THE TIPPING POINT

Are AUTOMOTIVE OEMS finally taking the wheel on insurance?

Analysis of how US insurance sector evolved in recent years.

MOVINX

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Auto OEMs turn to insurance.

Since the humble beginnings of affinity programs, automotive OEM insurance has rapidly evolved. Despite the challenges around price competition across diverse customer groups – and simultaneously across 50 states – they've been working through a range of models to merge the two sectors insurance and automotive, with an aim to make insurance part of the car purchase journey.

Getting this done is no easy feat: technology between insurance carriers and OEMs are not always aligned to be able to easily insert insurance in the purchase journey, let alone leverage connected car data needed for building price-competitive insurance models, and regulatory barriers or customer behavior across all states make if virtually impossible to deliver a consistent – and coherent – customer journey across the board. Still, to date, the challenge remains:

how can auto OEMs increase insurance penetration?

Enter embedded insurance.

As recently demonstrated by companies like Carvana/Root and Tesla, embedding insurance within the car sale journey is not only vital: it's the only way to lift penetration rates and make the customer journey more enjoyable (at least as enjoyable as buying insurance can be).

> Seamless experience is the key to customer satisfaction; it's what they have come to expect, just like financing is an integral part of the modern car sale process,.

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Leading car manufacturers are already in the OEM-insurance game with programs like Ford Insure, Toyota Insurance, GM's OnStar Insurance, and Tesla Insurance; each offering unique, bespoke benefits and value-add features.

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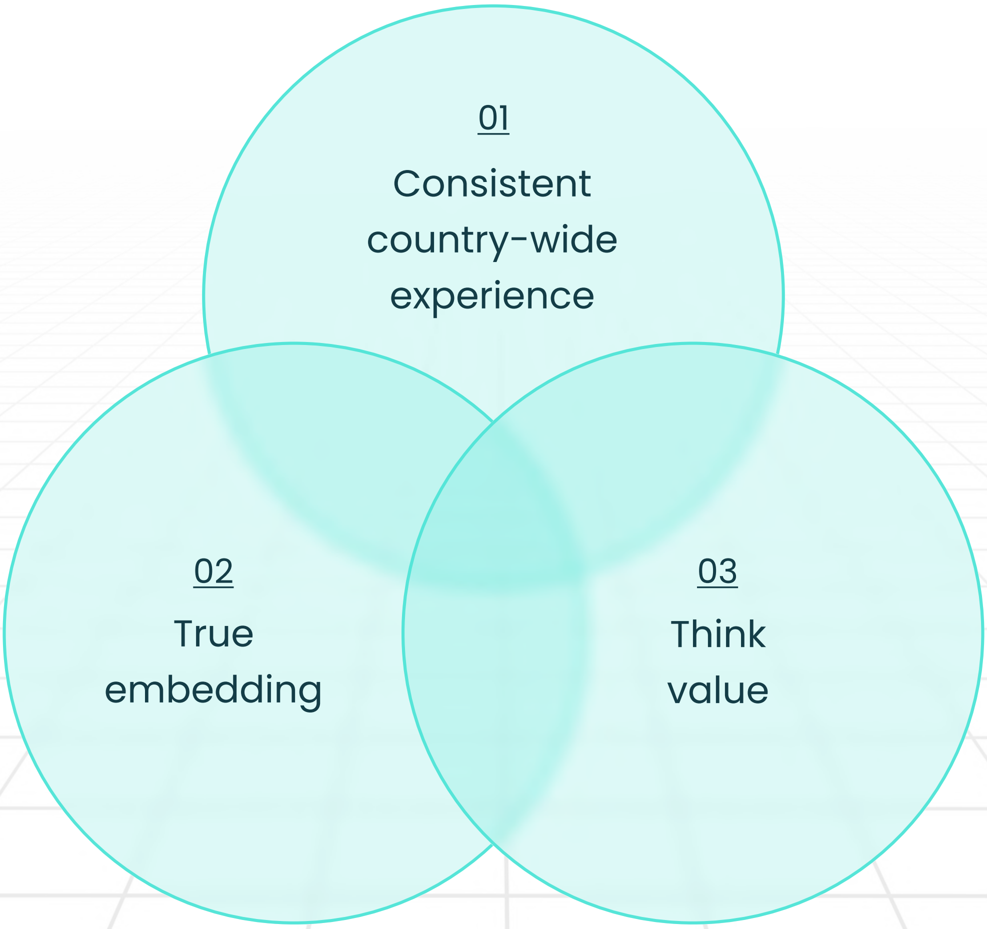
Our analysis shows us that, as more players have entered the OEM-insurance space with their own – not always optimum – insurance product offerings, not all customer journeys are created equal. When it comes to OEM-led car insurance, we've found there are three ingredients that lead to better outcomes for insurance programs.



