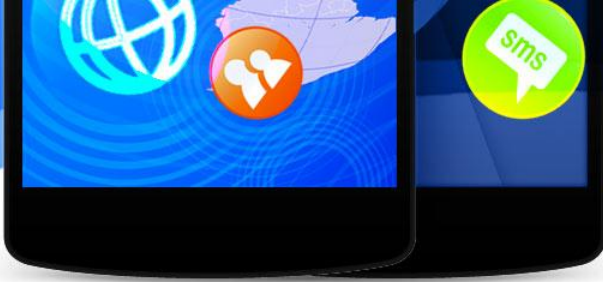


Privacy Issues Associated with Telematics and Usage-Based Insurance and Compliance Issues under IDD and Data Protection Directive

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Outline

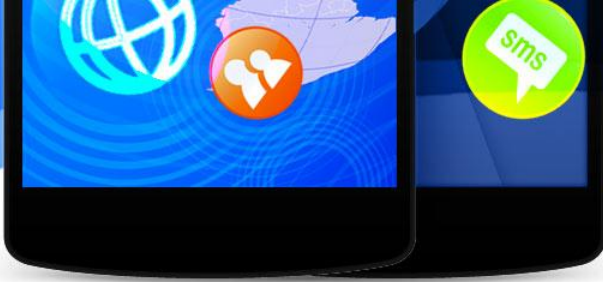
What is Usage-Based Insurance (UBI) and How Does it Work?

Benefits of UBI

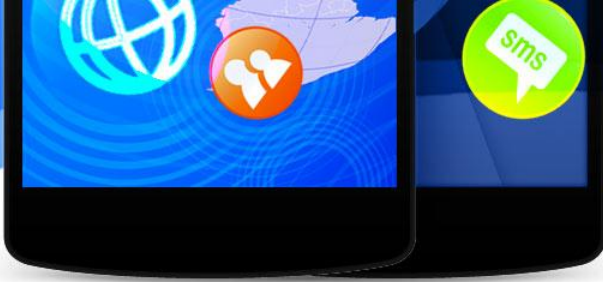
Privacy Issues Associated with UBI & Telematics

Compliance Issues under IDD and Data Protection Directive

Conclusion

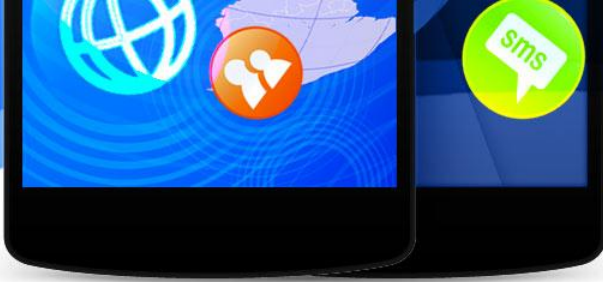


What is Usage-Based Insurance (UBI) and How Does it Work?

