Rethinking motor fleet insurance
A neglected opportunity for insurance companies
Motor fleet insurance has historically been unprofitable in Europe. Prices have declined over time and margins have had the last decimal percentage point squeezed out of them. As a result many insurance companies have exited the market entirely. However, changes in mobility consumption patterns and new technology are promising to put motor fleet insurance back on its feet, making it once again a profitable business.

A number of factors are at play here. New mobility business models, especially in large urban areas, will likely result in a shift of the current B2C premium pool to the B2B segment. Urbanization and the trend toward sustainability, a growing preference for usership over ownership among millennials, new packages from OEMs offering end-to-end coverage of customer needs, and new digital technology are driving the development of fleet business. At the same time, the arrival of the "connected car", replacing older telematics models, creates possibilities for increased profitability – by improving pricing accuracy based on a better understanding of risk, by creating incentives for drivers to drive more carefully, and by enabling insurers to offer value-added services.

The upshot of these changes – as we discuss in this paper – is that motor fleet insurance will become highly relevant for insurance companies in the next five to ten years, we believe. Re-entering this market could help insurers maintain overall profitability during the coming decade. But insurers must be willing to develop the right capabilities, refining their value proposition or building a new one from scratch, revising their underwriting and service models and fostering partnerships with tech companies and OEMs. By rethinking their approach to motor fleet insurance, they can then start exploiting this neglected opportunity and access the new profit pools that they can’t afford to pass up.
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Chapter 1:

Time for a new paradigm

Motor fleet insurance could be a lifeline for some insurers.
For many years, motor fleet insurance has been unprofitable in Europe. The strong bargaining power of fleet owners, combined with the market power of large brokers, has led to prices gradually declining over time, taking margins with them. Moreover, many leading insurers have applied the pricing and operating models that they developed for individual clients to the fleet business. The result has been negative profits – combined ratios of around 104 percent in Spain, 107 percent in Germany and up to 129 percent in France, for example. A

Fleet business makes up less than ten percent of the total motor insurance business in terms of the number of vehicles in use, and around 15 percent of total premiums. Many European motor insurers have therefore relegated it to a secondary priority. Others have quietly dropped it from their portfolio altogether. We think this is the wrong strategic move. Rather than exiting the market segment completely, insurers should rethink their position on motor fleets. It is time for a new paradigm. On the following pages, we discuss the opportunities created by new technology and changes in mobility consumption patterns – factors that we believe are set to raise the importance of motor fleet business for carriers, boosting it in terms of both volume and profitability. Indeed, for companies specializing in individual motor insurance, which are experiencing a progressive decline in revenues and profits in their main business, we are convinced that fleet insurance could represent a vital lifeline. For many, it will enable them to maintain profitability over the next five to ten years.

A: Business is bad.
Average combined ratio for fleet business in France, Germany and Spain (2015).
Chapter 2:

B2C to B2B

Four forces are driving the shift from individual to fleet insurance.
Over the coming years we will witness a surge in new mobility business models, resulting in a major shift of the current B2C premium pool to the B2B segment. Fleet business will gain importance in terms of both its relative market share and its profitability, giving insurance companies an opportunity to diversify their business models. We identify four main forces driving this shift from individual to fleet insurance in the short term.

#1 – URBANIZATION AND SUSTAINABILITY
We are witnessing an increase in migration from rural to urban areas right around the globe. This tendency is expected to continue over the coming decades. More than half of the world’s population already lives in large cities, and by 2050 the figure will likely be two-thirds. In Europe the urban population is already over 73 percent of the total, and by 2050 it is likely to reach over 80 percent. This demographic shift is driving new, more sustainable mobility models. Frequently these models leverage shared usage to optimize the utilization of available assets. Car-sharing companies such as car2go and emov have changed the situation on the roads in some European cities, and the trend toward car-sharing is even stronger in Asia. Ride-sharing firms such as Uber or Lyft are rapidly forcing traditional taxis off the scene. Systems such as BlaBlaCar offer an effective alternative for long-distance passenger transport. In all of these cases, individual car parcs are being replaced by fleets, or traditional use is being replaced with shared use. ->

#2 – NEW CONSUMPTION MODELS
Millennials show a growing preference for usership over ownership – in other words, a tendency to consume “usage experiences” rather than acquire assets. Companies are responding to this in many different industries, from music (Spotify) and movies (Netflix) to data storage (Dropbox). The new generation of users is likewise demanding a more flexible response from the automotive industry. In the coming years we will likely see them delaying or even avoiding buying vehicles for their personal use in favor of car-sharing and car-pooling models. This will drastically reduce the amount of money that they ultimately spend meeting their mobility needs. A large share of the personal car parc will be replaced by commercial car fleets, while those millennials that do still opt for privately owned vehicles will be more open than in the past to leasing and renting.