ABOUT THIS REPORT.

This analysis was authored by Dr. Andreas Schroeter, Chief Product Officer and Keith Gaudin, Principal Product Manager, US. They form part of Movinx's product team, the company's experts in insurance customer experience. Movinx is a global insurtech specializing in embedded auto insurance solutions, with a focus on OEM-driven solutions; it's a licensed producer in all 50 states in the US.

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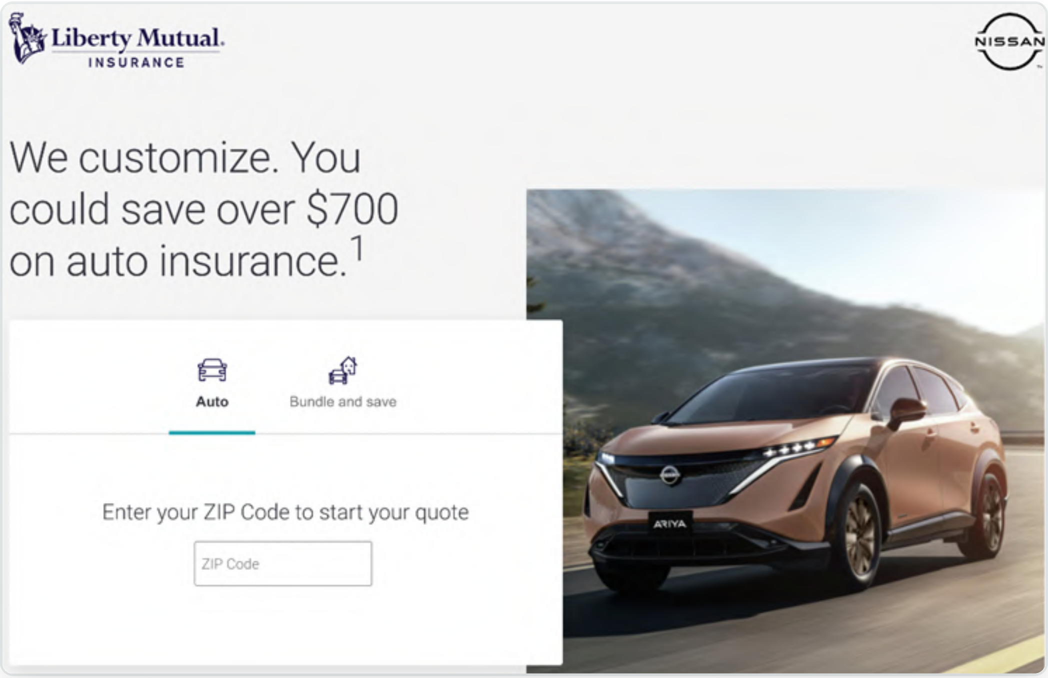
THE HUMBLE BEGINNINGS

Auto OEM insurance began manifesting in the form of affinity programs (e.g. Nissan & Liberty Mutual), basically offering a discount to the OEM's customers, at the time this was likened to programs that offered discounts to teachers or military members.

