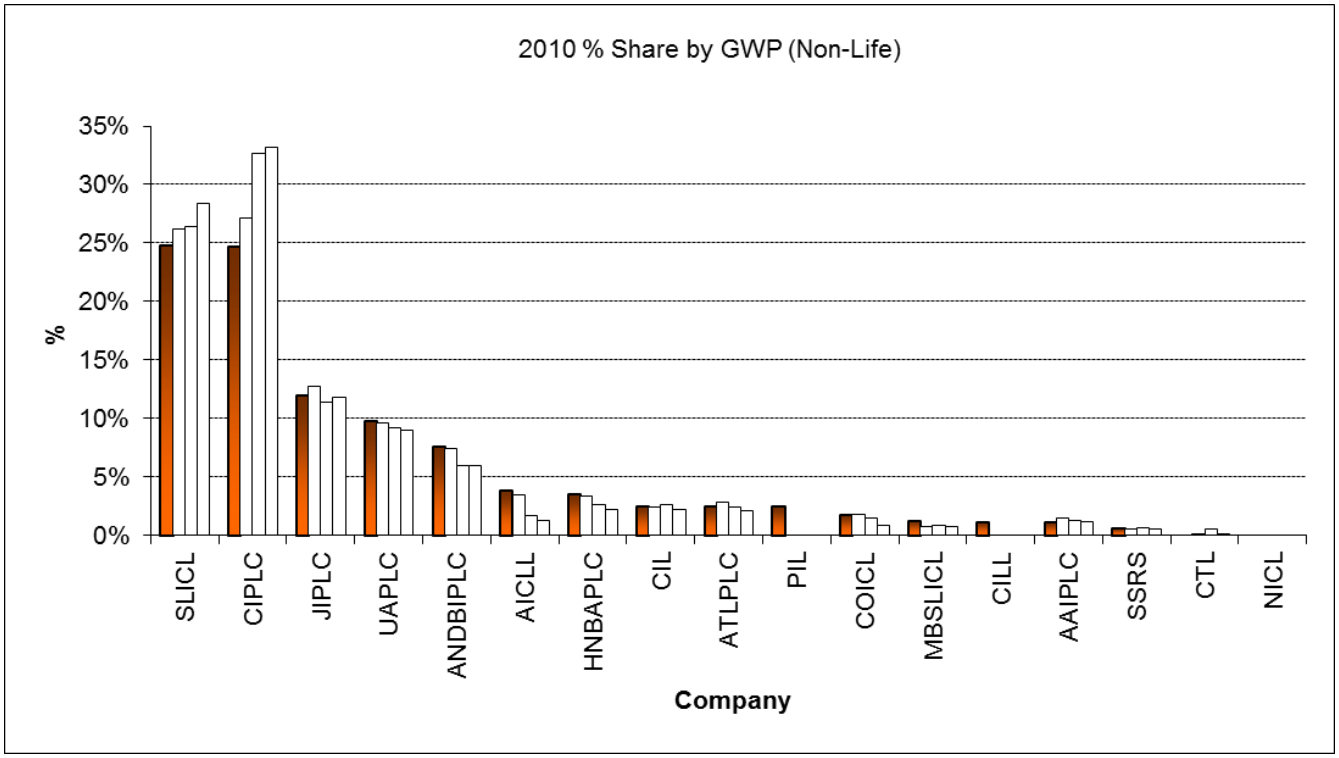
Sri Lanka

- Island south of India
- Approx. 22 million people (cf. Malaysia 28m)
- 65,000 km^2 (cf. Malaysia 330,000 km^2)



Other innovations (Sri Lanka)

