

lakyara vol.342

How auto insurance will change in a CASE world

Tomohisa Shidara

12.Jul.2021

Executive Summary



Tomohisa Shidara

Group Manager

Insurance Integration
Design Department

As the transition from automobile ownership to usership inexorably progresses and autonomous driving gains prevalence, automotive risk will shift from individuals to businesses. Such a shift would transform auto insurance, given how businesses differ from individuals in terms of the risks they insure against. With the Japanese P&C insurance industry now dependent on auto insurance for 60% of its premium revenue, it urgently needs to prepare for the changes that will ensue from vehicular autonomy.

Automakers like GM and Tesla have started to offer their own insurance services to customers. While their immediate aim is to lower insurance premiums by retaining prime customers and reducing accidents through advancements in assisted-driving technologies, their entry into the auto insurance market may be a precursor to the rollout of autonomous vehicle (AV) services.

AVs will change automotive risks

Migration to CASE¹⁾ vehicles is an inexorable trend in the auto industry. Widespread adoption of autonomous driving will likely accelerate the ongoing shift from automobile ownership to usership in the wake of the rental car and car-sharing markets' growth in recent years. Meanwhile, traffic accidents, already in a multiyear downtrend, are expected to decrease further as autonomous driving technologies advance.

Given such trends, a near future in which driverless AVs pick up and drop off passengers and make deliveries is easily imaginable. Whereas Japan's major taxi and trucking companies currently own thousands of vehicles, future AV services operated by big tech companies or automakers will likely have fleets an order of magnitude larger.

Insurance's original purpose is to protect against serious risks like life-disrupting events or bankruptcy of a business. For large AV services, however, costs due to traffic accidents will be immaterial. With traffic accidents expected to continue decreasing, large AV services should be able to save money by self-insuring

NOTE

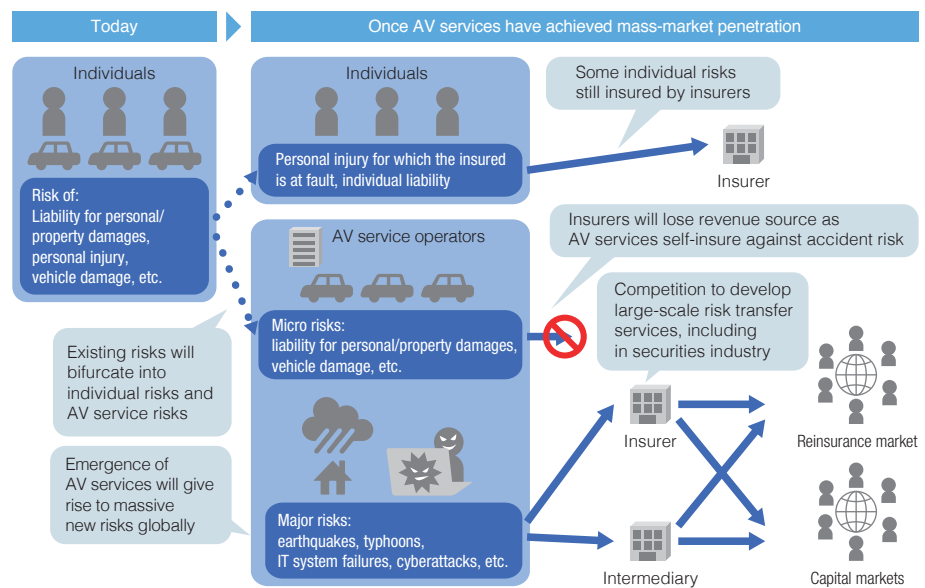
1) CASE, an acronym (Connected, Autonomous, Shared/Service, Electric) coined by Daimler AG in 2016 in its medium/long-term strategy, is now widely used as a catchword for the direction in which the auto industry is trending.

instead of buying auto insurance. The risk of losses due to traffic accidents will gradually cease to be a revenue source for insurers.

Changes in insurance products

What types of insurance should the Japanese P&C insurance industry offer in response to such changes in its environment? Because users of AV services will still be exposed to risks, including injuries for which they are at fault and personal liability for damages, insurers will likely continue to provide coverage for such risks. Sompo Japan launched a mobility insurance product named Ugoku in June 2021 for people who do not own cars. Ugoku covers a broad range of risks to which people are exposed while in transit, presumably in anticipation of AV services becoming widely available.