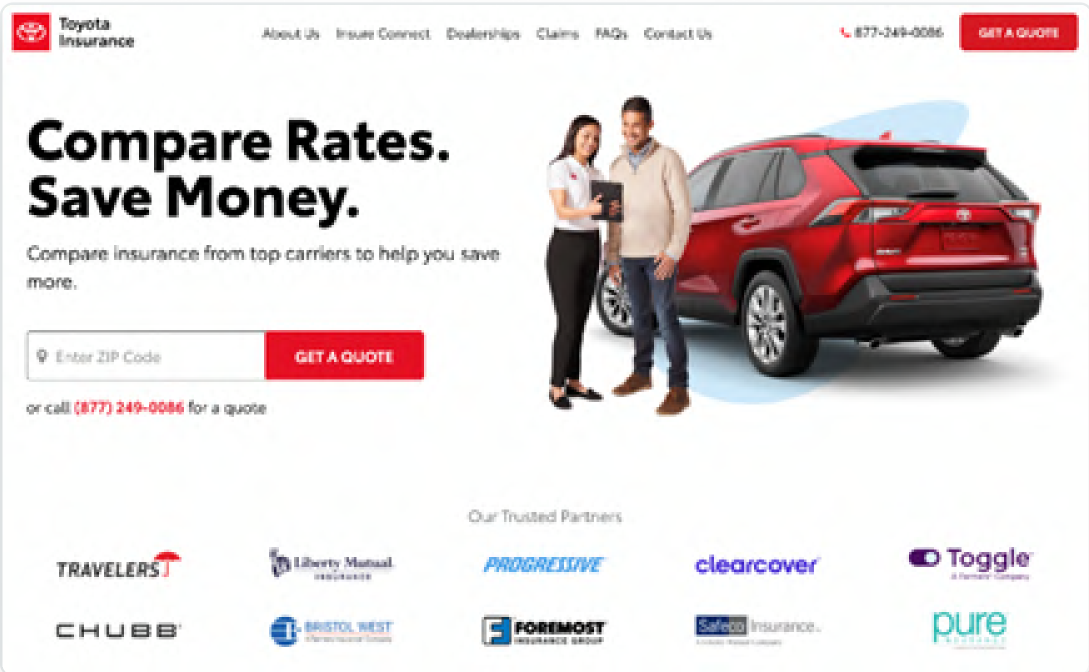


The problem: Pricing.

No US insurer can ever be competitive across all different customer groups and all 50 states, even with a discount. Affinity programs worked for some customers, but left the remaining customer segments disappointed, losing brand credibility and affinity (pun intended). This program is particularly volatile considering the different needs across the states, say, if insurers stop writing business in a particular state (i.e. California) or have to hike up premiums due to local factors, such as weather (i.e. Florida).

SOLVING THE PRICING PROBLEM.

An insurance panel is one solution offered to help solving the pricing problem (e.g. Toyota), by offering competitive rates to most customers, serving different insurers or product offerings to different customer groups and states, based on their specific needs.



The problem: Incentive to switch, or lack thereof.

Changing insurance providers isn't easy, especially when you consider that many US customers like to bundle car and home insurance – as the insurance industry has "taught" them to ensure discounts. If the journey experience offers basically the same service the customer's traditional insurance broker offers, and even without advice based on relationship history, there's little to no incentive to switch.

Focusing on creating a fundamental price advantage beyond a price comparison via panels, in recent years OEMs and insurers have partnered up to leverage connected car data and adjust pricing based on mileage and driving behavior (e.g. Ford Insurance with Nationwide; Tesla Insurance). **Ford Insure customers** can earn up to 40% discount through the use of telematics, for example.