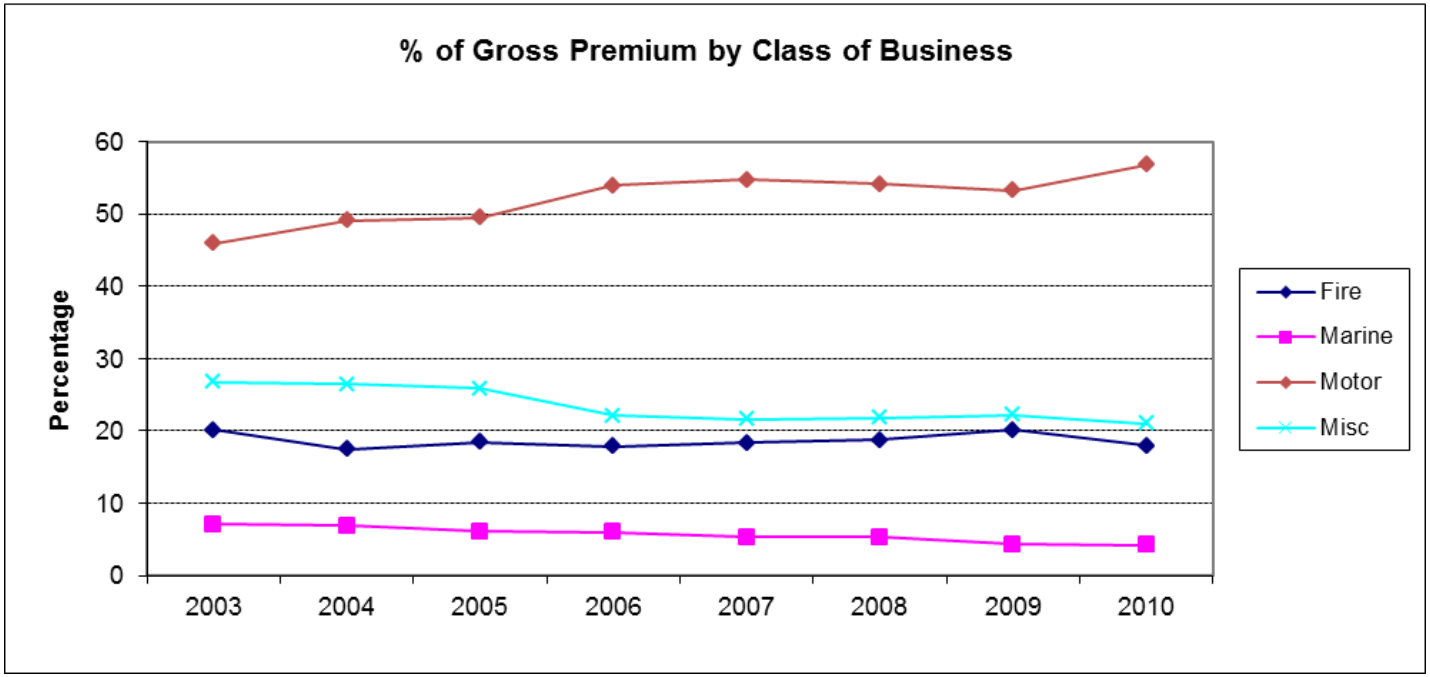
Background



- Sri Lankan insurance market is relatively immature
- Approximately 20 companies in the market but dominated by top 5 companies
- Distribution channel is dominated by 'Agency'

Other innovations (Sri Lanka)

Motor Insurance



- Accounts for a significant portion of general insurance business
- De-tariffed in 2004, however most companies still using same tariff rate
- Highly competitive and now a commoditised product
- Rate is a simply a function of Sum Insured (2.25% x SI)

Other innovations (Sri Lanka)

Recent developments

- End of civil war, leading to a reduction in interest rates
- Underwriting losses no longer subsidised by high interest rates
- New entrants in the market
- Reduction in tax rates
- Introduction of RBC
- Development of infrastructure
  - New highway (high frequency low severity to low frequency high severity?)



Other innovations (Sri Lanka)

Innovations

- Developed by one of the largest insurance companies, Ceylinco
- They've been voted Asia's most innovative insurance company (twice)
- Recent innovations
  - VIP on-the-spot
  - Guilt-free driving



Other innovations (Sri Lanka)

VIP on the spot

- At the time of accident a assessor will settle the claim on the spot in full
- Resulted in domination of the motor insurance market
- Many companies tried to copy
- Includes interesting benefits
  - Emergency roadside assistance for lady drivers…
  - …together with a plastic surgery cover

Other innovations (Sri Lanka)



Other innovations (Sri Lanka)

Guilt free driving

- Provides free air tickets for both parties in the event of a (genuine) accident
- The other individual whose vehicle is involved in the accident with a VIP customer gets an air ticket to a destination of his/her choice…
- …provided that the individual changes his/her insurance to Ceylinco insurance

Other innovations (Sri Lanka)



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What happens next?

- Jurisdictions vary in level of sophistication
  - UK
  - South Africa
  - Singapore/Malaysia/Sri Lanka
- …however, they appear to be converging fast
- A lot of developments in the motor industry
  - Internet based sales
  - Aggregators
  - Telematics
  - Etc.
- Some common themes around the development
  - Commoditisation of products
  - Internet purchasing

What happens next?

- Future developments
  - Telematics
  - Collision avoidance
  - Automated traffic law enforcement
  - Robot cars?
- Era of “one-size fits all” is over in Europe (over 2m PAYD customers – estimated to be 100m by end of the decade)
  - Variety of devices (black-box, OBD dongles, smartphones)
  - How to combine different technologies and suppliers to address distinct segments and geographies
- Net effect is to reduce road traffic accidents and automobile losses
  - …leading to a reduction in motor premium

What happens next?



- Celent (research and advisory firm)
  - "A Scenario: The End of Auto Insurance: What Happens When There Are (Almost) No Accidents"
  - Three questions you should be asking yourself…
  - How are you monitoring technology-driven changes in insured losses?
  - Do new technologies provide new kinds of data and analytics- driving changes in pricing?
  - What should you be doing differently this year and next?

What happens next?

New technologies: Is there a business case?

- It is widely accepted that usage based insurance will be the way motor insurance is priced in the near future
- Early adaptors will benefit
  - Being able to attract good risks from competitors
  - Optimise value of portfolio
  - Building up skills and data necessary to offer even better UBI
  - Position insurer as innovative / market leader
- Late adaptors
  - Run the risk of losing their good clients to competitors
  - Will be left with the poor risks,
  - This put upward pressure on rates, making the company uncompetitive
  - Will be playing catch up without the data

What happens next?

An Asian perspective

- Asia moves fast…
- …developments likely to occur over compressed time
- Technology developments underpinned by Predictive Modelling techniques
  - Predictive Modelling techniques are incredibly useful and perhaps not utilised as much as it could be in Asia
- …but needs buy-in from the top
- There are likely to be many operational issues
- There's an opportunity to be "ahead of the curve"
  - could revolutionise your business

Thank-you

“In the longer term, insurers with a significant amount of auto business have to grapple with some very challenging enterprise strategy issues”.

- Celent (research and advisory firm)