



Changing World

Given the dramatic changes of recent years, those in the general insurance industry are well aware that 'change is the only constant'.

The internet has provided the basis for the disintermediation of the personal lines market and the 'rise of the aggregators'. Consumers now seek advice from their social networks rather than brokers and, as channels have proliferated, they now expect communications that suit their lifestyle and needs.

This new reality means insurers need to change their business and marketing strategies to emphasise retention and the development of lifetime values as essential components in building a profitable, sustainable business.

And no longer can customers be viewed just as 'policy-holders'. They need to be treated as individuals and family members with a range of needs that may well go far beyond a simple policy.

Telematics provides the basis for a paradigm shift for motor insurance. Not only does it offer the ability to move away from traditional segment-orientated models towards one based on individual driver behaviour, but by developing a comprehensive picture of how, where and when a vehicle is driven, a far more accurate calculation of risk can be achieved.

With this insight, insurers can tailor products at an individual level, leading to a better customer experience, improved satisfaction and significantly enhanced retention rates.

Business Challenges

Telematics is not new, but changes in technology and market conditions mean it is now moving rapidly from specialist to mainstream markets.

Infrastructure costs have decreased dramatically. Young male drivers face increasingly exorbitant premiums. The loss of the exemption from the EU Gender Directive is fuelling interest from both politicians and pressure groups alike. And at the same time, motor insurers have struggled to make profits as the costs of claims has soared, in part due to the rise of the 'whiplash' compensation culture and the payment of referral fees.

All these are combining to position telematics as a powerful solution to many complex challenges in motor insurance.

It offers the potential to set premiums that reflect genuine risk, calculated using real data and founded on a solid, evidential basis, at an individual level.

CUSTOMER QUOTE

"Telematics theoretically could have a big future as rising premiums incentivise more customers down the monitored route. Also, equality issues may mean that at some point individual telemetry is the only way to get a fair premium."

*Nigel Bartram,
Senior Underwriting
Manager,
Aviva*

And with that insight comes the ability to develop new products that can capitalise on potentially lucrative market segments as well as the tools to build and use customer profiles that can radically change the way that insurers acquire, retain and develop customers.

Strategic Solutions

In itself, telematics starts as a data stream, derived from the vehicle and from the GPS network as location co-ordinates. To make sense, this data has to be placed into a geographic context.

The application of 'location Intelligence' does this and allows an insurer to visualise and understand driver behaviour. Identifying the type and class of road, the speed limit and the vehicle's proximity to accident blackspots are just some of the factors that can be used to assess driver behaviour. Similarly, proximity to high crime zones may also factor in determining risk and premium.

To take full advantage of telematics, insurers need to apply high quality location data together with the right systems and processes to efficiently manage, use and analyse large amounts of data. Choosing the right platform to assemble, interpret and analyse the data is key to developing an effective operation.

From a strategic viewpoint, telematics offers a great deal of promise. Not only can it feed information on where and how a vehicle is being driven, it can also provide immediate notification of accident or theft. And by providing a wealth of data for both conditions, it provides a powerful tool to combat fraud.

But perhaps the real potential of telematics is its ability to build 'clubcard-like' levels of customer insight. By combining telematics with other datasets, insurers can build comprehensive lifestyle and behavioural profiles that open the door to customer 'value-add' via the sale of ancillary and location-based services.

Business Benefits

Motor insurers still struggle to understand and connect positively with their customers; in many cases engagement being limited to on-boarding and renewals processes, despatch of policy documents and, for some, claims processing. As a result of this and other market forces, loyalty is low and consumers tend to be driven by price, although brand and trust still play important roles.

Although new products, such as multi-car policies, have recently been brought to market, consumers still see insurance as traditional and conservative in nature.

Telematics offers the opportunity to build detailed customer profiles, develop and bring new products to market, provide added value services and build greater lifetime customer value.

Already a compelling proposition for a number of niche groups, telematics is close to the tipping point where mainstream insurers will need to build and offer a telematics proposition, or risk being left behind.

Those who lead the way may well be able to significantly grow market share while setting premiums that accurately reflect the real risk and result in a profitable and sustainable business.

INSURANCE INSIGHT

ANALYST QUOTE

"Over 50% of the top UK and US insurers have a telematics insurance program in place. This proposition is unlikely to remain niche for much longer."

*Catherine Stagg-Macey,
SVP Insurance,
Celent*

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