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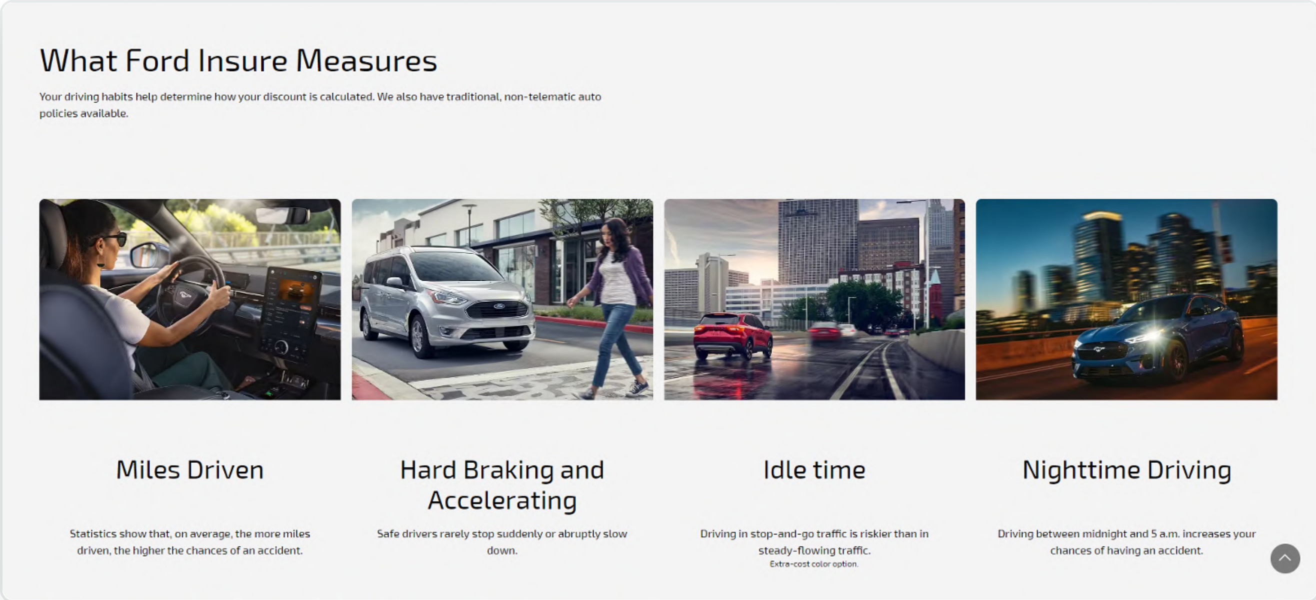

The problem: Pricing, again.

Telematics requires insurers to be tech-ready; these are few and far between. Due to complexity of setting up connected car data readiness between the OEM and the insurer, this program is usually offered in partnership with a single insurer, which takes us back to the original problem: a single insurer cannot be competitive across all 50 states, which dilutes the competitiveness of the program for all its customers, and the return on investment for the OEM to embark on the arduous process of setting up the program to begin with.

Can the pricing problem be fixed?

Solving the pricing problem doesn't necessarily result in better penetration; switching insurance is hard and customers can't be bothered doing it – plain and simple. Focusing on the pricing message, in fact, tends to attract the type of customer insurers don't want: the price sensitive segment. This customer shops around and switches insurance at the first opportunity, based solely on price. In a sector that enjoys **high overall retention rates for car insurance at 85% (and up to 95% for bundled policies)**, solving the pricing problem doesn't lead to a massive breakthrough in penetration, and doesn't entice the 'right customer' to switch. Insurers need to look beyond the sale – towards value-adding – to generate the incentive to change.

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ATTRACTING THE RIGHT CUSTOMER.

