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Are insurers ready for the future of mobility?

As mobility evolves, forward-thinking European motor insurers can update their business approaches to serve climate-conscious, tech-savvy customers.

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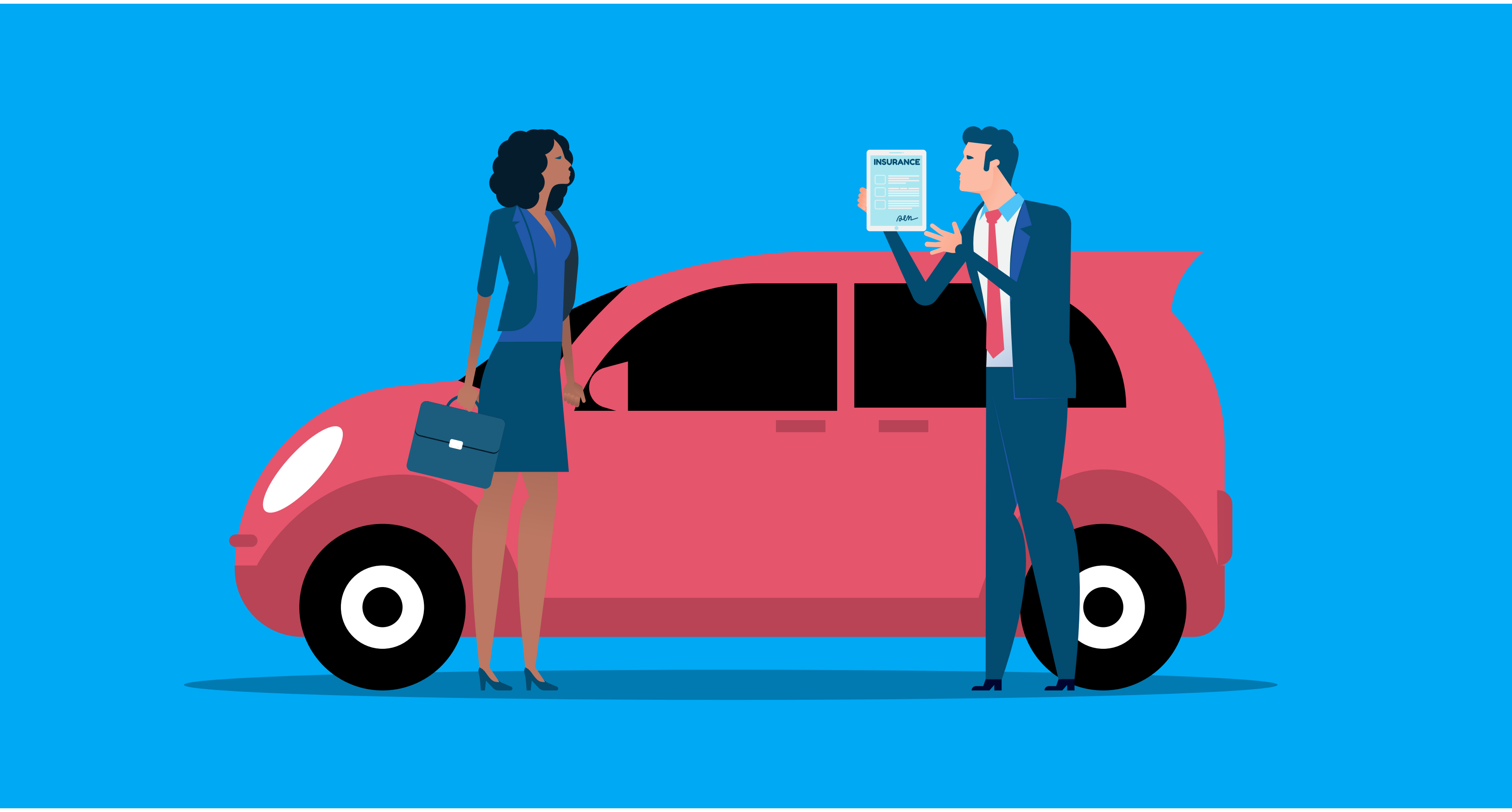

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For decades, population growth and rising per capita income in Europe were accompanied by an increase in the number of vehicles purchased and kilometers driven. But mobility is at a turning point. The fight against climate change has changed all mobility-related industries—including the insurance market. And as customers become more aware of new technologies, such as autonomous driving and connectivity, both the automotive industry and motor insurers will need to change their product offerings and ways of working. These changes bring challenges to the insurance industry, but they also bring new opportunities.

The traffic turnaround

In 2021, European policymakers significantly enhanced their efforts to reduce transportation emissions. In accordance with the European Green Deal, companies have committed to cutting CO_2 emissions from passenger cars by more than half by 2030, compared with 1990 levels, according to the European Commission. More than 150 European cities have already introduced access restrictions, such as reducing private vehicle use in designated areas, and electric-vehicle adoption is expected to reach nearly 50 percent globally over the next decade.[1]

New technologies will also help ease the flow of traffic. The first Level 3 road congestion pilots, for example, can monitor traffic jams and switch the vehicle temporarily to autonomous driving. Level 4 highway pilots, which can monitor traffic and drive autonomously at higher speeds, are expected to be approved for private vehicles by 2025 at the latest.[2] By then, 70 percent of all new vehicles are anticipated to be connected "smart" cars. Additionally, self-driving cabs are already on the roads of cities such as Phoenix, San Francisco, and Seoul.[3] In China, they are projected to account for an estimated two-thirds of all passenger kilometers by 2040.[4] Europe is also expected to introduce these types of vehicles to their streets in just a few years.

