

Draft Letter to NTC to accompany our response to their Draft Strategy and Discussion Paper on In-Vehicle Telematics.

On behalf of **Zurich Australian Insurance Limited (Zurich)**, I wish to acknowledge that we welcome the initiative taken by the NTC in developing this strategy and allowing for public comment.

Telematics is a technology still in its infancy in the road freight sector. Zurich believes telematics is here to stay, and has the potential to form an integral part of fleet risk management for all motor vehicle fleets, regardless of industry and size.

However, we also believe that the strategy can, and should, be taken further. As a motor insurer, the priority for Zurich's customers is risk management, and we provide strong emphasis on driver safety and motor fleet loss control - whilst also acknowledging the strong correlation of 'green driving' initiatives with these aspects.

The purpose of Zurich's response is to illustrate how driver safety is not just about regulatory compliance, but that by harnessing the capability of telematic technology, drivers can be empowered to monitor their own driving technique and habits, and be prompted to initiate appropriate behaviour-related driver training to progressively, over time, achieve continuous improvement, crash reduction, operational efficiency, prudent cost management, operational cost reduction, and environmental management.

Insurance industry as stakeholder and strategic partner

We consider the insurance industry an important stakeholder in matters relating to fleet safety, particularly if telematics technology is to be viewed as a voluntary, and not a mandatory requirement in the transport industry.

Through improved driving skills, professional truck drivers can reduce incidents of crashes, and this should manifest financial gains for transport companies in managing their insurance premium costs, as well as reducing their often unquantifiable uninsured crash costs, and the greater societal costs.

In addition, the insurance industry can also become a strategic partner together with private and public agencies in the quest to improve road safety. In particular, it is able to assist employers in improving work-related road risks. Indeed, insurers can actively assist with the take-up of telematics systems in the road freight sector by providing incentives and distributing setup costs over years, hence reducing the prohibitive costs within the first year.

Telematics as a support tool

In-vehicle telematics should not be regarded as a system to 'control' fleets. Rather, it is our view, telematics is a tool that supports and improves the efficiencies of fleet operations, enhances the level of service provided by fleets to their customers (by improving the supply chain link), and provides valuable information to various stakeholders – customers, regulatory bodies, and insurers.

But most importantly, if telematics is approached from a driver-stakeholder perspective, and geared to an effective performance management system (this is severely lacking for the vast majority of the road freight sector), as opposed to the typical current approach as a highly administrative, 'policing' tool for management, then a significant 'cultural' improvement in driver conditions, driver safety and motor vehicle loss control can be realised.

Employers' duty of care – driver safety

There is a growing awareness among many fleet operators of the need to improve the safety of drivers, and the public. Businesses that require employees to drive have a duty of care to provide a safe workplace, and that workplace extends to the vehicle and the road network.

At a fundamental level, there are social, ethical, legal and logistical reasons why the performance of fleets needs to be managed safely. More employers are now awakening to the concept of creating a safety culture within their fleet through proven performance-based safety management systems.

By simply complying with regulations governing fleet operations, road rules, and vehicle legislation, fleet operators are not necessarily displaying prudent risk management.

Risk management beyond basic regulatory compliance

Zurich believes that regulatory compliance is simply the entry level. It is the first rung of the risk management ladder. Driver safety is often perceived to mean ensuring compliance with the relevant road rules, or transport-specific legislation. This typically includes speeding, fatigue management and hands-free mobile phone use.

Regulatory compliance alone does not guarantee good or effective risk management. However, the converse is true. Good risk management will guarantee regulatory compliance. Regulatory compliance is a mandatory tool of good and effective risk management.

Driver safety is not just about complying with road rules and Transport-based legislation.

A driver safety program ensures driver behaviour that significantly reduces crashes (as much as 90 per cent). Speed, fatigue, distractions whilst driving are all sub-sets of driver behaviour and attitudes. Often, the driver technique, people's attitude behind the wheel, and their behaviour, is formed in those few months they spend learning to drive. Learning to drive programs do not foster the idea of continuous improvement.

Zurich believes it is at a stage where telematics can monitor driver behaviour and identify key triggers of poor driver behaviour before it manifests as a collision. This includes: speeding, harsh acceleration, harsh braking, harsh cornering, rapid/frequent lane changing. It is these factors that also negatively contribute to fuel efficiency, CO2 emissions and vehicle/component wear and tear.

Driver support

Telematics monitoring reports back directly to drivers (if they choose), not just to managers and regulators, in order to give drivers the opportunity to improve poor performance and seek assistance, if required, without the immediate fear of fines or penalties. Of course, regulatory-based fines or penalties may be necessary for legal breaches, as opposed to behavioural non-compliance. Hence, another critical component to the success of telematics is driver support, especially awareness-based driver training to assist drivers with improving poor driving techniques.