The right, attractive customers care about value and experience, not necessarily insurance. Automotive OEMs can leverage this by:

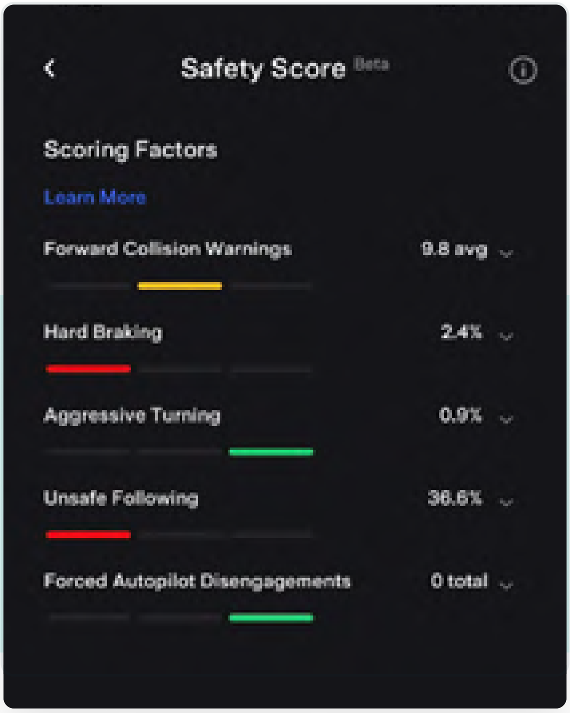
1. Putting value front and center – not price.

2. Integrating insurance seamlessly into its existing ecosystem, making insurance invisible.

Tesla's Safety Score has shown us that connected data can be used to help drive positive driving behavior (which is invariably less risky to underwrite).

The problem: Old pricing habits.

The value-add message is still combined with pricing messaging: "The better you drive, the less you pay." – taking notes from incumbent car insurers currently using telematics.



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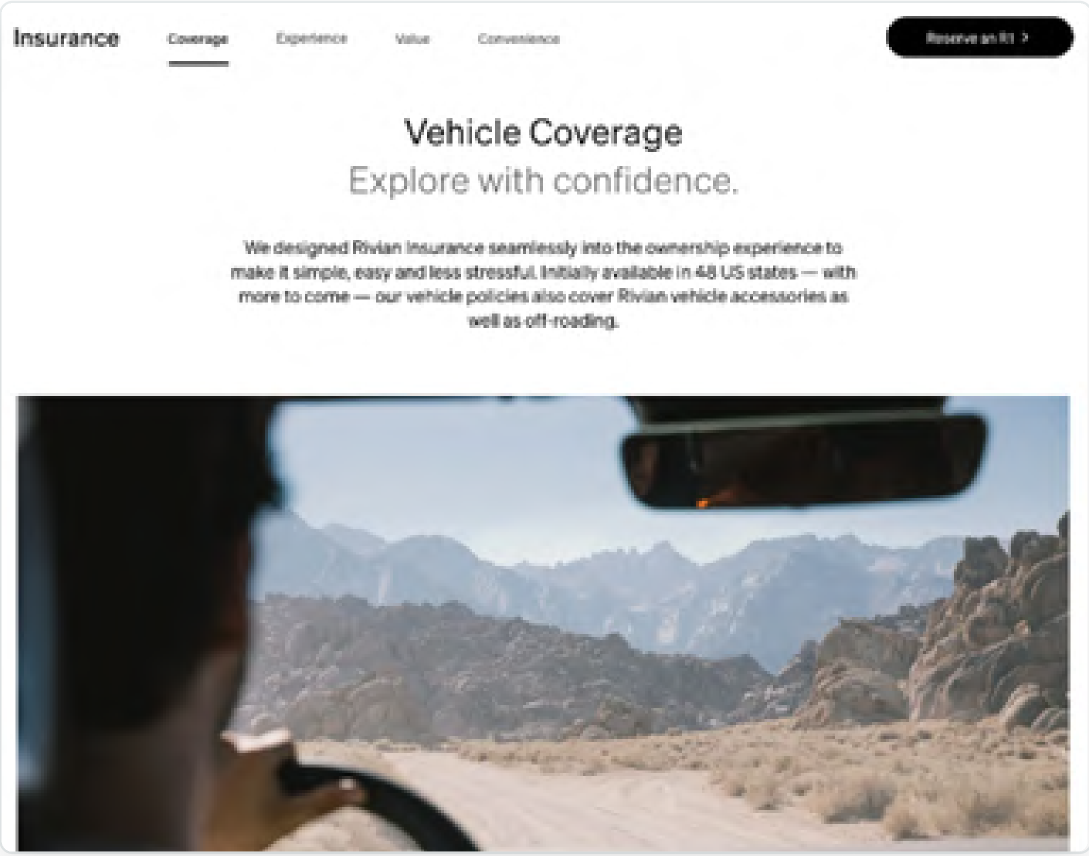
A better example is Progressive's roll-out of accident detection and automated emergency assistance. This is not only a tremendous value-add at the moment of truth for the customer, it also saves the insurer a considerable claims amount e.g. by steering the damaged car into their repair network.