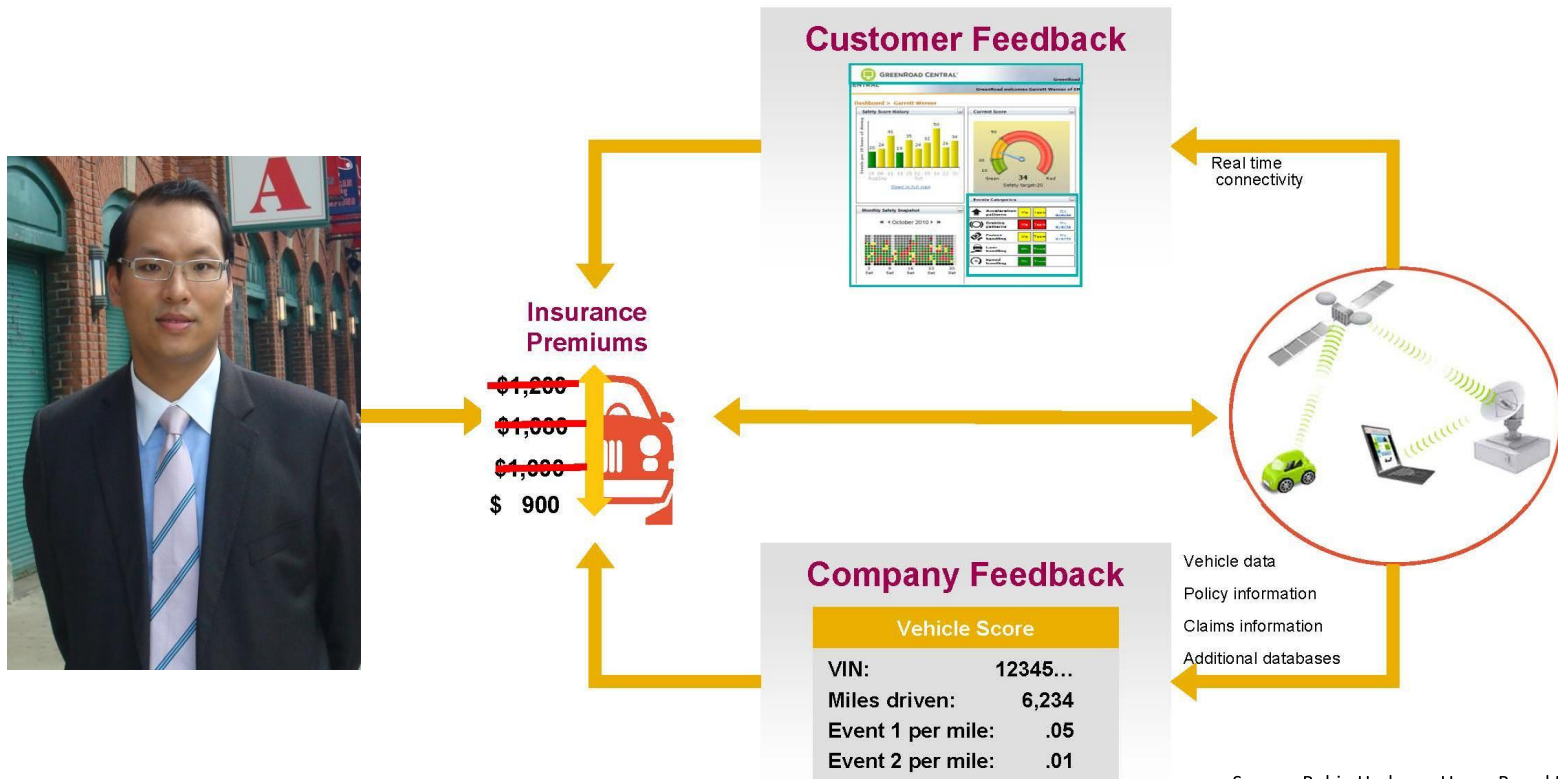


What is UBI?

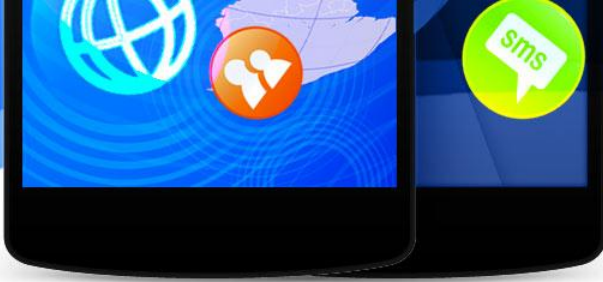
- Usage-based insurance (UBI), also known as **telematics**, works by tracking driving behavior through devices installed in a vehicle or through smart phones.
- Wireless devices transmit data in **real time** back to insurers.
- The devices can measure miles driven, time of day, where the vehicle is driven, rapid acceleration, hard braking, hard cornering and air bag deployment, among other things.
- The data collected is then used by the insurer to help **determine premiums**.



How Does UBI Work?

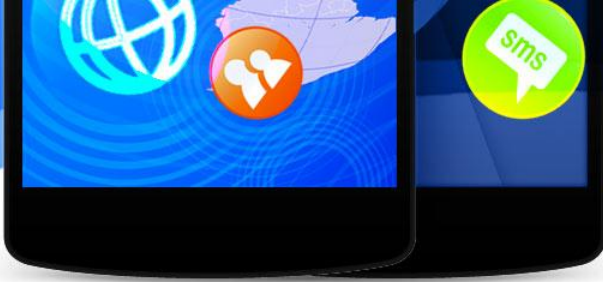


Source: Robin Harbage, Usage Based Insurance (2012)

