

In association with

Europcar
moving *your* way

What will changes in mobility mean for replacement cars?

Replacement cars face an uncertain future as individual car ownership recedes and mobility changes

By David Worsfold

Attitudes towards car ownership are changing. There is a dramatic generational shift building up a head of steam and it is going to fundamentally change how we view personal transport.

Young adults learning to drive today are growing up in a world where car sharing is common, ride-hailing services are a regular form of transport and autonomous cars are

on the horizon. Many anticipate that young people will not own cars to anything like the same extent as before. It is no longer an aspirational milestone in life as it has been for the two generations that have grown up since the second world war.

As people move away from individual car ownership, expectations around courtesy cars following accidents could be very

> 26

The world where car ownership takes a back seat

Telematics and data will lie at the heart of the response to the non-car owning generation.

"Insurers need to ask what products they need to provide. Telematics is a big step in the right direction as it is about how, when and where the vehicle is being driven, not who is driving it and how old they are," says Penny Searles, CEO of Smart Driver Club.

Micro-segmentation and usage-based insurance will be the way forward, says Andrew Lee, head of market intelligence at Octo Telematics: "It is all about understanding the customer better and getting a better understanding of their driving habits and other insurance needs.

"UBI rates on the basis of the way someone is driving. If policyholders also have travel insurance, health insurance as well, the insurer should know so much more about them, so they can refine the risk."

Brent Carey, general manager at telematics provider Scope Technology, also believes the big wins will come through offering mobility solutions that match people's lifestyles.

"People used to look at a car as an asset and an expression of who they are. We see that eroding quite quickly. They are seeing it much more as a utility. It is about getting from A to B as efficiently and as cost-effectively as possible.

"We will see a more holistic, customer-focused approach to insurance. It will evolve into insuring a lifestyle by creating a link between usage-based insurance, health insurance and so on. Insurers won't have a choice if they

want to play in this market. If you look at the knowledge of their customers the new entrants to the market have, they know so much more."

Carey sees people having a mobility risk score: "How much I pay will be derived from my risk score."

A large slice of the data from which that score is derived is going to be generated by telematics and the future ownership and portability of that data is by no means clear.

"There is going to be a major battle on the topic. It is obvious that whoever owns this data is going to be sitting on a goldmine," says Carey.

Searle believes "it offers manufacturers the chance of global domination".

"Insurers need to think about how they can be part of this game," she adds. "Manufacturers have always wanted to provide insurance with the car but have never cracked it and their share of the market remains less than 4%. They see keeping hold of the data from the vehicle as a way of tying customers to them."

Insurers are alive to the potential of telematics data to help them provide new types of motor insurance and a closer relationship with customers but have mixed feelings over sharing, says David Williams, technical director at Axa.

"Portability of telematics data is essential. It has to come. One of the reasons why telematics hasn't made the impact it should have done is because it isn't portable. Insurers quite like the unique nature of their telematics data, especially as it aids retention.

"It will probably have to be mandated by legislation or through the courts".

< 25 different from earlier generations too as they look for more flexible, personalised solutions.

It is impossible to separate the narrow question of what is the future for the traditional replacement car option from some of the broader trends around vehicle technology and personal transport. The big picture context is dominated by greater urbanisation and the imminent arrival of autonomous vehicles.

With more people – especially younger, highly mobile workers – choosing to live in cities, their appetite for car ownership is hugely diminished. They make shorter journeys to work, for which public transport and cycling are usually cheaper and more convenient. Space for parking cars is at a premium – and a hefty price – and when they do get behind a wheel, congestion makes journeys unpredictable and stressful. Add to

"We are moving towards replacing the hire car with a mobility voucher." James Roberts

that the other costs associated with running a car, not least the cost of insurance for younger drivers, and it is easy to see why attitudes to car ownership are changing.

The arrival of autonomous vehicles will just accelerate this. Car-sharing and Uber-type services have already opened people's eyes to the potential ease of accessing door-to-door personal transport using technology. This will take another leap forward in the next decade with the arrival of driverless vehicles, most likely in city centres and on motorways first of all. The push towards electric vehicles is another factor fuelling changing attitudes towards the traditional car.

Penny Searles, CEO of Smart Driver Club, says insurers have to adapt quickly: "The youth of today don't see ownership of an asset as a milestone in life anymore. This applies to almost everything in their lives from music to property – and definitely includes cars."

Major impact

This will clearly have a major impact on the insurance market and Searles is bold in her predictions: "You will see the personal lines motor insurance model disappear over the next 10 to 15 years. There will still be an insurance requirement for the cars people use, so insurers will create a fleet insurance product for personal use."