Rivian's program covers off-roading, highlighting vehicle accessories and off-roading coverage, which fits with their brand image and what their customers want – a great example of adding value beyond insurance.



What customers really want.

Both Tesla and Progressive examples are in line with research that shows the most wanted value-add features for auto insurance customers are: rewards (71%) and automatic emergency assistance (57%). Other interests include: active monitoring anti-theft device (53%) and help with claims processing (52%), with an indication of additional services to soon become integral to future insurance propositions.

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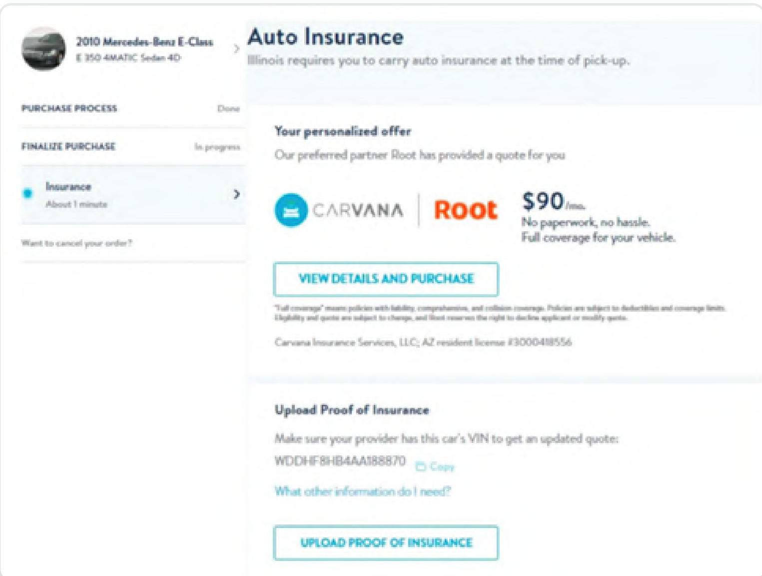
INTEGRATION STATION

In no other instance is a customer more likely to buy insurance or switch insurers, as when they are in the process of a car purchase. Integrating insurance as part of the sales journey is a natural – and obvious – step to help increase penetration and get to the customer when they are ready to buy.

Integration, however, is not solved by simply adding a link to a website and hoping for the best. The core to true integration is a process that is smooth, convenient and seamlessly embedded into the customer journey.

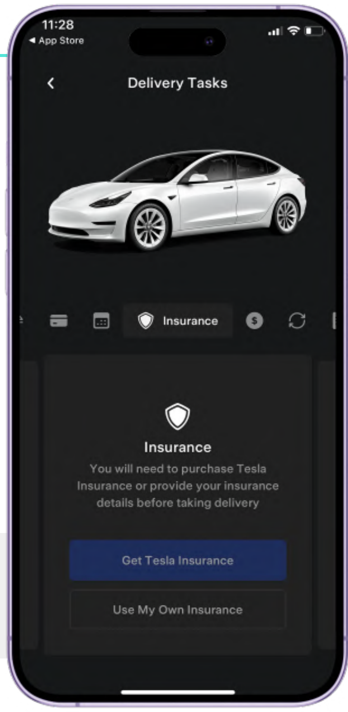
→ The offers integrated insurance right after the digital sale (we estimate 10-15% penetration with an integrated solution based on our internal analysis).