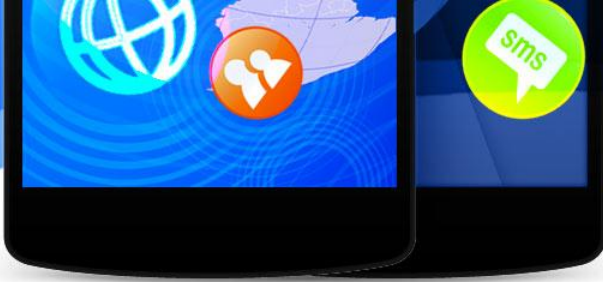


How Does UBI Work?

- **Differences on how insurers charge between traditional auto insurance and UBI.**
- Traditional auto insurance relies on actuarial analysis of data including driving record, credit based insurance score, personal characteristics, vehicle type, garage location and more.
- A UBI program adds individual driving behaviors as an additional rating factor. Variations of UBI includes pay-as-you-drive, pay-how-you-drive, pay-as-you-go and distance-based insurance.



Benefits of UBI



Benefits to Insurers

Insurer Benefits

improving
risk
assessment
and pricing

attracting
new
customers

reducing
claim costs

mitigating
adverse
selection and
moral hazard

modifying
risky
behavior of
policyholders



Benefits for Policyholders

Policyholder Benefits

individual pricing

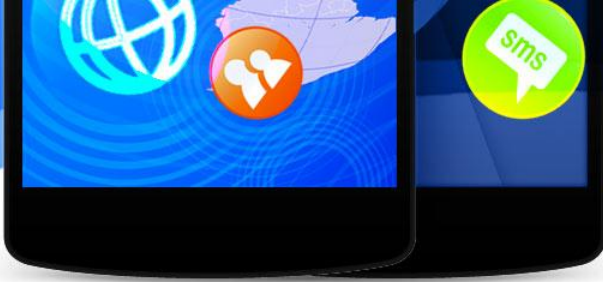
reduced auto insurance costs

enhanced safety

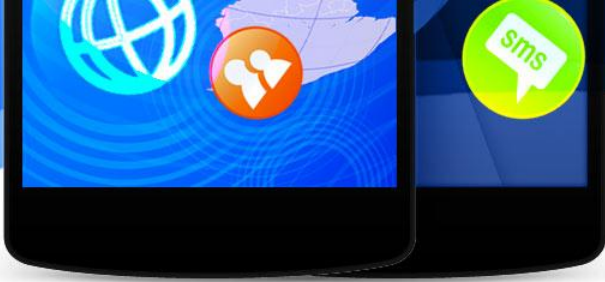
ability to recover the vehicle in
case of theft

improved claims experience

the incentive to improve
driving

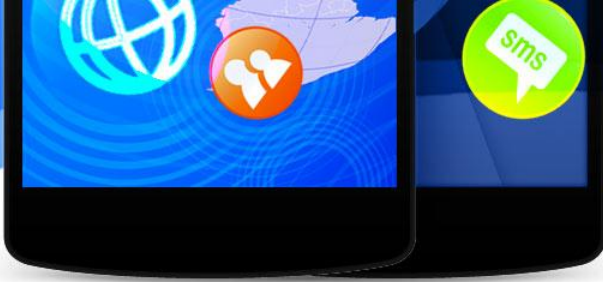


Privacy Issues Associated with UBI & Telematics



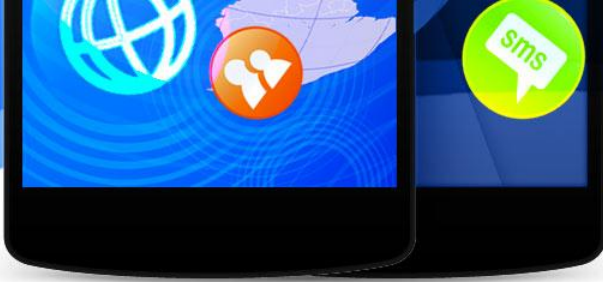
What are concerns of policyholders?

- Driving habits data such as speed, time of travel, number of miles driven, braking and acceleration data could paint a **surprisingly detailed picture** of an individual's movement in a specific time period.
- The potential for a trade-off between innovation and privacy spans many industries. Surveys of individuals repeatedly find that people are concerned about the sharing of their private information.