Individual mobility still primarily means owning a car.[5] But the consumer market has become more open to new mobility solutions. Electronically booked trips, known as e-hailing, tripled between 2016 and 2021, and the micromobility sector (small electric vehicles, public transport, and shared services) grew by 60 percent in 2021 alone.[6] As these trends continue, more people will shift from owning a car to using alternative transportation options.

How insurance will be affected

As the mobility sector evolves, so will the insurance market. For example, the frequency of claims is likely to decrease significantly in the coming years. At the same time, when accidents do happen, claims will be more significant because of the high cost of component replacements, such as sensors in vehicle bodies or batteries in electric vehicles. More

The consumer market has become more open to new mobility solutions.

[1] "Delivering the European Green Deal," European Commission, accessed July 1, 2022.
[2] "Why the automotive future is electric," McKinsey, September 7, 2021.
[3] "The trends transforming mobility's future," *McKinsey Quarterly*, March 8, 2019.
[4] Timo Möller, Asutosh Padhi, Dickon Pinner, and Andreas Tschiesner, "The future of mobility is at our doorstep," McKinsey, December 19, 2019.
[5] Kersten Heineke, Benedikt Kloss, Timo Möller, and Charlotte Wiemuth, "Shared mobility: Where it stands, where it's headed," McKinsey, August 11, 2021.
[6] "Why the automotive future is electric," September 7, 2021.

dramatically, privately owned cars will become less popular as fleet businesses and micromobility grow, which will greatly reduce the largest business segment for most motor insurers.

Insurance companies will need to develop new approaches to address the impending decline in car insurance premiums and compensate for this loss with new business models. Motor insurers will also have to get used to a different risk portfolio if liability is transferred from the driver to the manufacturer—an approach that some political leaders are discussing. To adjust, insurers will have to develop new competencies in product development and in actuarial, sales, and customer service departments.

Across the board, the insurance industry must prepare itself for significant shifts in business priorities—and the sooner the better.

Where to start

Fortunately, such a change brings opportunities that nimble providers can capitalize on. According to expert estimates, vehicle connectivity alone has the potential to produce $30 billion to $50 billion for the global mobility insurance industry by 2030.[7] That amount would be more than 10 percent of today's premiums.[8]

Below are four examples of new data-driven approaches that companies can use to seize on the potential of mobility shifts:

1. *Behavior-based pricing.* Premiums based on driving style ("pay how you drive") or vehicle use ("pay as you drive") give policyholders attractive opportunities to save. This approach can pay off in the long term if movement and vehicle data are used to make additional offers.

2. *New ecosystem offerings.* With growth in direct sales of motor vehicles, car manufacturers are becoming increasingly important as partners. But they should also be considered potential competitors as embedded offers—purchasing a vehicle and insurance from a single source—continue to trend. Insurers should strive to create partnerships within their ecosystem that benefit both sides. For example, they could integrate a simplified insurance offering into vehicle buying and selling using a seamless digital process.

3. *Multimodal insurance products.* Providers can respond to the uptick in mobility diversity with appropriate insurance solutions. For example, they could offer one product class for everything from private cars to borrowed e-scooters and

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[7] Michele Bertoncello, Christopher Martens, Timo Möller, and Tobias Schneiderbauer, "Unlocking the full life-cycle value from connected-car data," McKinsey, February 11, 2021.
[8] Stephan Binder, Philipp Klais, and Jörg Mußhoff, "Global Insurance Pools statistics and trends: An overview of life, P&C, and health insurance," McKinsey, April 29, 2021.
[9] "Unlocking the full life-cycle value from connected-car data," February 11, 2021.

rental cars on vacation. This solution provides new customer groups access to the company and their insurance offerings that they might not have been exposed to before.

4. *On-demand services.* After purchasing a vehicle, 39 percent of all buyers want to activate additional digital services.[9] For owners of premium brand vehicles, 50 percent opt for these additional services. Insurers can take advantage of this ample demand by making extended services—such as international insurance, insurance for passengers, or active driver coaching—available at the push of a button.

In the medium term, insurers can plan to jump at new business opportunities, using the insights and data they have collected from mobility insurance solutions to grow into other areas of the mobility ecosystem. Fleet management, buying and selling used cars, the electric charging market, and car servicing sectors are just a few of the many options. More diversity also provides advantages over aggregators, which tend to benefit from standardization.

As is often the case during change management, motor insurers will need courage and creativity to forge ahead. Companies that address challenges early on will emerge stronger by responding to the transportation transformation. What's more, they will play a key role in shaping the new era of mobility.

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