ZACK KIRKHORN,

CFO, TESLA

"And we see most of the adoption occurring when folks take delivery of a new car, as they're setting up insurance for the first time as opposed to going back and switching when they already have insurance set up."



Source.

→ Tesla offers insurance as part of their delivery tasks checklist, asking for the customer to upload their 'proof of insurance' (we estimate 25-30% penetration based on the Q4/2022 earnings call).

Tesla also offers it as part of their integration with their car app (we estimate 1-5% penetration based on the Q4/2022 earnings call).

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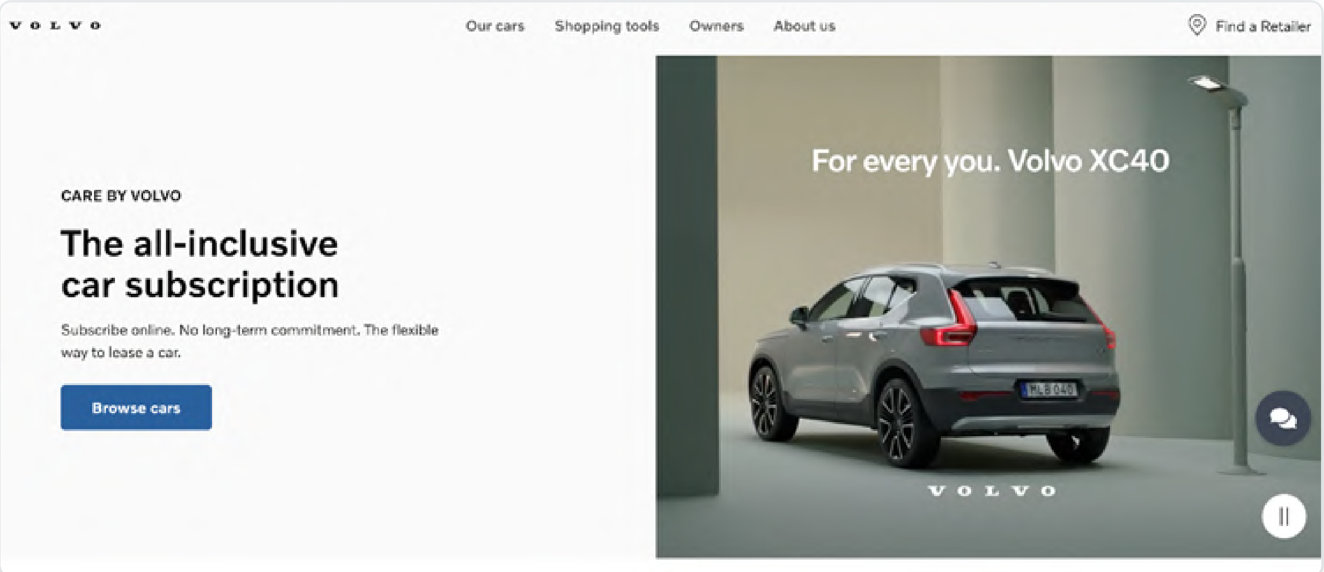
EMBEDDING 2.0

Embedding is hardly here, but it's already evolving. As a concept it's proven effective in Europe when bundled with financing. This, however, is legally challenging in the US (e.g. Volvo) add volvo logo. As ownership models and customer perceptions of ownership – and inclusions – change, we're already seeing a rise in all-inclusive car subscription programs (e.g. Care by Volvo).



