Usage-Based Insurance

Test Driving Telematics

There is a rise in consumer acceptance and adoption of usage-based insurance and the growing millennial generation is a great target audience.

By Matt Clifford, Malika Gandhi, and Charlotte Ryan

Throughout the last year, Deloitte Consulting has conducted more than 90 telematics discussions with insurers. In that time, we have seen the conversation move from whether an insurer should launch a telematics solution to when and how. ABI Research estimates that by 2017 there will be 26 million telematics policies in North America representing 16 percent market penetration. Insurers will need a differentiated innovative solution to remain competitive.

The consumer market is opening up and consumers are increasingly ready and willing to test drive telematics. A recent Deloitte survey of more than 2,000 respondents found that 53 percent are open to participating in a telematics program, and only half of that group required a discount to sign on. Consumers are growing increasingly accustomed to sharing real-time, often highly personal data – such as location – in exchange for perceived value. Seventy-four percent of smartphone users share their location with app vendors such as Uber and Google Maps in exchange for immediate car service and real-time directions, according to GPS Daily. Broader cross-industry behavior paints an even more promising landscape for telematics adoption.

Millennials are an emerging target market for usage-based insurance product launches. And as barriers to entry drop and consumer demand rises, insurers must develop a telematics solution to target the early adopters. Pew Research reported this past March that the millennial generation, loosely defined as those born between 1980 and 2000, represent 27 percent of the U.S. market for insurers. Insurers will need to fill the top of their funnels with young insureds, especially as older, more profitable policyholders begin to age out of the insurance pool. When analyzing the 2014 Deloitte survey by age segmentation, we found that 62 percent of the respondents between the ages of 21 and 29 expressed interest in telematics. That was more than any other demographic.
Millennials demand continuous connectivity and access to in-depth information and transparency, making them well positioned to be early adopters for new, innovative technology such as telematics. Mobile-based data-capture technology fits into an increasingly connected lifestyle. To effectively target, acquire, and retain millennials, it is important to understand their values and buying behaviors.

Millennials are experience seekers. Whether it’s Instagram, Snapchat, or Facebook, social engagement is an expectation and program convenience is a requirement. Through a unique and customizable user interface, gamification, and real-time trip feedback, a mobile telematics program can create opportunities for customer engagement.

Millennials are digital natives. They are hyper-connected and constantly engaged with new information, making content paramount. A mobile enrollment process fits into the millennial lifestyle and could eliminate the need for hardware and procurement processes. Millennials are also lifelong learners and the most-educated generation in American history. One-third of those between 26 and 33 hold a four-year college degree, according to Pew. As consumers, they typically compare, research, and test products all while openly sharing their experiences and preferences through social media. Through mobile technology, insurers can offer a transparent real-time driver score and direct access to advanced analytics to feed millennials’ demand for information.

A telematics program designed and launched in line with millennials’ values presents an opportunity to not only target this generation but to retain them. Millennials have proven to be loyal – more than 80 percent stated in a 2012 U.S. Chamber Foundation research review that if they find a brand they like they will keep coming back. Telematics may make millennials less likely to change insurers, as these programs typically create a switching cost for drivers that would also make them forego any discounts or incentives earned. Additionally, a loyal group of early adopters can serve as a catalyst for market adoption. The U.S. Chamber Foundation review showed that 86 percent of millennials share their brand preferences online.

Mobile telematics offers an opportunity to develop brand loyalty that will help retain millennials as this generation becomes an increasingly important part of the insurance pool.

## Drivers are open to having their driving behavior monitored

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<td>15%</td>
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*Yes, No, Depends on the amount of the discount*

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Matt Clifford is a manager in Deloitte Consulting LLP’s strategy practice focused on insurance industry customer strategy and innovation. Prior to joining Deloitte, Matt sold life insurance before building a sales support and marketing function for a large insurance agency. He brings his in-depth understanding of the insurance consumer to his clients at Deloitte.

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