Companies are forced to rework their business models due to the transformation of customer choices. Especially millennials are shifting their preferences from ownership to usership.
B: The call of the city.
Percentage of population at mid-year residing in urban areas, 1950-2050 [%].
C: Transforming a one-off experience into an ongoing relationship. Comprehensive services keep customers coming back.
# 3 – COMPREHENSIVE PACKAGES FROM OEMs
In an attempt to protect their leading position against new entrants such as Tesla and to exploit new profit pools, many large automotive manufacturers are developing comprehensive packages that offer end-to-end coverage of customers’ mobility needs. They are creating a “one-stop-shop” customer experience, where everything the customer requires – including financing and insurance – is met efficiently from a single source. To achieve this, many OEMs are looking for partnerships with insurance companies. → C

As ownership declines in favor of leasing, insurance needs will also inevitably change. In a few years’ time it is likely that a large part of new vehicle sales to individuals will be signed off through leasing structures, where insurance is negotiated in bulk by the car manufacturer or the leasing company for its entire fleet. Commercial fleets also have their own particular insurance needs, with insurance usually negotiated with insurers via special B2B platforms.

# 4 – NEW DIGITAL TECHNOLOGY
New digital technology allows a direct, real-time connection between supply and demand for mobility. This makes new collective transportation and car-pooling models possible. It also enables OEMs to offer more comprehensive, bundled packages and fosters new value propositions in the area of car-sharing and private rental cars. In the future, technology will continue to play the role of enabler and accelerator in the mobility revolution. It will mean that new suppliers of mobility can be more proactive in their relationship with users, achieving a better match between needs and consumption. It will also facilitate the transition from ownership to usership models. → D

All in all, even assuming total volume does not decline significantly in the motor insurance business, the emerging mobility trends will considerably reduce the number of vehicles on the roads, and thus the number of vehicles to be insured. The number of customers on insurance companies’ books will be even more drastically impacted as today’s B2C business moves toward B2B. This whole evolution will irreversibly change the motor insurance picture and inevitably reshape the value proposition and capabilities required by those insurers that aim to come out on top in the new reality.
Four main forces driving the shift from individual to fleet insurance:

1. Urbanization and sustainability
2. New consumption models
3. Comprehensive packages from OEMs
4. New digital technology

Source: Roland Berger
Chapter 3:  

The connected car

Technology creates multiple options for accelerating profitability.
Despite combined ratios of above 100 percent in many European countries, the motor fleet insurance business is not unprofitable per se. A number of specialized insurance companies have proved themselves capable of making money. Generally they have achieved this by adjusting their value proposition and operating model. This is the case, for example, for firms such as Greenval (dedicated insurer of Arval, an affiliate of BNP Paribas Group) and Globalis (Mutua Madrileña Group). One of the main problems faced by insurers, besides increasing pressure on prices and high loss ratios, is the obligation to offer flat prices for all vehicles upfront without being able to leverage the actuarial characteristics of the driver as a “fleet driver”. But here technology is making a real difference. By 2020 almost 100 percent of new private and commercial vehicles are expected to be sold with built-in connected-car technology. This will enable insurers to apply usage-based solutions in their B2B business, using the new technology to price the risk for fleet drivers more accurately. Insurers will also be able to introduce a range of value-added services based on the new technology to further contribute to the profitability of the business.

A NEW APPROACH FOR INSURANCE COMPANIES

Older telematics models promised great things for B2C vehicle insurance. With the exception of a few countries, such as Italy, the United Kingdom and the United States, they were not as successful as expected. Applied to B2B business, however, new connected-car technology has great potential to create a win-win situation. There are a number of reasons for this.

First, the new technology makes it possible to capture the true driving behavior of fleet drivers. People take more risks behind the wheel of a company vehicle than in their own private car. Urgent deadlines, moral hazard and lack of accountability for company expenses all contribute to this riskier behavior. Yet traditional actuarial techniques use the driver’s data as a private car driver to establish the price of the policy. The result is a lack of accuracy when it comes to measuring actual risk in B2B business. New connected-car technology provides real data on the driver as a fleet driver, in so doing improving pricing accuracy. Insurers can use this closer matching of price with underlying risk to introduce surcharges on premiums. In B2C, traditional telematics was used as a way of offering rebates – indeed, in countries such as the United States, only discounts are allowed. Even in countries where surcharges are allowed, punishing drivers by raising premiums after “bad behavior” always leads to attrition. Connected-car data allows insurers to establish an overall picture of driver behavior in commercial fleets, making it easier for insurers to explain price increases without risking losing business. What is more, the likelihood of fleet customers accepting a price increase in a policy for

Insurers will find that traditional actuarial techniques become inapplicable. On the other hand, real-time data collection could offer new and profitable possibilities.
bad driving is greater when the insurer also offers policies that include discounts for good driving. Insurance companies can take this approach when dealing with commercial customers with a large number of vehicles, in a way that would be impossible with private customers with one or two vehicles at most.

**TRACKING YOUR ROAD PERFORMANCE**

The constant monitoring that is possible thanks to the connected car creates an additional incentive for fleet drivers to drive more safely in the first place. The feeling of being watched by their managers reduces the likelihood of employees executing high-risk maneuvers or driving recklessly. As a result, connected-car technology, and even traditional telematics, consistently reduces claims and corresponding costs for insurers by as much as 30 percent.