Overview of the top 10 automotive OEM insurance programs

Brand	Insurance Name	Insurance Carrier	Type of program
Ford	Ford Insure	Nationwide	Driving behavior
Toyota	Toyota Insurance	10 carriers	Panel with discounts
Snapshot	Toyota Insurance Connect	Nationwide	Driving behavior
GM	OnStar Insurance	OnStar Insurance	Driving behavior
Honda	N/A		
Hyundai	N/A		
Jeep/RAM (Stellantis)	N/A		
Nissan	Nissan Security+Plus Insurance	Liberty Mutal	Affinity program
Kia	N/A		
Subaru	Subaru Advantage Insurance	Liberty Mutal	Affinity program
Tesla	Tesla Insurance	Tesla(State National Insurance, Redpoint County Mutual Insurance)	Driving behavior

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HOW CAN AUTO OEMS GET IN THE INSURANCE DRIVER'S SEAT?

01 True embedding

Understand the best touchpoint for your customer journey. You can have the greatest insurance product, the most perfect tech, but if you don't have the right embedded customer touchpoint, no one will buy.

This starts with the auto OEM brand being front and center (newsflash: customers do not hold affinity with their insurer, brand loyalty will always sit with the car manufacturer). It continues with a seamless journey. If this is clunky, it won't feel like a true – authentic – part of the OEM brand, and it will dilute their loyalty. This is still technologically challenging, as auto OEM and insurer systems differ and are simply not entirely ready to evolve.

> A successful embedded insurance looks like this:

Timing.

The insurance offer is presented as close to the time of vehicle purchase decision as possible, but not before. Care must be taken to not disrupt the closing of the vehicle sale, or there is no insurance to sell. If subscription models including insurance become more common in the US, this may change.

"Choice" brand ecosystem.

The insurance offer lives in the auto OEM ecosystem. This is the brand the customer is loyal to and excited about. Insurance nerds may find insurance exciting, but rarely do you hear someone showing off their new insurance card to their friends. Meet the customer where the emotion lives: their new car.

Process, not pitch.

The insurance offer feels like a natural part of the sales completion or delivery process – not an unrequested sales pitch. (See Tesla, on page X)

Make it easy.

The insurance offer already uses already available customer data. The customer just spent significant time giving their information to buy a car, don't make them do it all again for insurance. They don't want to. The data is there, leverage it and make the insurance buying process painless. Remember: no one wants to buy insurance.

Bundling as an option.

The insurance offer doesn't miss this opportunity. The first priority is to insure the auto customer, but this is an entry way a bundle including home insurance – a key feature in US insurance buying habit. While this piece may not be fully solved digital, at least remove the monoline barrier by proactively communicating that other products can be bundled.

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02 Consistent country-wide experience

A competitive offer leveraging connected car data with a select group of insurance partners (not just one) to cover: 1) all 50 states and 2) different customer groups. This also includes giving the option to bundle home or renters insurance. The challenge here is to find carriers that are technologically ready and strategically willing to put the automotive OEM brand front and center.

Alternatively, create your own insurance carrier to ensure a 100% customer group match/overlap (e.g. Tesla, GM/OnStar). The challenge here is that it takes time to perform a state by state roll-out (Tesla is at 8 states 4 years after launch), and it is very expensive (Tesla is at a >120 loss ratio). It's also important to remember that automotive OEMs aren't insurance experts. They don't need to be, so the learning curve here may be longer than is worth the trouble.

03 Think value

A holistic customer strategy that thinks beyond the sale, and aligns services to your brand's customer needs. While a focus on value-add beyond insurance can get customers in the door today, it should only serve as a stop gap while OEMs and insurers are building towards a fully embedded insurance experience. In the future this will include more than distribution, but also claims, for example. This will be the differentiator to regular car insurance and the long-term reason why customers will switch and stick to the car OEM insurance.