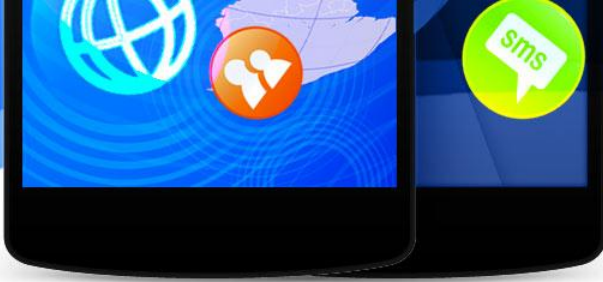
Some worst case scenarios

- 1. A UBI driver named John is involved in a serious accident that kills Mike, the driver of the other automobile. Even though Mike caused the accident, John's UBI device captures data that could suggest to a jury that John contributed to or caused the accident, possibly leading to a conviction of involuntary manslaughter.
- 2. The data collected by your UBI device is used to implicate you in adultery in a divorce case by providing your vehicle's location, date and time.
- 3. Your UBI device places you at the scene and time of a crime you did not commit.
- 4. Use and distribution of data by insurers for purposes other than loss mitigation and pricing, including, for example, insurers using information from telematics in claim settlements when helpful to insurers but not making the data available to consumers when helpful to consumers.



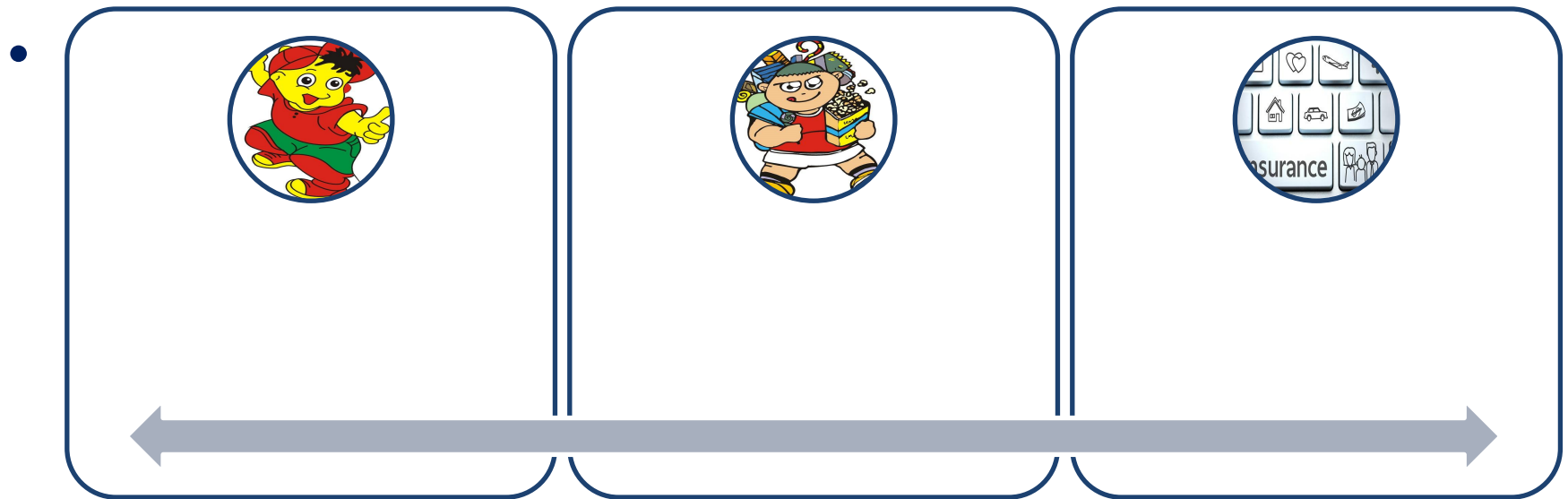
Empirical Studies are inconclusive on “trading privacy”.