The world where car ownership takes a back seat might be coming – maybe not as quickly as Searles predicts – and insurers know they will have to be ready for when it does arrive. In the meantime, they face a fresh range of challenges as a tech-savvy generation that still owns cars has accidents and need to get around while their cars are off the road.

"You will see the personal lines motor insurance model disappear over the next 10 to 15 years. There will still be an insurance requirement for the cars people use, so insurers will create a fleet insurance product for personal use." Penny Searles

In association with

Europcar
moving your way

“The cash option has always been there. It might be that it becomes more attractive again and becomes more sophisticated but we will still be providing replacement cars for some time to come.” David Williams

For many insurers, replacement vehicles are going to remain a strong feature of the personal lines motor market, although some providers see this evolving into a more flexible mobility solution, especially for younger drivers.

“We are moving towards replacing the hire car with a mobility voucher,” says James Roberts, business development director – insurance for Europcar.

“This can be loaded onto a mobile phone or contactless device and can be spent on any accredited provider. The choice could be very wide from a replacement car, through taxi and car-sharing services to public transport.

“Insurers are looking to respond to the changes in their customer base and they love the multimode transport option. We are talking to a few who are close to offering this as an alternative to the hire car option. They have the underwriting model already because they know that if they include 14-day class A hire in the policy, it will cost around £200 while like-for-like replacement will be, say, £400. They can just take those cash amounts and put them on a mobility voucher.”

Mobility options could certainly feature more prominently in the future, agrees Markerstudy’s group underwriting director Gary

Humphreys. But they could be transformed into a standalone option, he adds: “The vehicle insurer can still choose to provide a replacement vehicle service. But with individual clients opting to buy temporary cover and shared ownership covers, it’s highly likely that the replacement courtesy car solutions will be individually purchased at point of use.”

David Williams,

technical director at Axa, acknowledges that changes are coming and that insurers will have to be flexible but expects the requirements of the traditional car owner to change slowly: “People who own a car are most likely to want a car to replace it. I don’t think that is where the massive shift is going to be. The cash option has always been there. It might be that it becomes more attractive again and becomes more sophisticated but we will still be providing replacement cars for some time to come.”

Growing sophistication

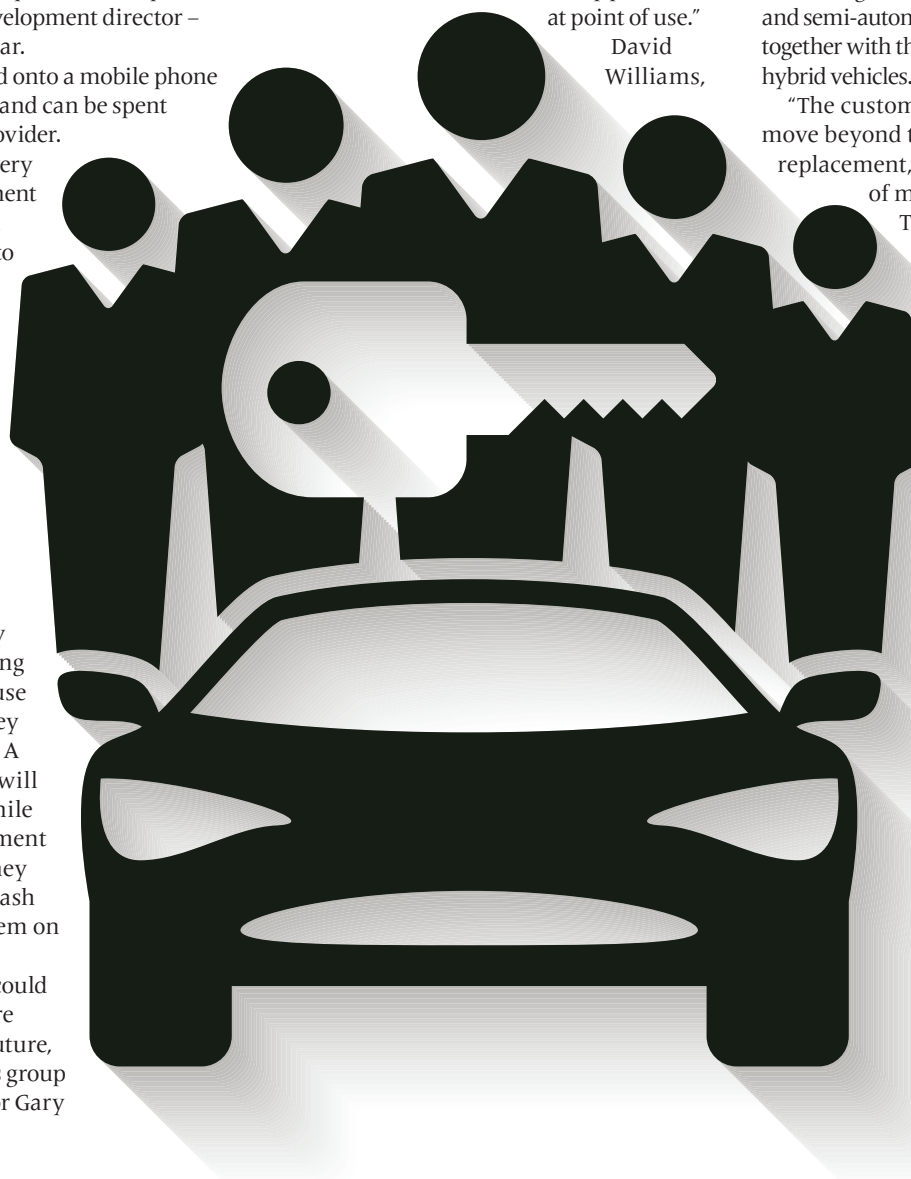
Where there is agreement is that the replacement option will grow in sophistication as the range of driver-adjustable settings and semi-autonomous features expands, together with the ownership of electric and hybrid vehicles.

