

Disruption in the Auto Insurance Industry

Courtney Bowles
Laura Dorn
Andrew Schindler
Nick Sonek

January 8, 2019

Steering Consulting

Who We Are?



Courtney Bowles



Laura Dorn



Andrew Schindler



Nick Sonek

Agenda



Introduction

Current State of the Industry

Analysis of Disruption

What Happens to Insurance?

Questions and Answers

Agenda



Introduction

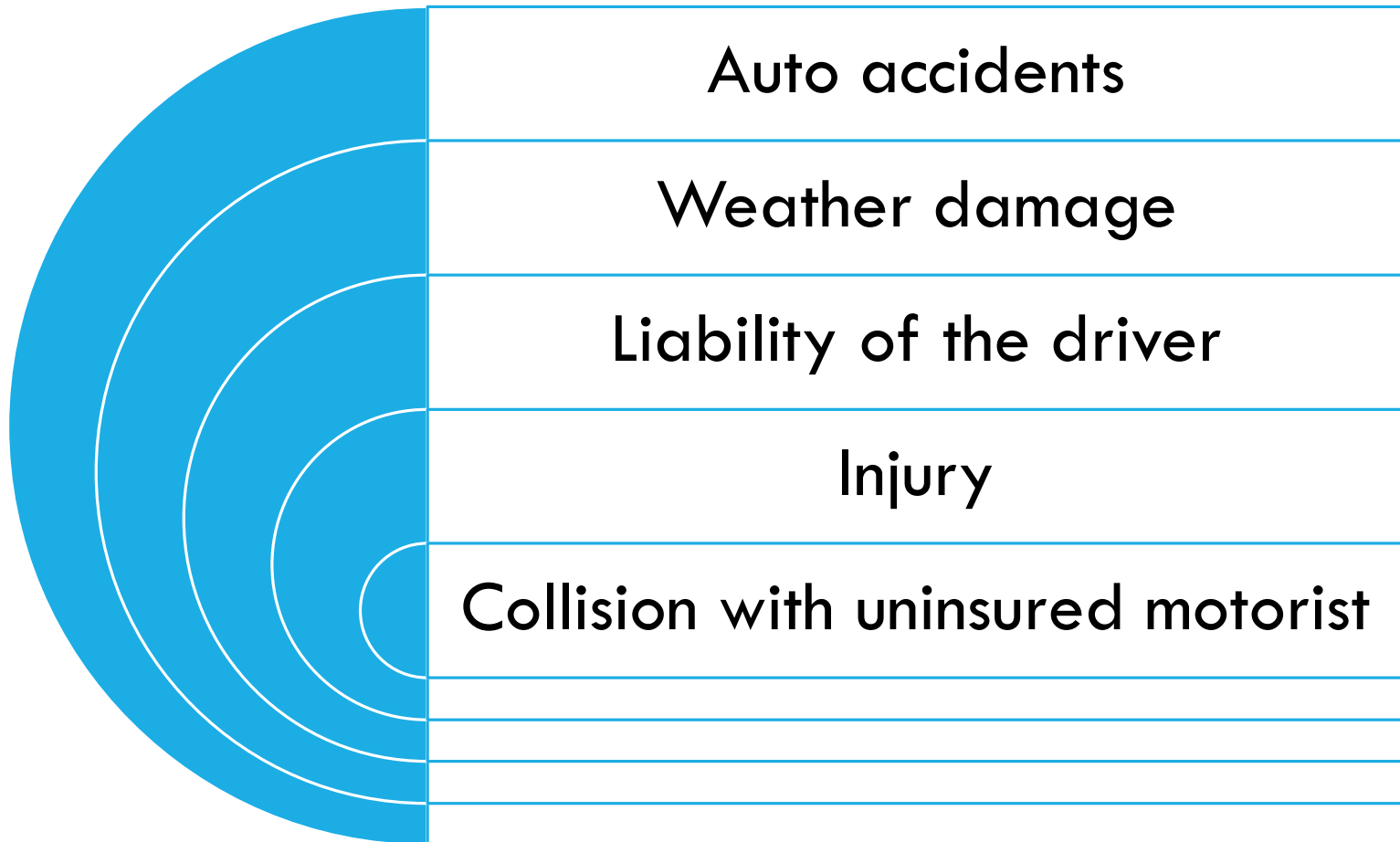
Current State of the Industry

Analysis of Disruption

What Happens to Insurance?