As is normal with most new technological advances, the costs are initially high. The costs dramatically reduce to widen the net of affordable options for a larger audience.

Zurich believes that telematics is not the exclusive domain of large, national fleet operators in the transportation industry, but plays an important part in providing solutions to smaller transportation companies, empowering them to compete on a level playing field.

Telematics also has significant opportunities to assist with safety management systems for business fleets in industries unrelated to the transportation industry.

Key points for integrating telematics

Key points to be addressed for telematics to be thoroughly integrated into the road freight sector are as follows.

1. **Financial** - Amortised pricing to severely reduce the financial burden of year 1 with further enhancements including stakeholder (i.e. insurance) incentive offerings.

Transport operators must realise earlier financial incentives when investing in telematics technology. Our research shows that it is possible to deliver operating cost savings (fuel, maintenance etc) as well as reduced crashes, which can deliver direct savings in insurance premium charges, and indirect savings in uninsured crash costs.

2. **Administration / Driver Stakeholder Value** – It is crucial that drivers are empowered to monitor their own driving performance, and recognise their own areas for improvement, and are provided with appropriate and accessible training to assist them.

Drivers will be attracted to this as they can control their own improvements, and management will be attracted as it will reduce expensive administration costs.

3. **Privacy** - Drivers need reassurance that the technology is not used to prosecute them for misdemeanors, but instead rewards them for improving their driving skills.

As there are several stakeholders involved, drivers also need to be assured of privacy with regard to their personal information, and data collected from on-board telematics.

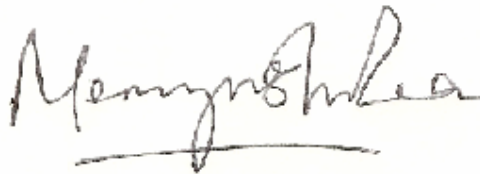
In summary, Zurich Australia sees telematics as a powerful enabler for driver performance management when integrated with driver support.

Telematics is an advanced and useful tool, not a 'silver bullet', that if implemented with Driver Stakeholder in mind, will dramatically improve the road safety landscape in Australia and around the world.

Of the 12 discussion points in the NTC's discussion paper, Zurich is responding to those points most relevant to the insurance industry. Our response and viewpoints are attached.

Please do not hesitate to contact me if you wish further clarification on any of the points raised.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mervyn Rea', with a horizontal line underneath.

Mervyn Rea
Manager – Risk Engineering
Zurich

PART A – THE CURRENT ENVIRONMENT

Section	Discussion Point	Zurich Response
2.2	To what extent does the above section accurately reflect the role of government and industry in cultivating a stronger uptake of in-vehicle telematics?	<p>Zurich completely supports a greater acceptance of the regulator in assessing capability and entitlements and technology innovation as a method for more accurately and continuously assessing risk. Indeed, technology innovation has enabled more effective implementation of continuous risk assessment in the aviation industry (e.g. risk-based integrated fatigue management in parts of the world), but is yet to cross over to the road freight sector.</p> <p>Section 2.2 goes some way to reflect the role government and industry have in cultivating a stronger uptake of in-vehicle telematics, but at the same time appears to concentrate mostly on supply chain and route access only.</p> <p>Telematics can realise significant cost savings not only from route access benefits, but through improved driver performance, it can deliver reduced carbon emissions, lower fuel usage, reduced crashes, and lower maintenance and operating costs.</p>
2.3.1	Are the broad benefits and applications of in-vehicle telematics fairly described?	<p>Section 2.3.1 only manages to describe some of the broad benefits. Table 3 correctly identifies PRODUCTIVITY, CONGESTION RELIEF, PLANNING & INVESTMENT and SAFETY as key benefits. However, telematics has the potential to have positive impacts on maintenance costs, longevity of vehicle life-cycles, efficient fuel usage and reduced emissions, and other areas of driver safety, not just fatigue and speed.</p> <p>Telematics has the ability to identify driver technique such as acceleration and deceleration (braking), harsh cornering and rapid lane changes. All of these aspects are indicative of driver behaviour and smarter, environmentally-friendly driving habits.</p> <p>Zurich thoroughly supports better ‘compliance management’ by providing opportunities for drivers, operators and regulators to monitor and report key performance indicators and also provide the opportunity for pre-emptive, constructive intervention rather than reactive punishment (generating benefits on multiple levels).</p> <p>Telematics will also enable more detailed business analysis tools that can identify latent company-specific risks that can lead to serious adverse outcomes for operators and the broader community. Risk-based integrated fatigue management, a good example is from the aviation industry, needs to be integrated into business</p>