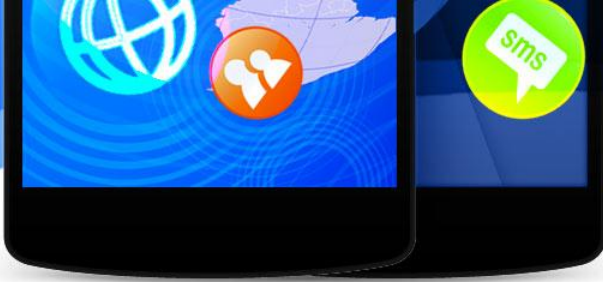
- Some market researches indicate that consumers will trade in some of their privacy if in return they get the right services at the right price (i.e. Deloitte Report , 2013)
- Others find no a direct benefit to the individual consumer who (knowingly or unknowingly) shares private behavioral data with the firm with which he/she transact (i.e. Goldfarb and Tucker, 2012).
-  With such uncertainty, regulation is necessary to strike a balance between innovation and privacy concerns.



Informed Consent

- Insured's explicit consent must be received to collecting and processing personal data, in particular, sensitive data.





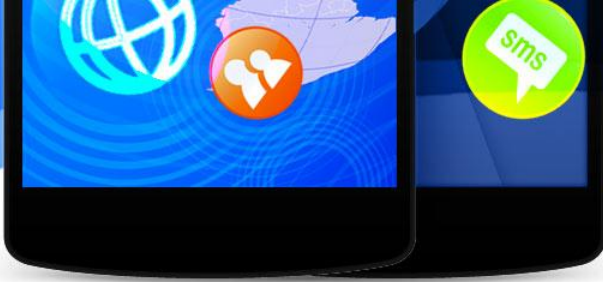
Insurers' Duty of Disclosure

what personal telematics data is being collected

who is using their personal telematics data

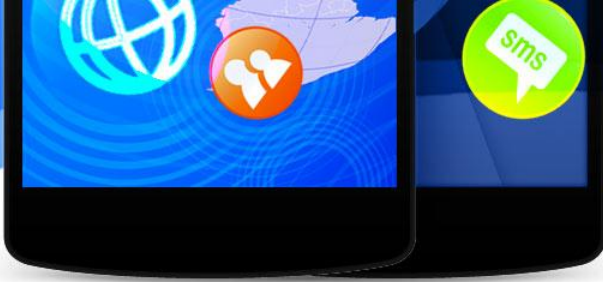
how this data is processed (this includes for example concerns of data security and confidentiality)

what their rights regarding their personal telematics data are.



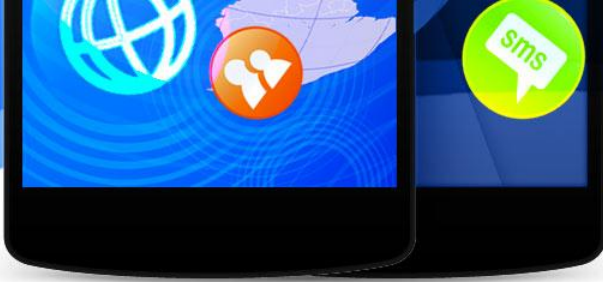
Disclosure of personal telematic data to 3rd parties

- The insurers should take reasonable steps to ensure that personal telematics data are not disclosed to third parties by any means without the consent of the data subject:
 - Providing aggregated summaries
 - Obtaining explicit consent from the policyholder to disclose personal telematics data to all named drivers and having confirmation from the policyholder that all named drivers have consented to disclose.
 - Disclosure of Authorities to be dealt separately.



Data Collected by the third party

- **【ISSUE】**
- It is less likely the insurance company is collecting data directly and more likely it has entered into an agreement with one or more third parties. If raw driving data is transmitted to a vendor, how is the information processed before being forwarded to the insurer? Does the vendor scrub the data for accuracy?