Questions and Answers

What does insurance cover now?



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

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

But what happens when autonomous vehicles become mainstream?

Types of Vehicles

Internal Combustion

12,000 parts &
Routine
Maintenance

Average age: 13
years

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

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

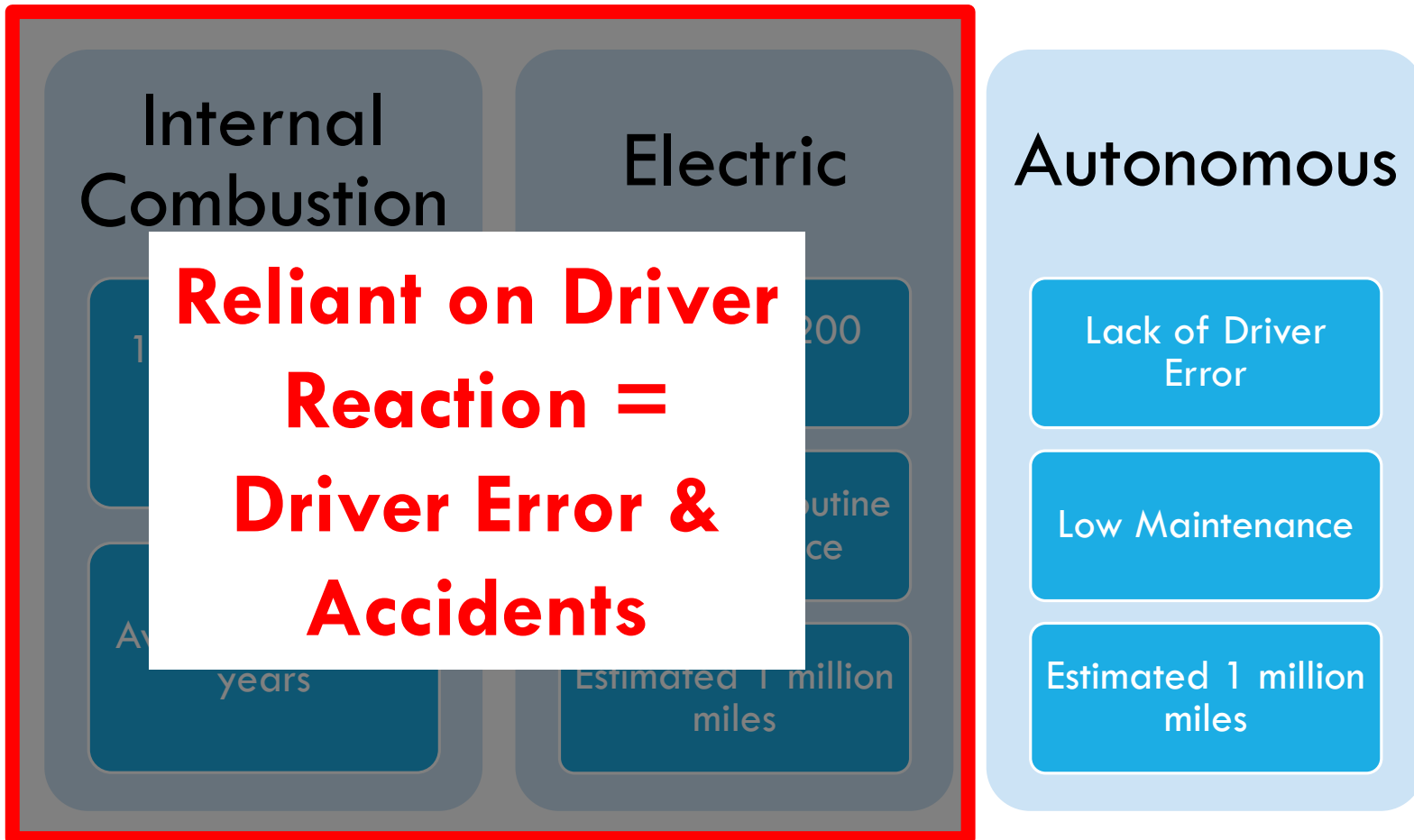
Autonomous

Lack of Driver
Error

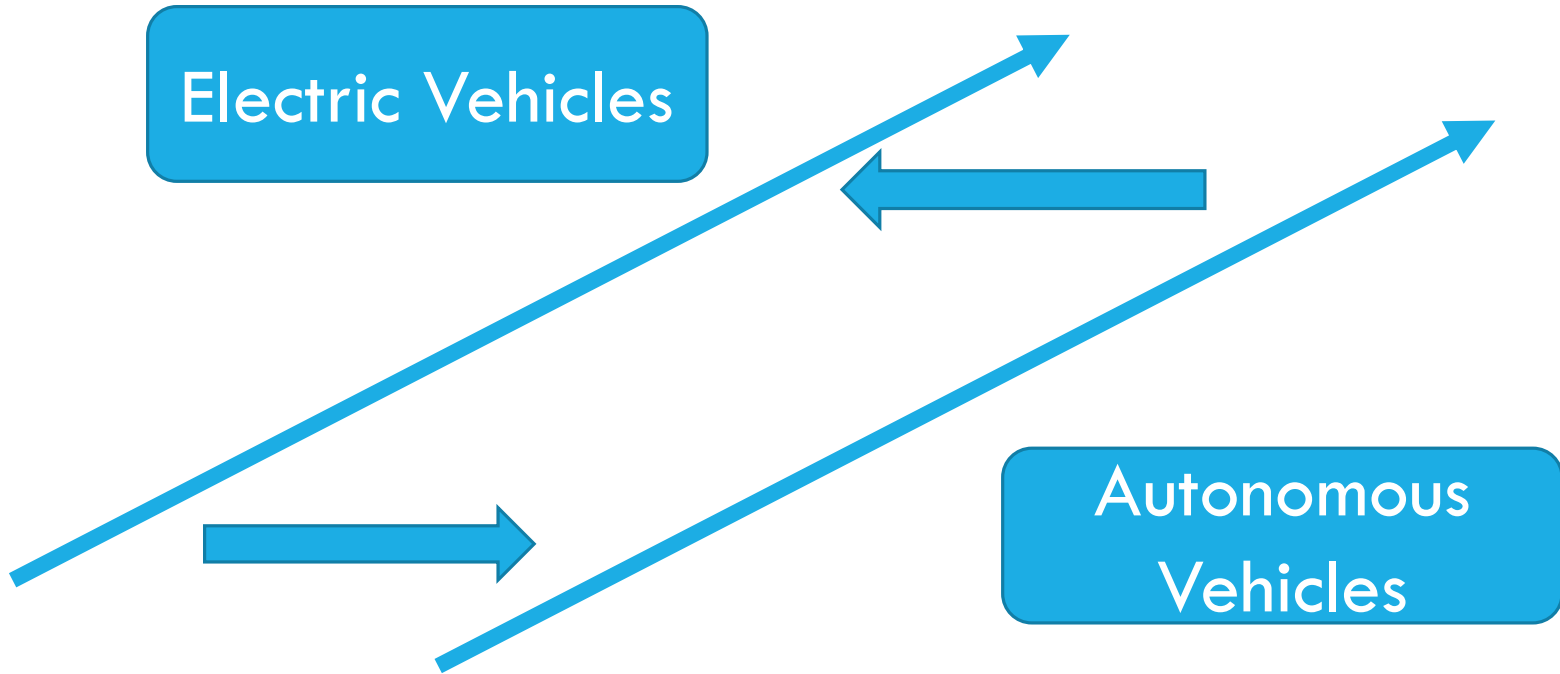
Low Maintenance

Estimated 1 million
miles

Types of Vehicles



