

# Usage Based Insurance

The New Normal?

July 2015

The EY logo is positioned in the bottom left corner. It consists of the letters 'EY' in a bold, white, sans-serif font. The 'E' and 'Y' are connected at the top. The background of the entire page is a photograph of a woman with dark hair pulled back, wearing a blue zip-up hoodie over an orange tank top. She is looking down at a smartwatch on her left wrist, which has an orange band. The background is blurred with warm, bokeh light spots. A bright yellow diagonal shape cuts across the middle of the image, and a white graphic of vertical lines of varying heights is on the left side.

**EY**

Building a better  
working world

# Usage Based Insurance | the New Normal?

The global insurance industry is emerging from a combination of financial turmoil and economic uncertainty. Nonetheless, industry fundamentals remain under intense pressure with significant challenges around price and service transparency, changes in regulations and distribution models, and the ever-present threat of new competitors. Above all, changes in consumer behaviours and expectations are some of the most challenging to keep up with.

The explosion of digital and social platforms means new innovations in other sectors and retail environments directly influence the expectations of consumers – put simply, customers expect the kind of easy and transparent experience they have in other aspects of their daily lives, from their insurer.

The so-called “sharing economy” and data revolution, with its disruptive concepts of sharing services and goods and pay-per-usage, has taken firm hold in many other sectors – from ride and taxi share schemes to holiday accommodation. This poses exciting new market opportunities for insurers, as well as enormous challenges.

Successful insurance brands in the future will focus on delivering flexibility and personalisation in all aspects of their proposition, from product offerings to service delivery and communications – when and how customers want it. This requires simplified, transparent and flexible products with dynamic pricing and payment capabilities. Insurers who are slow to adapt and innovate will surely be left behind. So how can insurers make the “segment of one” a reality?

Usage based insurance (UBI) provides an opportunity for insurers to tailor insurance to customers specific behaviours and usage patterns. UBI providers suggest an effective solution has the potential to reduce claims cost by 40%, reduce policy administration by 50%, substantially reduce acquisition cost and price policies more effectively.

Insurance companies around the world are more and more attracted to the concept of usage based insurance. Today, in the motor insurance space alone, there are 165 deployments across 35 countries, representing approximately 5 million policies. While still a low base, the growth is exciting and promising.

Global UBI market penetration is currently less than one percent, however expected market penetration in Europe, Asia and America is expected to be 15% by 2020.

Currently, telematics devices need to either be installed in vehicles, or telematics applications loaded onto smartphones (or a combination of both), which communicate with software to calculate and manage policy billings based on driver behaviour. Clearly, the smartphone provides an opportunity to accelerate growth of this type of insurance and will remain the gateway to engage with customers on a real-time basis. Many of new vehicles manufactured globally have telematics capability already installed in cars at the point of manufacture, providing further growth opportunities for insurance companies as well as non-traditional players.

EY is currently collaborating with a world leader in the fast growing insurance telematics industry, in the development of a UBI solution for the Australian and New Zealand market. This cloud based telematics platform is designed to help insurers quickly and cost-effectively implement usage-based products for their customers, such as pay-as-you-drive motor vehicle insurance programs. A smartphone app or a small plug-in device in the policyholder’s car provides real-time information – such as location, mileage, speed and sudden acceleration or braking – to insurers allowing them to rate and invoice insurance policies on a monthly basis, depending on usage and road safety. The system can also monitor and contextualise external factors such as ambient traffic speed, weather and time of day, and can also detect if a driver is texting while behind the wheel.

The innovative solution helps insurers better identify risk exposures, design differentiated products and put the control of pricing in the hands of their customers, who decide how much, and how well, they want to drive. A policyholder whose collected data shows safe driving habits can receive a lower premium than a customer exhibiting unsafe behaviour on the road. The information is available via a smartphone app, weekly email updates and on the insurers' web portal, allowing customers many ways to see their driving habits and keep track of their insurance premiums. The immediacy of the feedback, along with the clear correlation to premiums, has also been shown to positively impact behavioural change among drivers.

This technology is already being used successfully for both car and motorcycle insurance in many international markets such as Canada, France, Norway, parts of Latin America and the US. There have been trials and implementations for government insurers, commercial fleet insurers, driving schools and graduated drivers licensing programs – and these has already proven significant improvements in combined loss ratios, customer acquisition and service costs and customer retention.

With insurers and policyholders rapidly embracing new technologies and looking for smart ways to reduce costs, “Pay As You Drive” insurance solutions will be an important growth trend for the next decade. Not only do they respond to the impending need for insurers to design differentiated, personalised products, they help build stronger, more frequent, engaging and meaningful relationships with customers – something our recent [EY 2014 Global Consumer Insurance Survey](#) confirmed customers were calling out for – all while improving underwriting and rating methodologies in what is a highly competitive and commoditised market.

The synergy between a leading telematics technology provider and EY's experience with strategy, risk rating and business integration, means together we can provide an innovative and practical approach to usage-based insurance, from initial concept through to market launch in a matter of months. A typical UBI solution implementation timeline is around 6-9 months and consists of the UBI configuration and product design, actuarial analysis and market research, systems integration, website and portal development, launch/rollout and all the related change management support required.

Why stop there? “Pay As You Live” insurance solutions have the potential to significantly disrupt the Life and Health Insurance markets. When a customer shows lifestyle characteristics that are linked to better health outcomes such as regular exercise, a healthy number of daily footsteps and a healthy BMI, their premiums can be adjusted to reflect their reduced risk. This clearly benefits the customer through reduced premiums but also benefits the insurer through better pricing, the broader community through reduced critical illness such as diabetes, and the government through the reduced cost of health care.

EY believes that this will be a major area of innovation for Life and Health Insurers and has the potential to disrupt an industry that has so far remained fairly safe from the digital disruption that has been seen in lending, motor insurance and payments.

We are seeing the Pay As You Live (PAYL) concept being actively explored by a number of our global insurance clients – they are examining the implications of PAYL to customers, data privacy, regulation and pricing. We believe there will be rapid development in this area as wearable technology gains increased momentum and insurers realise the potential of this technology to provide value adding information and services to their customers.

We are currently leveraging our capabilities in health, digital and innovation, analytics and working closely with a leader in the Telematics space to leverage their existing Pay As You Drive technology, to build a functional prototype to use with clients to explore this concept. This innovative approach quickly allows our clients to experience what it would be like to be a policy holder and the potential for this product to help their customers achieve a healthier lifestyle. The resulting data can also be used to begin to investigate modified pricing models and risk factors, the start of the journey of taking these products to market.

EY | Assurance | Tax | Transactions | Advisory

#### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organisation, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organisation, please visit [ey.com](http://ey.com).

© 2015 Ernst & Young, Australia.  
All Rights Reserved.

APAC No. AUNZ00000538

This communication provides general information which is current at the time of production. The information contained in this communication does not constitute advice and should not be relied on as such. Professional advice should be sought prior to any action being taken in reliance on any of the information. Ernst & Young disclaims all responsibility and liability (including, without limitation, for any direct or indirect or consequential costs, loss or damage or loss of profits) arising from anything done or omitted to be done by any party in reliance, whether wholly or partially, on any of the information. Any party that relies on the information does so at its own risk. Liability limited by a scheme approved under Professional Standards Legislation.

[ey.com](http://ey.com)

## Contact

Walter Poetscher  
Partner, Financial Services Advisory Oceania  
[walter.poetscher@au.ey.com](mailto:walter.poetscher@au.ey.com)  
+61 2 9248 5145