The present and near-future of Motor Insurance

Alessandro Santoni

November 2017
AGENDA

- Motor Insurance issues around Europe
- The future of motor insurance
  - Driverless cars
  - Telematics
- Insurtech
Spain
A fairly stable market, discipline is driven by Baremo

Market Issues:
- Economic crises has generated a decrease in overall exposure, average premium, aging vehicle parc and resulting in a deteriorating technical result. The situation has started to improve since 2014
- Baremo sets compensation rules for BI claims. This system helped to reduce uncertainty and claims duration. The Baremo was created 20 years ago but has been recently updated (1st January 2016), generating uncertainty

Measures to reduce claims cost
- Insurance companies are focused in decreasing claims cost through digitalization of claims process and fraud detection
- Increasing control of traffic regulation.
United Kingdom

Highly elastic and sophisticated market, aggregators induced almost perfect competition, very low regulator’s intervention

Market Issues:
- The recent reduction of the Ogden discount rate to -0.75% has had a material financial impact on the UK Motor market
- PRA returns for 2016 show a net COR of 109%, compared to 100% in 2015
- Brexit and ensuing political uncertainty
- High elasticity induced by aggregators, low profitability, naive capacity
- Liability culture

Measures to reduce claims cost
- A continuing scrutiny of the injury claims environment from government and regulators
- LASPO bans referral fees and makes success fees / ATE premiums non-recoverable
- MOJ Whiplash reforms (Oct-18) aims to reduce speculative / fraudulent claims
- Increased price sophistication and counter fraud measures
Ireland

Large premium increases, PPOs, whiplash and high court awards has pushed very high inflation, government is studying measures to contain cost

Market Issues:
- Legislation to introduce PPOs currently before the Oireachtas (parliament)
- 3 consecutive years of price increases accumulating to ~+70%
- Discount rate (similar to Ogden) recently reduced from 3% to 1%
- Recent increases in court jurisdictions (possibly inflationary)
- Recent revision of the Book of Quantum (possibly inflationary)
- Liquidation of Setanta Insurance and Enterprise Insurance
- MIBI (similar to MIB in UK) challenged to cover costs of insolvent insurers (defeated)
- Increasing number of fraudulent claims including multi-occupancy collisions
- Companies rebuilding capital, following several years of underwriting losses

Measures to reduce claims cost
- Civil Liabilities & Courts Act 2013 (various provisions)
- «Anti-fraud» powers introduced but not exercised
- Establishment of Personal Injuries Assessment Board (PIAB) 2004 to independently assess injury claims without litigation
- Recommendations of the cost of insurance working group 2017 (various provisions)
- Legal fees remain stubbornly high
- Whiplash claims remain twice UK levels
Germany

Germany: companies are investing in technology and analytics to improve retention, intense competition but overall «well behaved» market

Market Issues:

New companies (Insurtechs) are entering the market with a specific focus on motor business.

Years of high competition has generated low profit margin level. German companies are tending more towards intelligent renewal strategies nowadays.

Frequency has decreased over the last 15 years, BI severity has increased constantly,

Measures to reduce claims cost

The market is generally well behaved, no historical interventions have been necessary
Italy

Several government interventions to contain prices, now betting on telematics and fraud control, intense competition

Current and historical measures to reduce claims cost companies/regulators have put in place.
During August 2017 the Italian Government approved a new law (“Legge annuale per il mercato e la concorrenza”) that introduces important news for insurers and policyholders:
- several interventions over the years including price caps and fines
- Mandatory discounts on MTPL policies are introduced for those who install telematics to prevent fraud
- Measures to reduce geographic cross subsidies
- A new specific table on the whole territory will be prepared with regard to compensation for pain and suffering

Market Issues:
Since 2014 MTPL tariffs and premiums fell mainly due to the following elements:
- Penetration of telematics – Italy is the global leader in terms of installed devices
- The persistence of the economic crisis has reduced the number of vehicles and their use, therefore also accidents and claims
- Some large players reducing prices heavily with innovative products to increase market share
- There has been growth in the aggregators share of the market

Also some rules and regulations have changed in the insurance space:
- Under new regulations, whiplash claims have reduced significantly
- There has been a concerted effort in the market to fight and deter insurance fraud
- There has been widespread use of contracted bodywork that should reduce the average cost of claims
Market Issues:
Turkish insurance market has been increasingly suffering from issues in MTPL in the last 10 years.

