



# The autonomous vehicle insurer: driving change in UK insurance

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# Insurers have yet to seize initiative on driverless vehicles

Fully driverless cars will have a huge impact on the insurance industry. But our survey of some of Britain's leading insurance names found that while most insurers acknowledge that fact, few are preparing sufficiently for their arrival.

In our study, conducted between March and May 2016, the majority of senior insurance executives told us they were only doing the early groundwork for autonomous vehicles. A number have held internal and external workshops (33%) but very few have developed a strategic plan (10%) and 42% have not made significant investments of any kind. Despite these revelations, a large proportion of respondents said they were convinced driverless vehicles would have a material impact on their industry a decade from now.

Their prediction is backed up by developments on the ground. You can already buy a car that parks itself or can drive semi-autonomously on the motorway. The UK Government has initiated a number of driverless car trials, which it is fair to say a few insurers are well engaged in. In the commercial sector, driverless trucks are being tested on public roads across Europe and the US<sup>1</sup>. Meanwhile, Uber has been testing a driverless car on the streets of Pittsburgh<sup>2</sup>.

So why have insurers in the UK not done more? In short, they think they have time. The vast majority of survey respondents said consumer acceptance, safety standards and the development of adequate technology would take another decade to get right.

## Survey Findings

- Senior insurance executives believe autonomous vehicles will not significantly impact the auto insurance landscape for 10 years
- Safety and consumer acceptance are vital before the public adopt autonomous vehicles
- Autonomous vehicles will touch every area of the insurer's business model
- Claims frequency and severity will decrease
- Few will change portfolio focus from personal to commercial lines
- Few have developed strategic plans to reflect the rise of autonomous vehicles



Vehicles travelling at a continuous speed, bunched closely – but safely – together will increase road capacity considerably. It should also eliminate, or at least drastically cut, accidents. That's good news, but it does raise a fundamental issue around premiums.

Fortunately, the autonomous vehicle revolution will open up new lines. For instance, government will need to provide signalling, control systems and other infrastructure to allow autonomous and 'traditional' vehicles, cyclists and pedestrians to all co-exist safely. Authorities will need to indemnify themselves against the risk of system failures that might cause an accident – just one element of a broader cyber risk that they will need to insure themselves against.

### **New partnerships vital**

Original Equipment Manufacturers (OEMs) and technology firms such as Google and Intel will be the catalysts behind the driverless revolution, according to our survey. It also revealed the view that in the future, these companies might offer vehicle insurance themselves. It is incumbent on insurers to take the initiative and forge partnerships with these companies now. We believe there is a danger that if they do not, OEMs and technology firms will directly compete with existing insurance providers, or want a cut for selling insurance policies directly to the consumer.

After all, autonomous vehicle manufacturers and the companies who provide their technology will have immediate access to the data captured in the vehicle. This information is vital if insurers want to analyse the market they are trying to serve. Equally, insurance company data on driving habits and claims will be of interest to vehicle and in-car technology manufacturers; especially in the near future where both autonomous and manually driven cars share the road. This data could help them to identify potential flaws in their technology systems.



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## Sooner rather than later

Insurance companies should not be complacent about the pace of change. Insurance is often perceived as an industry focused on protection and managing risk reactively, and not one where risk is proactively managed through prevention. That is a missed opportunity. By engaging with issues such as autonomous vehicles, insurers can create new income streams, build profitable alliances and establish closer customer relationships with both B2C and B2B clients.

In publishing this survey, we wondered whether executives might draw comfort from the fact that most of their peers were equally unprepared. To do that would be a mistake.

So what should insurers be doing now? It was encouraging to see that through the Association of British Insurers (ABI), the Automated Driving Insurer Group (ADIG) has been formed. This provides a forum for insurers to consider the key issues related to automated driving on UK roads. We would encourage insurers to fully engage with ADIG as it will help firms to understand how they can remain relevant to customers and the overall driving experience.

Insurers should model a range of scenarios around the impact autonomous vehicles will have on the market and their own business. That will help them to consider what to do today. For example, they might want to consider establishing a data strategy: from the gathering and storage of data, through to analytics and privacy. They may explore what product offering really resonates with customers; is it one around safety, or one that emphasises the benefits of autonomous vehicles? An early consideration of these, and many other issues, may lead to the creation of alliances with partners outside insurance, who can enhance their offering. It's time to move up a gear.

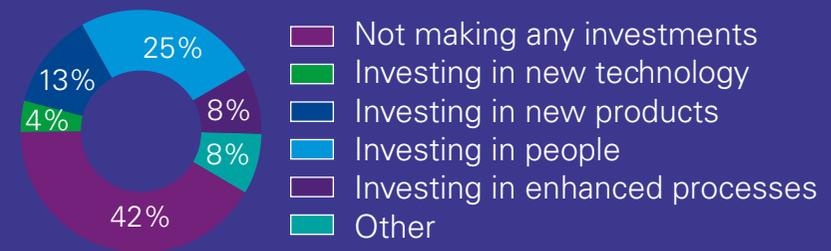
67% of insurers believe it will be at least 20 years before there will be a significant adoption of autonomous vehicles



Safety and consumer acceptance are the two most important factors for driverless vehicle adoption



42% of insurers are not making strategic investments in their business that relate to driverless vehicles