		management tools to lift the stigma associated with electronic work records and prescriptive hours of work.
2.3.2	Is this objective of 'creating the conditions necessary to maximise the rate of adoption of in-vehicle telematics more broadly' sufficiently relevant, clear and obtainable?	<p>Telematics will undoubtedly be attractive to transportation companies if the technology is used for positive enhancements to performance and service deliverables and improved risk management, as opposed to the negatively perceived compliance monitoring.</p> <p>Insurance companies are key stakeholders in the transportation industry, and have an opportunity to maximise the adoption rate on in-vehicle technology, by providing significant financial incentives to fleets.</p> <p>Telematics offers considerable benefits to insurers who provide transportation covers for various types of insurance. Temperature logging can, for instance, provide real-time continuous monitoring of temperature sensitive stock temperatures while in transit, which can aid compliance with HACCP, and assist with any potential Products Liability claims.</p> <p>Monitoring the location of cargo can also reduce the risk of cargo theft. However, the main benefit for insurers that can be derived from telematics is the ability to enhance driver performance and monitoring. Insurance companies are therefore in a unique position to assist in the realisation of financial incentives, which can include, among others :</p> <ul style="list-style-type: none"> • Reduced incident frequency rates and average claims costs, resulting in lower direct and indirect crash costs; • reduced premiums; • by negotiating preferential hardware and software costs with telematic providers; and, • creating annualised telematic hardware payments to reduce the often preventative initial set-up costs.
2.6.1	Is a national forum needed to improve collaboration on issues relating to transport technologies or in-vehicle telematics in particular? If so, how would a national forum be of benefit to industry and the government?	<p>Zurich Australia is primarily focussed on risk management, with a strong emphasis on driver safety, driver performance management and motor fleet loss control aspects of telematics (whilst also acknowledging the strong correlation of 'green driving' initiatives with these aspects), we have no comment on this discussion point.</p> <p>However, any national forum created to improve collaboration in issues relating to transport technologies or in-vehicle telematics in particular should consider consultation with the insurance, OH&S and risk management</p>

		sectors.
2.7	How would the performance of the trials described above represent a satisfactory means of addressing concerns regarding system cost and effectiveness?	<p>Zurich believes there is a danger that in-vehicle telematics as a legal compliance strategy would be regarded negatively by the transportation industry. It may be seen as an unfair enforcer of driver or operator misdemeanours. IAP has many positive opportunities for economic benefits in productivity, but the 'first' and 'last' mile issue still exists. Therefore, any proposed trials would need to involve other agencies at local, state and federal government levels, including Health, Safety and Roads. Crash reduction benefits that can be embraced through the monitoring and improvement of driver behaviour will also have positive benefits to societal costs through traffic disruption, emergency services and injury costs, allowing these federal, state and local government savings to be diverted to improvements to road infrastructure, provision of rest areas etc.</p> <p>The potentially greater performance, risk, safety and operational financial benefits need to be quantified in these trials to provide a more holistic cost versus benefit analysis for both the public and private sectors involved.</p> <p>A clear, unbiased comparison of the performance and cost benefits of government standard devices and industry comparators would assist operators to knowledgeably select the functional options available for the various telematics systems that are available on the market. Whilst obvious IAP type concessions will become available via the government standard devices, the greatest benefits for operators will come from selecting the various driver safety, vehicle tracking and mobile resource management functions that best suit their business.</p>

PART B – LOOKING TO THE FUTURE

Section	Discussion Point	Zurich Response
3.4	Do the arrangements for mandated coverage “stack up”?	As Zurich Australia is primarily focussed on risk management, with a strong emphasis on driver safety, driver performance management and motor fleet loss control aspects of telematics (whilst also acknowledging the strong correlation of ‘green driving’ initiatives with these aspects), we have no comment on this discussion point.
3.5	What reasons are there to override these concerns and retain the confidentiality of the contents of the specification?	<p>As with all new forms of technology, lack of information and understanding of the many benefits usually prevents the rapid adoption often needed to create continuous improvement of the technology itself, and the natural economies of scale that produces lower technology costs. Therefore, we endorse greater efforts in providing the key decision makers in all relevant public and private sectors associated with road freight with more detailed and unbiased information on telematics. This should include the key benefits associated with driver safety, productivity, operational costs and environment.</p> <p>The benefits of telematics to Zurich (and other insurers and, indeed, compliance agencies) focus on the prevention of collisions and not the increased incident investigation functions post-loss. This is the privacy issue that must be addressed in order for operators and drivers to have confidence in the use of telematics. Insurers should be able to monitor how a business is operating in regard to overall road risk, but not be able to monitor individual driver performance.</p> <p>We see no reasons to retain the confidentiality of the contents of the specification. Although not retaining this confidentiality may provide a means to bypass compliance enforcement penalties for drivers / operators, however, but this is of no concern to Zurich.</p>
3.6.2	Should the national laws be updated to provide clearer guidance on duties to telematics?	As Zurich Australia is primarily focussed on risk management, with a strong emphasis on driver safety, driver performance management and motor fleet loss control aspects of telematics (whilst also acknowledging the strong correlation of ‘green driving’ initiatives with these aspects), we have no comment on this discussion point.

