Telematics insurance,
a fruitful idea, or a misguided dream.

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❖EU motor insurance at a glance

- 282,8 M private cars + white vans
- Premiums 149,4 billion € CMTPL+Kasko
- Average premium : 528 €
- MTPL is compulsory
- Between 20 to 80% of cars covered under kasko
- Freedom to establish the tariffs
- Positive technical results

❖How UBI insurance works

- UBI : Usage based insurance
  - PAYD : Pay-as-you-drive
  - PHYD : Pay-how-you-drive
  - Per miles insurance, an hybrid
- The insured pays a premium
- After one year, if the insured has driven safely a part of the premium is paid back.

❖How UBI insurance works

- A GPS device – a « black box or a snitch » - has to be inserted in the vehicle
- Today very often replaced by the insured mobile phone
- The initial premium is calculated under traditionnal criteria
- The refund is based on evidence of a safe driving.
  - Pay-as you-drive
    - *Number km, night/day, countryside/cities.*
  - Pay how you drive
    - *Same criteria+ speed + hard braking + cornering speed.*

❖Impact on the premium

- The initial premium is not readjusted in case of non safe driving.
- Except for per miles insurance.
- If the driver drives safely, between 30 to 50% of the premium is paid back.

❖UBI sucess in EU countries

- Where it works
  - UK 2 Million cars. High premiums going up and down.
  - Italy 4,3 Million cars and between 15/30% of the new business.
    - Law 2017: insurers must bear the cost of the black box and must offer a reward for safe driving.
- Where it doesn't work
  - France, Spain : 50 to 100 000 cars
- Germany, 700 000 cars an exception.

UBI pro and contra

- **Strengths**
- Good marketing image
- Theoritacaly the ideal insurance product
- Easy transfer of personal data

- **Weaknesses**
- Markets with low motor premium
- Development of per miles insurance

- **Opportunities**
- Markets with high premiums
- Many second cars
- Legally compulsory

- **Threats**
- Mistrust of insurance companies

❖A model bearing its own contradiction

- In a traditional insurance model, the premium represents the average cost of a bunch of policies.
  - For some insured the premium is extremely low in comparison with the cost of the claim.
  - For the majority of the insured the premium is much more important than the cost of the claim, and even more if there is no claim at all.
- In a theoretical UBI model, insurance loses its utility.
  - Good risks would pay the exact cost of their own risk, ie. nothing if there is no claim.
  - Bad risks would have to pay the full cost of their claim.
- This would lead to an absurd situation of self insurance : the end of mutualism.

❖Leaving theory to real life

- In countries like UK, France or Spain, due to sophisticated risk selection, premiums of « good risks » are very low.
- Consequently premiums for « bad risks » are extremely high and unaffordable for low income customers.
- For the same car and the same cover, premiums may range from 1 to 5, depending on the driver and its driving records.

❖Coming back to Usage Based Insurance

- A methodology which may meet its market in countries where average premium are high, for instance UK and Italy.
- In other markets, it will remain a niche product for young drivers, for former bad drivers seeking a new virginity or for the second car of the family under the form of per miles insurance.