“The customer expectation could move beyond the current like-for-like replacement,” says Andrew Lee, head of market intelligence at Octo Telematics. “What you should be expecting instead is a vehicle to arrive the next day with all your personalised driving settings, seat adjustments, music and so on uploaded.”

The huge capabilities of smartphones, especially when linked to the cloud, mean everything that is important can be carried around or accessed from a portable device, says Searles.

This will include personal settings for vehicles: “Customers will expect to get into a car and log on so all their settings stored on their phone or an app will upload to the car. Ford is

> 28



< 27 already trialling a car that recognises smartphones and asks the owner if they want to upload their settings to the car.”

Humphreys also sees this as a growing customer demand: “Many of these vehicles already exist – for example, in the Volvo brand, with their latest S90 model, which combines adaptive cruise control and lane-keeping assist.

“In the commercial space, as businesses renew their fleets, these semi-autonomous vehicles will become part of the fleet diversity and as with any customer now, commercial or private policyholder, it will be about matching the most suitable vehicle to the customer’s needs.

“But with the onwads march of revolutionary technology and the Internet of Things, I would expect the vehicle manufacturers to lead the way to ensure access of personalised settings is maintained for the end user. Features such as fingerprint start may be held in a manufacturer database, meaning as long as the end user stays with the manufacturer brand, the features will be transferable across multiple vehicles”.

Demanding customers

Whether customers will be that demanding is still an open question, says Williams.

“People who own a relatively expensive Audi don’t usually complain if they are given a Mercedes instead.

“If we think people are going to want exactly the same vehicles with exactly the same settings, then we will have to adapt our policies. But how many people would want to pay another £20 for that luxury?”

“I don’t think everybody is immediately going to expect that degree of compatibility but if that becomes the customer expectation, then we will adapt our policies to meet it.”

“The customer expectation could move beyond the current like-for-like replacement. What you should be expecting instead is a vehicle to arrive the next day with all your personalised driving settings, seat adjustments, music and so on uploaded.” Andrew Lee

step into a relatively basic car after having been used to a lot of driver assistance.”

Instant customisation

As cars become more autonomous, the expectation that they can be instantly customised will rise, according to Bart Jacobsz Rosier, CEO and co-founder of Bolt, a Dutch company developing a scooter-sharing service in the Netherlands: “Autonomous vehicles will be expected to be set for the individual as they will be asking: ‘How can I spend my time in this car?’. It will be an information-based service that will allow the customer to be productive while in the vehicle.

“It will be the operating system that will give the customer a seamless experience”.

The big challenge for insurers and the supply chain that supports the present business model based on individual car ownership is making sure they are sensitive to the subtle shifts in customer expectations within the present model while planning for a future where ownership fades away.

As Williams predicts, “the biggest change is not going to be around the replacement car for the car owner but with the shift to a world where fewer people own their own cars.” ■



There are, however, potential dangers in not offering sufficient compatibility, warns Williams. “If the car the driver is used to driving is quite sophisticated and contains a lot of automated features but they only have a basic, rather than a like-for like, replacement option, we could be looking at an increase in risk. The driver could be out of practice if they