



Managing the chaotic middle: Insurance in the age of autonomy

By many accounts, highly autonomous vehicles should be on the road in the next few years. While drivers may be thrilled, this development may give insurance leaders some pause for some concern.

Many are thrilled about the massive changes that vehicle autonomy would bring to cities and communities, and the dramatic impact on driver safety, efficiency and productivity.

But, as with any revolutionary technology, concerns arise. In this case, those concerns are not related to the technology, safety or even data (although those have their own issues, too). The issue is that many insurers may be underestimating the pace and severity of the change, which will create challenges across the wider insurance and financial industries.

Fundamentals adrift

Most automotive and personal-line insurers are facing a 'perfect storm' of disruption. As vehicles become safer, the frequency of accidents will most likely plummet (up to 90 percent over the next 30 years)¹ putting downward pressure on premium and profits. Besides, competition could increase dramatically as auto manufacturers and tech companies start to use data from autonomous vehicles to develop new insurance models and products.

Facing the potential of lower revenue and new competition, many automotive insurers recognize that the status quo is unsustainable, and a transformation of this scale and pace will not be smooth. Insurance organizations will face a dual challenge: migrating their operations to a new business model while simultaneously managing the changes in their current books of business to emerge from the changes a winner.

It will not be easy. The insurance sector is expected to go through a '[chaotic middle](#)' over the next decade that will be characterized by rapid and fundamental changes to business models, disruptive competition and the adoption of new strategies.

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The chaos is just getting started

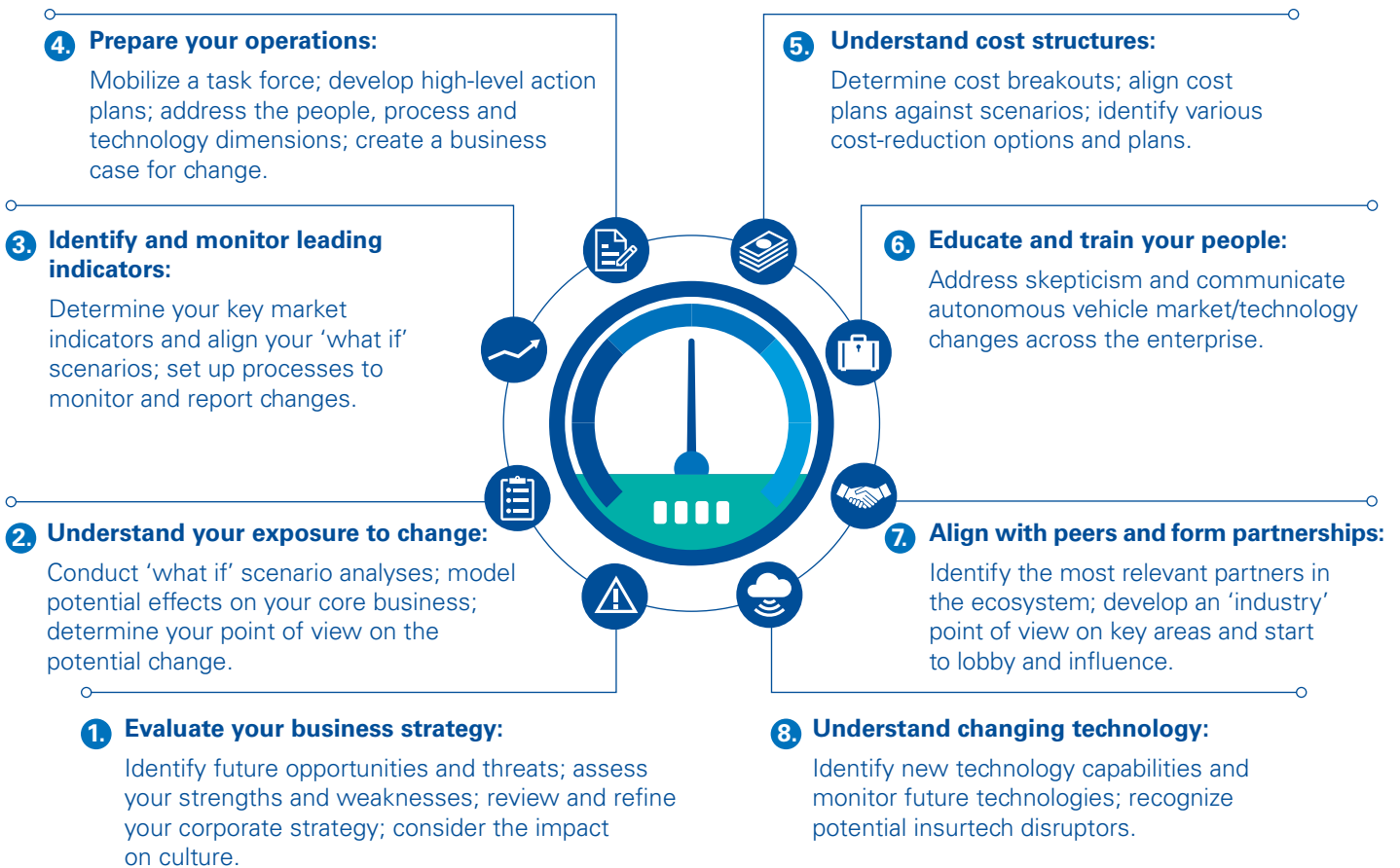
The concern is two-fold. On the one hand, some insurers may not be moving quickly or boldly enough to ensure their organizations' survival in the era of autonomous vehicles. Far too many companies seem to be taking a 'wait and see' approach to transformation even though the future is getting clearer by the day.

Moreover, massive disruption in the auto insurance sector would lead to issues in the wider insurance and financial services sectors. In the US alone, auto insurers generate a quarter of a trillion dollars' worth of premium yearly, with the wider Property and Casualty sector worth roughly three quarters of a trillion dollars. Should the next 5 to 10 years be as disruptive as expected, significant challenges will be awaiting insurance and financial services businesses worldwide.

¹ The Chaotic Middle: The Autonomous Vehicle and Disruption in Automobile Insurance, KPMG LLP (US), 2017

What will it take for auto insurers to turn chaos into advantage?

Here are eight actions to consider:



Take the upper hand

The risks inherent in the chaotic middle may be huge, but new markets, revenue streams and opportunities are emerging rapidly. With apt insights and bold action, the chaotic middle could prove to be the transforming agent that most insurance CEOs are looking for.

The future is here

As the industry enters the chaotic middle, auto insurers of all sizes and types will be forced to adapt. Clarity of vision and plan will be critical to maintain the confidence of key stakeholders, and to seize the opportunities change presents. Transformation of this potential scale will not be smooth, and it will take time for auto insurers to adjust for the future of autonomous vehicles — now is the time to act.

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