Disruption in the Auto Insurance Industry

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January 8, 2019

Steering Consulting
Who We Are?

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What does insurance cover now?

- Auto accidents
- Weather damage
- Liability of the driver
- Injury
- Collision with uninsured motorist
The Automaker Ripple Effect

**Automotive**
- One of the US’s largest industries
- Billions of $$ in service, insurance, collision & repairs.

**Insurance**
- Multi-billion dollar industry
- Estimated 20% comes from auto
The Automaker Ripple Effect

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<th>Automotive</th>
<th>Insurance</th>
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But what happens when autonomous vehicles become mainstream?
Types of Vehicles

Internal Combustion

- 12,000 parts & Routine Maintenance
- Average age: 13 years

Electric

- Approx. 1,200 parts
- Little to no Routine Maintenance
- Estimated 1 million miles

Autonomous

- Lack of Driver Error
- Low Maintenance
- Estimated 1 million miles
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  - Average age: 13 years
  - Reliant on Driver Reaction = Driver Error & Accidents

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- **Autonomous**
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Two parallel paths

Electric Vehicles

Autonomous Vehicles
Moore’s Law and Price of Autonomous cars

1. Price of computer chips and underlying technology falls by 50% every 18 months.

2. Cost of making a car autonomous in 2020: $2000

3. Many luxury cars today are already autonomous and just require legal framework to turn on the functionality.
Agenda

Introduction
Current State of the Industry
Analysis of Disruption
What Happens to Insurance?
Questions and Answers
Insurance Customer

Current Customer
- Driver & Rider
- Driver is 15+ in US
- Individual/Family/Business

Future Customer
- Rider ONLY
- All ages (depending on government regulation)
- Individual/Family/Business
Change to Insurance Rates

Insurance rates will fall by 70%:

1. Car accidents estimated to fall by 90%
2. Insurance will still cover falling tree branches, hail etc.

With Premium rates falling Insurance companies will have a huge amount of capital no longer needed to be held in reserve
Cost Structure - Current

- Liability Coverage
- Number of Drivers
- Number of Cars
- Credit Score
- Driver History
- Age
- Education
Cost Structure - Future

- Liability Coverage
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Eliminate driver variability!
What will insurance cover in the future?

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<th>Traditional Coverage</th>
<th>New Coverage Options</th>
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<td>• Auto accidents</td>
<td>• Warranty Model</td>
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<td>• Weather damage</td>
<td>• Upholstery</td>
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<td>• Driver Liability</td>
<td>• Tires</td>
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<td>• Injury</td>
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Industry Critique and Response

Government regulations and approval remain significant barrier to mainstream adoption

State and federal governments appearing unresponsive to change
Case Study: Uber in Arizona

Situation

- Uber able to test autonomous self-driving vehicles in greater Phoenix area
- Required human driver at the wheel
- Pedestrian hit and killed, human driver not paying attention
- Project shelved due to public outcry
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Key Takeaway
- Everyone likes disruptions — just not when it happens to them!
Who is responsible for auto accidents?

- Vehicle Owner
- Insurance Company
- Vehicle Manufacturer
- Software Developer
- Government Regulations
- Infrastructure
Who is responsible for auto accidents?

More than likely everyone.
Agenda

Introduction

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Questions and Answers
Potential Insurance Industry Reactions

- Begin to Offer Warranties
- Lobby Against Autonomous Vehicles
- Insurers Diversify Industries
- Automakers become Insurers
Insurance Companies Offer Warranties

Potential New Product Offerings:

- Tires
- Batteries
- Interior
- Hardware
Auto Insurance Lobbies Against Change

We Know That

- Insurance naturally tied to the public sector
- Existing relationships with government officials
- Laws and regulations establishing standards

Response

- Lobby lawmakers against subsidies and regulations for next generation vehicles
- Drum up support and organize to slow pace of disruption
- Reacting in the interest of public safety
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Automakers Become Insurers

Car insurance will become a branch of car manufacturing companies

Sell insurance with vehicle

Recap lost service revenue

Predictable cost of service

Wrap of warranty with insurance
  • Tires, batteries, upholstery
Insurance Companies adding industries

With new freed capital and lower revenues we could see insurance companies Diversifying through acquisition

Insurance companies could:

- 1. Become investment firms
- 2. Buy Car manufactures
- 3. Growing their liability service lines
We Foresee......

Lobbying

Slow down disruption | Existing Lobbyist

Auto-manufactures acquiring auto insurers

Recapture lost revenue | Vertical integration
Executive Summary

Current Problem: Large changes in auto industry as technology advances causes ripple effects in auto insurance.

Outcome: Insurance providers must adapt in order to maintain revenue source and market share.

How They Adapt: We foresee lobbying and auto manufacturers becoming insurers.
## Appendix

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Revenue Drivers

How Do They Make Money?

• Claims
• Policies

Dependent Upon

• Risk Profile of Clientele
New Revenue Streams

1. Tires for life of vehicle ($1,500/Vehicle)
2. Battery Insurance ($50/month)
3. Warranties
4. New interiors for long lasting cars
Insurance Industry Assumptions

Insurance is a $1 trillion industry. This would make the auto insurance a $200 billion industry.