- Changes in regulations and court practices caused a significant increase in cost of claims.
- Significant increases in prices received a strong pushback from the public and regulators.
- New regulations targeting to reduce he cost and uncertainties have not been received as effective as they needed to be by the market.
- As a last resort the regulator introduced several restrictions in 2017 starting with capped pricing regime and most recently a high-risk pool.
- Market stability in terms of pricing and supply seems to be getting better while the uncertainties around current profitability of this business continue for the insurers and their capital providers.

Measures to reduce claims cost
- Regulator has introduced several changes in regulations in the past to reduce the claims cost, such as exclusion of driver at-fault claims and standardisation of actuarial calculation to reduce the litigated claims.
- Similarly, companies are actively trying to settle claims earlier in the process before they go to courts.
- Insurers are also looking forward to opportunities to increase the use of equivalent spare parts.
- One of the more recent emerging focus is working with the government bodies to take preventive actions to reduce the traffic accidents. Use of telematics is one of the options both government and insurers are considering.
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Driverless cars
Driverless cars

Levels of vehicle automation (NHTSA)

- **4**: Full self-driving
- **3**: Limited self-driving
- **2**: Combined function technologies
- **1**: Function-specific driver assisted technologies
- **0**: No automation
Driverless cars
Driverless cars
Driverless cars

Insurance risk

- Other parties now involved
  - OEMs
  - Traditional suppliers
  - New suppliers eg
    - Software providers (Cyber crime)
    - Map providers
  - Telecoms
  - Infrastructure
- Risk will shift from personal to "product"
Driverless cars – ‘near’ future?

![Estimated Global Installed Base Of Cars With Self-Driving Features](image)

*Five-Year (2015-2020) CAGR 134%*

Source: BI Intelligence Estimates. 2015
New vehicle data for the new era
New vehicle data for the new era
New vehicle data for new era

Short term: Vehicle option data is increasingly important

What are the short term impacts?:

- Personal motor risk down by 1-3% pa over next few years?
- Larger frequency effect offset by increased cost of repairs.
- Insurance risk dependent on litigious conditions (especially liability).

- Standard and optional features by make, model, year, variant, linked to Turkish association ID code.
- Historical options data enables assessment of:
  - the progressive risk reduction impact as features become more prevalent, moving from unavailable, through optional, to standard fit
  - the differential experience for specific claim types between model variants having different driver assist features
- We’re in the process of identifying the risk predictive items and wrapping these up into scores, potentially targeted to segments

How do you benefit the most from:

- Behavioural selection
- Accident prevention
- Damage mitigation
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Telematics

Self-selection

$800

$1,000 $1,000 $1,000 $1,000

20+% Average discounts: 12% - 25%
Maximum discounts: 30% - 50%

Pricing

10x Differential in loss ratio from TW DriveAbility score

Retention

40% Improvement in retention cited by Progressive

Behaviour change

30+% Reduction in claims costs
Young driver: 30% - 40%
Commercial fleet: 54% - 93%

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The power of telematics data
## Telematics

<table>
<thead>
<tr>
<th></th>
<th>Hard Install</th>
<th>OBD</th>
<th>Smartphone</th>
<th>Smartphone tethered</th>
<th>Ambient data</th>
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<tbody>
<tr>
<td><strong>Cost</strong></td>
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<tr>
<td><strong>Pre-sales acquisition</strong></td>
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<td><strong>In-policy risk assessment</strong></td>
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<td>?</td>
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<td>?</td>
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<tr>
<td><strong>Real-time feedback</strong></td>
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<td>✓</td>
<td>✓</td>
<td>X</td>
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<tr>
<td><strong>Claims management</strong></td>
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<td>?</td>
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<td><strong>Value-added services</strong></td>
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<td>✓</td>
<td>?</td>
<td>?</td>
<td>X</td>
</tr>
</tbody>
</table>
Marketing

Potential Customers

Traditional data

OEMs
Telecoms
Mobile OS
App

Preview

Underwriting

Insurers / Agents / Brokers / Aggregators

Insurer A
Insurer B
Insurer C
Insurer D

Monitored traditional policy

Policy

Unmonitored traditional policy

Insurer A
Insurer B
Insurer C
Insurer D

UBI Policy

Monitored traditional policy

Policies

Insurer B
Insurer C
Insurer E
Rising power of OEMs and other data owners

Data ownership moving from insurers to ambient data providers, to consumers

Insurers becoming wholesalers not retailers?