<p>3.6.3</p>	<p>Are industry codes conceptually relevant for in-vehicle telematics?</p> <p>Should a certification policy and process be developed to recognise alternative (non Intelligent Access Program) systems?</p> <p>Should the law in this area be updated to reflect Occupational Health and Safety law with regard to the weight given to them?</p>	<p>In our view, telematics should only ever be considered in the context of other process duties in managing risk (e.g. performance management, route planning, vehicle procurement, driver health, fatigue risk management, etc). Telematics is not a 'silver bullet'. Hence, industry codes for all these other risk management aspects should be developed and draw on specific functions of telematics to enhance their effect.</p> <p>Effective risk management should not be prescriptive as the competitive advantages developed by each business create unique operating exposures that require unique (or at least a unique combination of) controls to manage risks. Just as telematics is one of the tools available as a control measure for risk management, IAP is but one of the telematics options available as this tool. Functional assessment of performance should be the priority of the certification policy and process as opposed to prescriptive compliance.</p> <p>Zurich has no comment on OH&S legal aspects, however, we consider it worth reviewing road safety legislation in respect of work-related road users to re-enforce the notion that the vehicle is an extension of the workplace. OH&S legislation tends to be less prescriptive and risk-based compared to road safety legislation, and therefore there this argument to allow certain aspects of road safety legislation to follow suit. Consequently, there would be an argument for industry codes (for in-vehicle telematics) as guidance on minimum best practice.</p>
<p>3.7.1</p>	<p>Is it necessary to develop a compliance policy to address compliance concerns regarding the enforcement of offences detected by the users of telematics?</p>	<p>As Zurich Australia is primarily focussed on risk management, with a strong emphasis on the driver safety, driver performance management and motor fleet loss control aspects of telematics (whilst also acknowledging the strong correlation of 'green driving' initiatives with these aspects), we have no comment on this discussion point.</p>
<p>3.8</p>	<p>Where the use of telematics is contemplated as being required imposed via a permit condition to a defined class of operations, is a formal benefit/cost analysis appropriate and feasible?</p>	<p>As Zurich Australia is primarily focussed on risk management, with a strong emphasis on the driver safety, driver performance management and motor fleet loss control aspects of telematics (whilst also acknowledging the strong correlation of 'green driving' initiatives with these aspects), we have no comment on this discussion point.</p>
<p>3.9</p>	<p>Do you believe that creating a formal group or mechanism of industry and government standards developers to collaboratively work on national freight telematics architecture would play a positive role in securing the ATC transport policy objectives identified in section 2.1 of Part A? If so, what sort of model would suit this type of collaboration?</p>	<p>Zurich supports a collaborative working group on the national road freight telematics architecture. Such collaboration would bring benefits such as consistent, measurable systems with adaptability for future functions of telematics without the need to 'throw away the box'. In the long term, this would indeed contribute significantly to securing the ATC transport policy objectives.</p> <p>Whilst we do not wish to suggest a model for this collaboration, it needs to include representation from the insurance and risk sectors. The scope of such a group should determine minimum acceptance criteria for in-vehicle telematics to meet road and OH&S legislation compliance, and not create prescriptive lists of accredited providers or types of systems that must be used. Free market forces should be allowed to determine the most appropriate technology and provider to meet individual company needs, so long as the data captured from the vehicle can clearly assist that company to meet their compliance obligation.</p>

About Zurich

Zurich Financial Services Group is an insurance-based financial services provider with a global network of subsidiaries and offices in North America and Europe as well as in Asia-Pacific, Latin America and other markets. Founded in 1872, the company's headquarters are in Zurich, Switzerland.

Zurich Australia has built a major general insurance business through its reputation for strong risk management, security and intermediary-based distribution strategy. Zurich Australia offers insurance packages and business risk solutions for individuals, small to medium-sized enterprises (SMEs), large corporations and multi-national companies.

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