How risks will change as AV services gain mass prevalence



In the commercial market segment, smaller AV services will likely still need auto insurance. They will likely demand lower premiums and smarter fleet contracts that use vehicle telemetry data. Koffie Labs, a US digital insurer founded in 2018, aims to revolutionize insurance for the trucking industry. Zeroing in on the standardized premiums that truckers are currently charged by insurers, Koffie aims to reduce accidents and, in turn, fleet premiums through telemetric analytics. It presumably plans to extend such coverage to AV services.

Additionally, accidents involving AVs could pose liability to third parties such as vehicle makers and owners of infrastructure like roads and parking lots. Moreover, attribution of liability among parties would differ as a function of the involved vehicles' autonomy level. Accidents and apportionment of resultant liability would consequently become more complicated. AV services would be better off outsourcing such tasks to insurers with claims adjustment expertise or damage investigators than investigating or negotiating themselves. Accident investigation services that use vehicle telemetry data and/or accident video footage may emerge as a new core business for insurers.

Responding to newly emergent major risks

The risks that major AV services should seek to avoid are not traffic accidents but catastrophic risks that threaten business continuity, including natural disasters like earthquakes and typhoons and massive legal liability due to, e.g., IT system failures or cyberattacks. As more and more AV services crop up globally, such risks will aggregate into mega-risks that must be dispersed. Risk dispersal will require not only conventional insurance products but also increasingly diverse and sophisticated methods of transferring risk to reinsurance and capital markets. Additionally, services that enable risks to be transferred more efficiently and less expensively will presumably become available. Ledger Investing, a US startup founded in 2016, has built an insurance risk trading platform to lower securitization costs and provide investors with new opportunities to invest in insurance risk.

Helping AV services to efficiently transfer risks through such means as risk securitization and use of reinsurance may become a new revenue source for insurers, though they would face competition in this space from the likes of the securities and asset management industries and FinTech companies. Insurers should be able to differentiate themselves from other industries by reducing risk transfer costs and developing ancillary services for AV services by utilizing vehicle telemetry data and capitalizing on their expertise in catastrophe risk analysis.

Digital transformation in preparation for changes in core business

The Japanese P&C insurance industry currently derives some 60% of its premium revenue from conventional auto insurance, a market destined to shrink. P&C insurers' investments to date in digital transformation have been limited mostly to modernization of legacy IT systems. Going forward, insurers will have to adapt to

changes in their core auto insurance businesses' profit structures. We expect the nature of risks and risk transfer methods to change in the auto insurance market. Auto insurers need to earnestly undertake R&D in anticipation of such changes and gain fresh competitive advantage.

about NRI

Founded in 1965, Nomura Research Institute (NRI) is a leading global provider of system solutions and consulting services with annual sales above \$4.9 billion. NRI offers clients holistic support of all aspects of operations from back- to front-office, with NRI's research expertise and innovative solutions as well as understanding of operational challenges faced by financial services firms. The clients include broker-dealers, asset managers, banks and insurance providers. NRI has its offices globally including New York, London, Tokyo, Hong Kong and Singapore, and over 13,000 employees.

For more information, visit <https://www.nri.com/en>

.....

The entire content of this report is subject to copyright with all rights reserved.
The report is provided solely for informational purposes for our UK and USA readers and is not to be construed as providing advice, recommendations, endorsements, representations or warranties of any kind whatsoever.
Whilst every effort has been taken to ensure the accuracy of the information, NRI shall have no liability for any loss or damage arising directly or indirectly from the use of the information contained in this report.
Reproduction in whole or in part use for any public purpose is permitted only with the prior written approval of Nomura Research Institute, Ltd.

Inquiries to : Financial Market & Digital Business Research Department
Nomura Research Institute, Ltd.
Otemachi Financial City Grand Cube,
1-9-2 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan
E-mail : kyara@nri.co.jp

<https://www.nri.com/en/knowledge/publication/fis/lakyara/>

.....