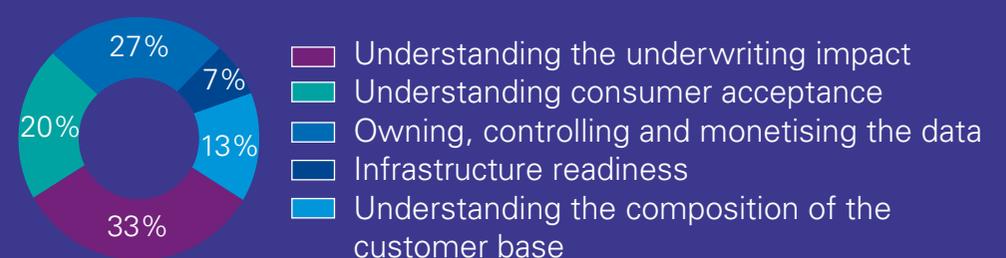
32.5% of insurers have had conversations internally or externally to prepare for driverless vehicles



50% of insurers are not currently using outside resources to help prepare for driverless vehicles



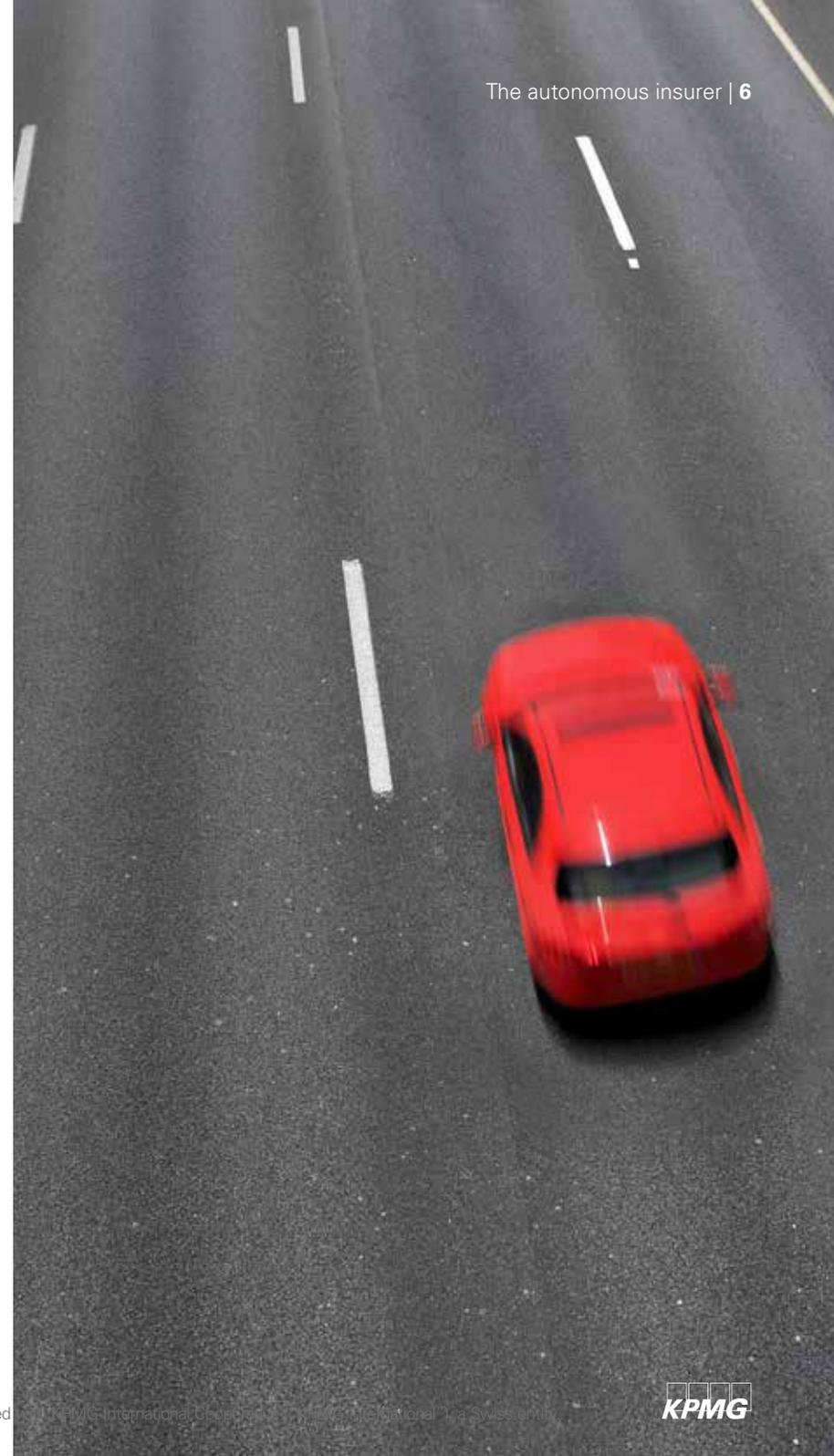
33% of insurers believe understanding the underwriting impact will be the most critical area of organisational focus



# Parallels with findings from the US

In 2015, KPMG conducted a similar survey amongst insurance executives in the USA. The results were similar to the UK's in that the US survey also found scepticism about the potential transformation of autonomous vehicles. Similarly again, few US carriers have taken action – not due to doubts about the possible ramifications, but rather because most believe the change will happen far into the future, if at all. When the transformation starts to take hold, most survey respondents agreed that there will need to be major changes across all the core functions. They also anticipated a shift in the insurance landscape, with traditional manufacturers and high-tech companies playing significantly bigger roles in the future.

This study is based on responses from 18 senior leaders representing many of the UK's largest insurance companies and brokers. Collectively, respondent companies represent 50% of the total UK motor insurance market measured by turnover (gross written premium).



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