Reduction in risk from driver feedback coupled with automation

Ambient monitoring
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Insurance 2020: three key global trends affecting the insurance industry in the next 4 years

1. New (social) interaction paradigm

2. Transformation of Risk

3. Acceleration in #insurtech
Recognize these logos? Here are 1/3 of #insurtech players
Percentage of firms per #insurtech area and geographic region

- **Home country**
  - US 63%
  - Germany 8%
  - UK 11%
  - France 5%
  - Other 13%

- **Insurtech areas**
  - **Product Design** 42%
    - Life & Health 10%
    - P&C 32%
  - **Front-end** 30%
    - Aggregators 21%
    - User Platforms 9%
  - **Backend** 17%
  - Data/Analytics 8%
  - Reinsurance 2%
  - Accelerators/Incubators 2%

More info From our 2017Q3 Insurtech Report:
#insurtech areas

**Customer engagement**
- CRM
- Price aggregation
- Omni channel acquisition
- Digital claims processing
- Online policy purchasing

**Regulation & Legal framework**
- Digital contracts
- Blockchain
- KYC Identity verification
- Automated compliance processes

**Internet of things**
- Vehicle telematics
- Environmental Sensors
- Provenance / Asset tracking
- Home security

**Wealth management**
- Algorithm asset management
- Digital savings plan
- Pension management

**Data & Analytics**
- Real time risk mitigation
- Pay per use insurance
- Dynamic underwriting
- Personalized premiums

**Information security**
- Claims fraud detection
- Cyber breach insurance
- Risk management
- Personal data storage

**Health**
- Wearables
- Genetic data
- Chronic condition management
- Preventive healthcare

**Source:** StartupBootcamp
Question

Which of the following technologies/concepts do you expect to have the biggest impact on the insurance sector over next 5 years?

<p>| | |</p>
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<thead>
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<tbody>
<tr>
<td><strong>1</strong></td>
<td>Artificial intelligence</td>
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<tr>
<td><strong>2</strong></td>
<td>Blockchain</td>
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<td><strong>3</strong></td>
<td>Internet of things</td>
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<tr>
<td><strong>4</strong></td>
<td>Big data / real-time analytics</td>
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<tr>
<td><strong>5</strong></td>
<td>P2P risk sharing</td>
</tr>
</tbody>
</table>
Which of the following (digital) technologies do you expect to have the biggest impact on the insurance sector over the next two years and the next five years?

- Big Data/Real-time Analytics: 40
- Artificial Intelligence: 30
- Internet of Things, wearables: 22
- P2P risk sharing: 18
- Blockchain: 12

Get the report:
Why haven’t we seen more new entrants and disruption (yet)?

- **Cost of Entry**: Cost of entry, capital and balance sheet requirement are high.
- **Regulation**: Regulation makes entry more difficult.
- **Data & analytics**: Historic claims data is private and owned by incumbents.
- **Customer vs. Risk Analytics**: Understanding consumer behavior is not the same as understanding risk.

- Exponential trend in VC entering the space.
- Many start-ups have started working directly with regulator to overcome limitations.
- Additional (external) data sources proving as important to determine risk.
- AIs/Deep machine learning players entering the space. System sustainability?

Why haven’t we seen more new entrants and disruption (yet)?
Summary

- Motor Market issues around Europe
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Claims **increases** are driving many of insurers' issues in Europe, especially *bodily injury*:

- Claims processes **must move with the times**, using new techniques (like topic modelling), data sources, and process reviews can have **dramatic effects**.
- Insurtech can sometimes enable dramatically different customer experiences. Insurers are making moves to **defend the cake**, or share a bigger one.

- **Self-driving and telematics will reduce the risk**: Insurers are acting early to try to benefit the most from these trends, but the changes are just the start.
- **Data** was, is, and will be a key to success in motor insurance. Along with seeking out **new opportunities and partnerships**.