Two parallel paths



Moore's Law and Price of Autonomous cars

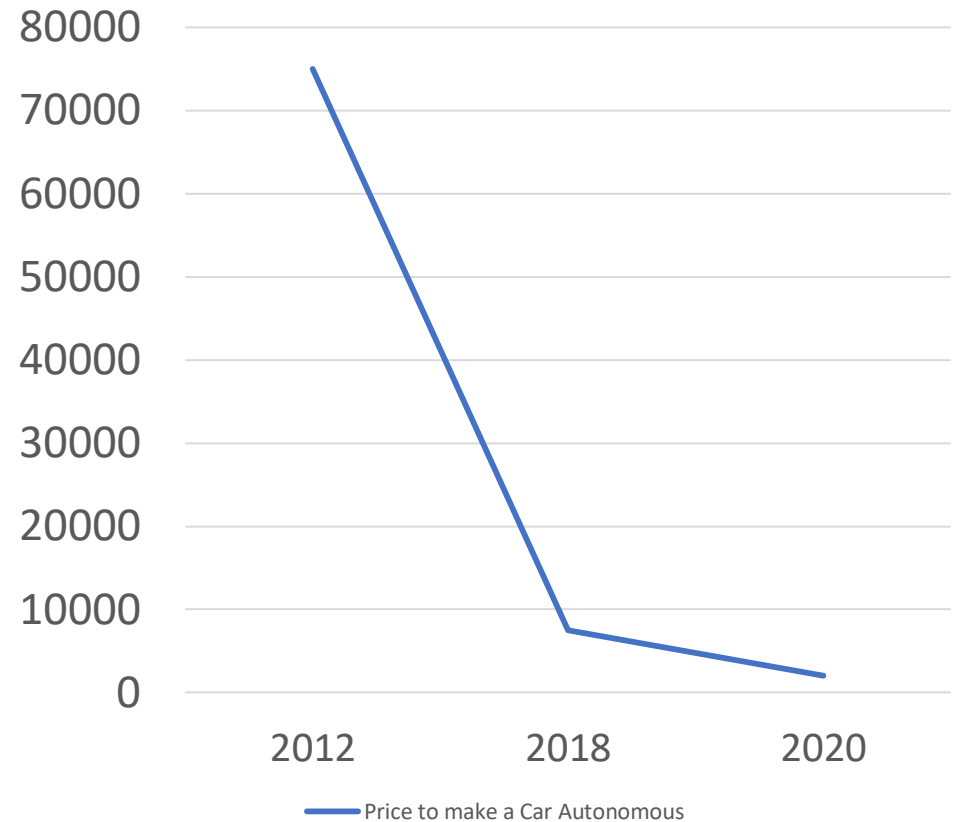
1. Price of computer chips and underlying technology falls by 50% every 18 months.

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

Price to make a Car Autonomous



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

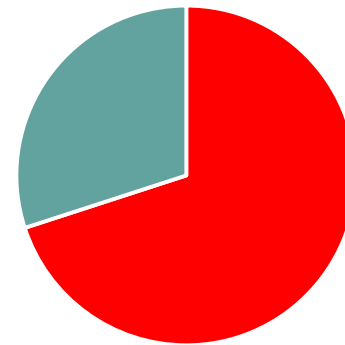
Change to Insurance Rates

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

Loss of Premium Revenue



- Loss of Premiums
- Remaining Revenue

Cost Structure - Current

Liability Coverage

Number of Drivers

Number of Cars

Credit Score

Driver History

Age

Education

Cost Structure - Future

Liability Coverage

Number of Drivers

Number of Cars

Credit Score

Driver History

Age

Education

Eliminate
driver
variability!

What will insurance cover in the future?

Traditional Coverage

- Auto accidents
- Weather damage
- Driver Liability
- Injury
- Collision with uninsured motorist

New Coverage Options

- Warranty Model
- Upholstery
- Tires
- Batteries

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

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

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?