Another advantage of the connected car for insurers in the B2B context is that the person paying for the insurance – the owner of the fleet – and the driver are not one and the same. This gets around the traditional reluctance of people buying insurance policies to be monitored. Indeed, most fleet owners welcome the possibility of receiving feedback on their drivers: In the case of truck and bus transportation companies, the company’s success relies very much on the reputation of their drivers.

Finally, and perhaps most importantly, the connected car allows insurance companies to increase overall profits by offering value-added services. Such services can help fleet owners reduce total cost of ownership (TCO), which makes their willingness to pay for them much greater. The services and applications that insurers can offer using the latest connected-car technology are wide-ranging, from stolen vehicle tracking and optimal routing to remote diagnostics and real-time driver coaching. All of these services create value for fleet owners, especially companies that lack the scale to offer them themselves as part of their own portfolio of systems and services.
**E:** Fair's fair.
The impact of the connected car on pricing models: B2C vs. B2B.

**From a discount model...**

...to a fair model with value-added services

Source: Roland Berger
Pedal to the metal

An action plan for insurance companies.

The fundamental changes outlined above mean that motor fleet insurance will become highly relevant for insurance companies in the next five to ten years. Re-entering this market could help insurers maintain overall profitability. But they must be willing to develop the right capabilities.

Insurance companies need to start preparing themselves now for the new market environment. The sooner they get to work, the greater their chances of taking the lead in the newly profitable arena of motor fleet insurance. We recommend taking action in three key areas, all of which can – and should – be pursued in parallel.

1. DEVELOP NEW VALUE PROPOSITIONS

The new digital context calls for value propositions designed from the customer perspective and delivering an effective response to customers’ end needs. Motor fleet customers demand a response with the same level of excellence in terms of user experience as they are accustomed to from players in other sectors.

If your company is already in the motor fleet insurance business, you have certain advantages. You may have established technology infrastructure, partners and customers. If this is the case, make sure that your fleet value proposition is in line with best practices while investigating new levers for differentiating yourself from competitors.

If your company is not in the motor fleet insurance business – either because it never was or because it exited this line of business in the past – you can build a new value proposition from scratch. Make the most of this opportunity to design a solution with no legacy constraints, tailored precisely to the needs of emerging fleet models.

Your new or revised value proposition should cover four main areas: a proactive approach to a strong focus on claim prevention, new or enhanced services for fleet managers and administrators, training programs for drivers, and additional coverage in areas such as crisis management. You should also make sure you stay up to date on developments in connected-car technology.
2. RETHINK YOUR UNDERWRITING AND SERVICE MODELS
Underwriting fleets requires specific capabilities on the part of insurance companies. In particular it calls for a sophisticated use of data to ensure profitability immediately after customer acquisition. Remember that misjudged risks are very difficult to correct in subsequent renewals in B2B business and carry a high risk of damaging customer or broker loyalty. Often, entirely new underwriting methods will be required.

Service models present opportunities as well as challenges. You should consider adapting your claims management process to make it more efficient, for example introducing web-based claims that give fleet managers full transparency. Claims management also offers new opportunities for optimizing the relationship with repair shops, combining service personalization with more efficient solutions from a cost-containment point of view. At the same time, fleet owners are a new type of stakeholder that has specific relationship management needs.

Overhauling your fleet operating model will generally take between one and three years, depending on your current IT setup and process maturity. This is an area where taking action sooner rather than later will pay dividends.

3. FORM PARTNERSHIPS WITH TECHNOLOGY FIRMS AND OEMS
Insurance companies need to work with partners in the technology sector in both the short and long term. Collaborating with technology companies will enable insurers to leverage connected-car technology for applications such as usage-based insurance (UBI) and offer new services, from predictive maintenance to real-time geo-localization. It will also make it possible for them to optimize their operating models in areas such as pricing and claims management using the latest technology.

Insurers should also build partnerships with OEMs. As we saw above, many large automotive companies are interested in developing comprehensive packages that offer end-to-end coverage of customer needs. By partnering with insurance companies they can cover fleet customers’ insurance needs – a win-win-win situation for the automakers, insurers and customers.

A combination of factors, including new mobility models, demographic trends and changing customer behavior, are making motor fleet insurance an attractive proposition for insurance companies. Add in new developments in technology, and increased profitability becomes a realistic possibility. However, insurers must be willing to put in the extra effort themselves, rethinking their value propositions, redesigning their underwriting and service models, and building robust partnerships with automakers wherever possible. The time has come for insurers to rethink their approach to fleet insurance – and exploit the profit pools it increasingly offers.
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AUTHORS

Victor Zambrana
Partner
+34 91 5900-250
victor.zambrana@rolandberger.com

Christophe Angoulvant
Senior Partner
+33 1 53 670-984
christophe.angoulvant@rolandberger.com

Wolfgang Hach
Senior Partner
+49 89 9230-8724
wolfgang.hach@rolandberger.com

Youssef Zniber
Project Manager
+33 1 70 39 41 23
youssef.zniber@rolandberger.com

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