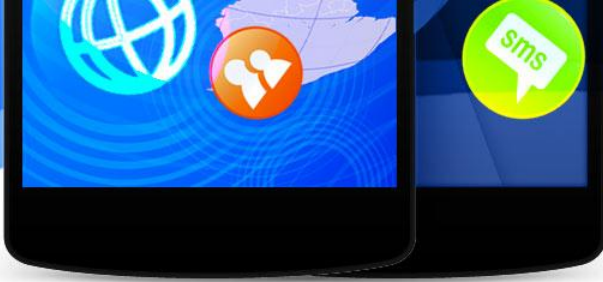
Data Collected by the third party

Regulator

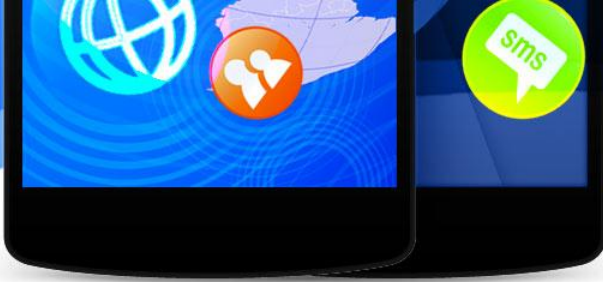
- The method(s) employed to capture the driving behavior requires disclosure to and understanding by regulators.
- regulators should confirm the same data is obtained for every program participant and all potential discounts are made available to all participants who meet the established criteria.

Insurer

- The insurer will be the one who initially has the obligation to verify whether the data collected is adequate. This primarily refers to the obligation to check whether telematics devices are recording the data correctly and whether there are any breaks in the data flow.
- By making information related to data collection, use, ownership, storage, protection and dissemination available to regulators and policyholders, insurers could demystify their telematics programs.

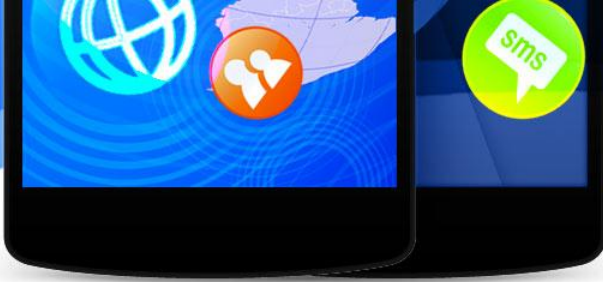


Compliance Issues under IDD and Data Protection Directive



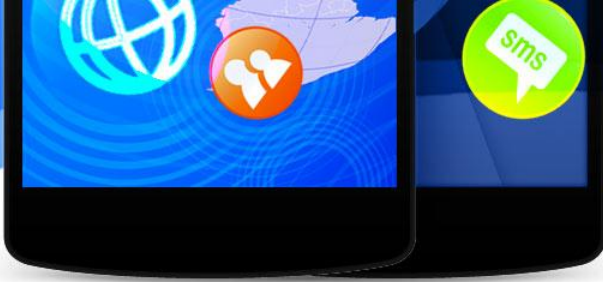
Consumer's Right to Information under IDD

- Disclosure regarding price and costs
- Better information required under Insurance Product Information Document
- Meeting rules of conduct of business under IDD

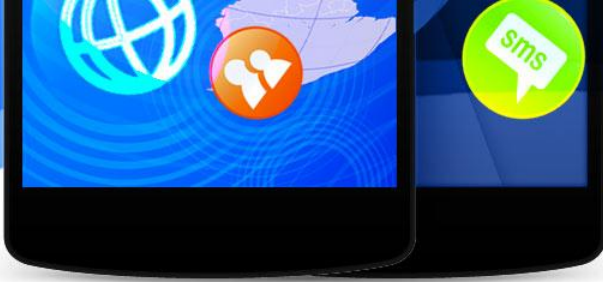


Data Protection Directive

- Data Protection issues in UBI Insurance
- What personal data are collected
- How personal data is collected
- How personal data is processed
- How personal data is used

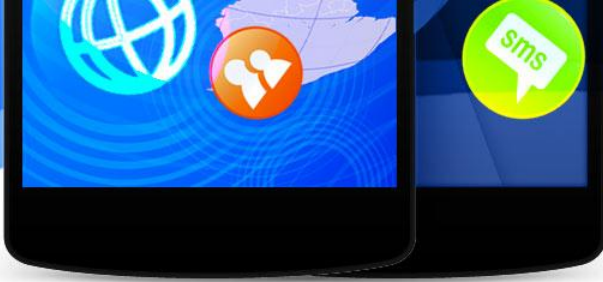


Conclusion



Concluding Remark

- Even if insureds are incentivized to trade in some of their privacy in exchange for the right service at the right price, the need for effective regulation never ceased to exist.
- Regulations at least need to address issues on informed consent, insurers' duty of disclosure, data disclosed to third parties, and insurer's use of third party vendor to collect and process data.



THANK YOU AND QUESTION