Vehicle
Owner

Insurance
Company

Vehicle
Manufacturer

Software
Developer

Government
Regulations

Infrastructure

More than likely everyone.

Agenda



Introduction

Current State of the Industry

Analysis of Disruption

What Happens to Insurance?

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

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

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

- | | | | | | |
|-------|--|-------|---|---------|---|
| I. | <u>Disruption in the Auto Insurance Industry</u> | IX. | <u>What does insurance cover now?</u> | XXVIII. | <u>Auto Insurance Lobbies Against Change</u> |
| II. | <u>Who We Are?</u> | X. | <u>Change to Insurance Rates</u> | XIX. | <u>Automakers Become Insurers</u> |
| III. | <u>Agenda</u> | XI. | <u>What will insurance cover in the future?</u> | XX. | <u>Insurance Companies adding industries</u> |
| IV. | <u>What does insurance cover now?</u> | XII. | <u>Industry Critique and Response</u> | XXI. | <u>We Foresee.....</u> |
| V. | <u>The Automaker Ripple Effect</u> | XIII. | <u>Cost Structure - Current</u> | XXII. | <u>Executive Summary</u> |
| VI. | <u>Types of Vehicles</u> | XIV. | <u>Case Study: Uber in Arizona</u> | XXIII. | <u>Revenue Drivers</u> |
| VII. | <u>Two parallel paths</u> | XV. | <u>Who is responsible for auto accidents?</u> | XXIV. | <u>New Revenue Streams Insurance Industry Assumptions</u> |
| VIII. | <u>Moore's Law and Price of Autonomous cars</u> | XVI. | <u>Potential Insurance Industry Reactions</u> | XXV. | <u>Insurance Customer</u> |
| | | XVII. | <u>Insurance Companies Offer Warranties</u> | | |

Revenue Drivers

How Do They Make Money?

- Claims
- Policies

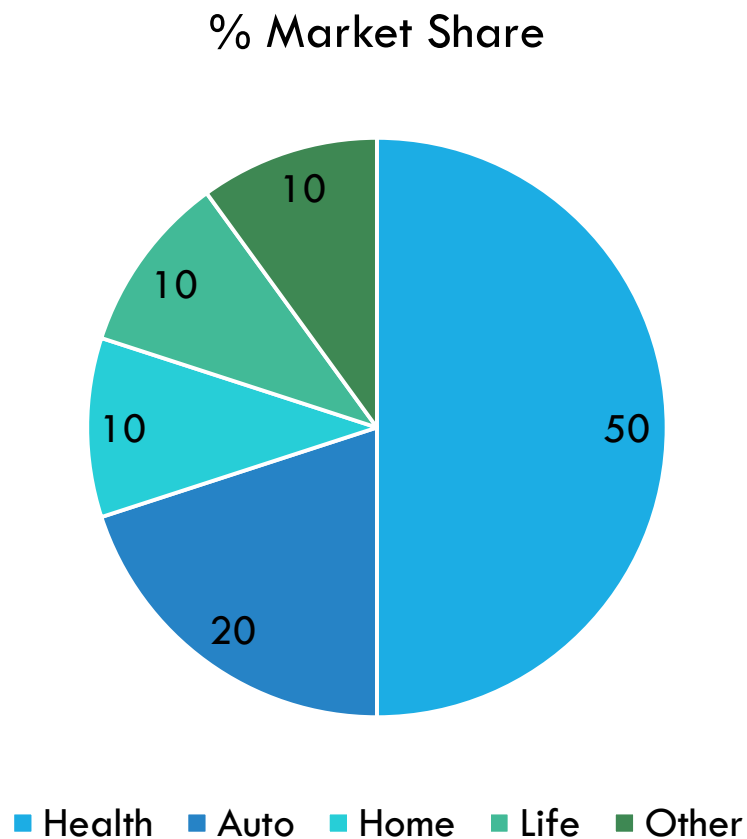
Dependent Upon

- 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



Assumptions

Insurance is a \$1 trillion industry

This would make the auto insurance a \$200 billion industry