The Whole Enchilada:

An Overview of auto insurance trends, technology, regulatory environments, competition, and economic impacts

LeadCloud Overview

LeadCloud holds a unique position within the insurance industry. We have intimate knowledge of our carrier and marketing partners' businesses and create value for consumers by translating information and create transparency in an industry has historically been opaque and inaccessible. Our consultative approach to doing business is the reason we are the leading integration partner in the P&C insurance space. We integrate carriers, marketplaces, and third-party data services; and in our role as a trusted advisor to our partners, we're the ones they call to test out new partnerships, launch a new vertical, or expand their distribution footprint.

Flexibility is key in the current inflationary market. LeadCloud provides several unique offerings for adjusting both inbound consumer acquisition funnels as well as outbound traffic monetization efforts. These custom tailored and proven solutions are unique to LeadCloud giving it a significant competitive advantage to others in the space. Most updates on our platform can happen in real-time, bringing agility to an industry known for costly delays in reacting to market forces. The proprietary LeadCloud platform was built with a singular focus on data integrations using the latest cloud technologies to maximize reliability and scalability. Each client is connected with a hub and spoke model, enabling quick and easy expansion to additional partners/services. Our extensive list of connected third-party vendors allows our clients to easily connect and test new services like scoring, data appending, and warm transfers without dedicating any additional resources. As our client's businesses grow and change, their integration with LeadCloud becomes a robust and easy to maintain centralized location for managing system migrations and updates.

After spending over a decade hyper focused on data integrations, we bring subject matter expertise to our clients, which is best in class in the industry. Whether it's advising on a path forward through an everchanging landscape, building new relationships between connected partners, or helping relieve the bottleneck of complicated system integrations, we feel confident that we are prepared for today's market and have the foundation to combat the challenges of tomorrow.

Introduction

Saying the past three years have been tumultuous for the auto insurance industry would be an understatement. Between Covid, Departments of insurance mandating rebates, and an unprecedented vehicle and chip shortage, insurance carriers and adjacent industries have had a wild ride. In our research and ultimate analysis, we have delivered an outline of the current trends and market shifts through the lens of the carrier, consumer, and marketplaces, that we believe will be the most impactful today and going into the new year.

Trends

Embedded Insurance

Binding a policy natively on a partner's site without the need to bridge back to the carrier's website. A truly seamless buying experience for consumers looking for insurance a la airline flight purchase through Kayak (executives at two top digital agencies came from Kayak).

Internet of Things (IoT)

Amazon owns: Ring, Blink & iRobot and launched a Home insurance marketplace in the UK. They will have the most complete picture of the interior/exterior environment of a consumer's home of anyone in the market (get that drone off my lawn).

GM, Toyota, and Tesla have launched their own auto insurance programs leveraging telematics data. GM has gone further and begun to build out infrastructure for their EV products to tie into customers' homes[10] (the ghost of GMAC returns). Most of the top 10 insurers have a telematics program of some kind and are continuing to lean on those programs as a profitability lever.

Market Shifts

Impending recession/inflationary impacts/supply chain

*Carriers***:** Impacts to carriers will vary among different categories. Nonstandard carriers will likely be the winners as more middle-income consumer will move down market as their financial situations change, applying more pressure to the standard/preferred market to acquire customers from their competitors. Ineffective existing pricing models, and adverse economic impacts may drive carriers to increase rates for consumers to cover costs exceeding the existing issues: automotive supply chain issues, rising loss costs, lack of available replacement parts/vehicles and the reduced rental car supply. This has also driven carriers to embrace new technologies outside the ones previously used in underwriter operations

*Consumers***:** They have begun to see their buying power deteriorate with a weakening dollar, increased prices for consumer goods and following suit – auto insurance rates. If the impacts of this recession are similar to 2008, many consumers will find themselves with a reduced credit score, making them less desirable/higher premiums for standard/preferred carriers and they will be forced down market to nonstandard carriers. The increased vehicle prices in both the used [16] and new vehicle market has prevented many consumers from replacing their vehicles, driving up the fleet age to 12.2 years [17].

*Marketplaces***:** Most are already seeing the impacts of the supply chain issues/replacement part shortage/new vehicle shortage/inflated used vehicle prices in the market and have seen significant reductions in revenue/consumer volume since 2020. A recession should increase the number of consumers looking to online marketplaces for savings/switching and increase their marketing spend. This will likely drive them to find new and creative ways to find new business for their carrier partners that justify their collective lean toward 'LTV pricing'. However, a true return to 'business as usual' is hinged on the re-entrance of Progressive into the marketplace in a meaningful way. They largely dictate the size of the market because their marketing spend is so significant with the major marketplaces.

Consolidation

Carriers: Many are actively looking for acquisition targets to grow their books of business, leading to considerable consolidation in the space. Large acquisitions occurred in the last 3 years, the most notable by State Farm, American Family, Farmers, Liberty Mutual, and Allstate.

- State Farm[20] purchased Gainsco, giving them access to the nonstandard auto market and enabling their agents to sell to more individuals entering their offices than with the traditional State Farm product.

- American Family purchased Ameriprise[12] and Bold Penguin. Bold Penguin adds small business insurance options to the AmFam agents' quiver of products to sell and Ameriprise gave it even more markets to sell in (operates in 43 states v. AmFam in 19) and an existing partnership with Costco.

- Farmers[11] purchased the P&C arm of MetLife that bolstered their standard preferred presence on the East coast (and made them truly national), and Allstate acquired National General and SafeAuto adding distribution channel expansion (independent agents**).**

- Liberty Mutual acquired State Auto bolstering its standard auto business.

These actions will make it more difficult for small players to compete as these newly merged, larger carriers can coordinate their marketing tactics and gobble up market share. Many of these mergers will give those larger carrier groups an additional distribution advantage as their acquisitions often adds an additional channel to sell their suite of products to consumers, in addition to the broader underwriting profile, supported by their newly acquired carriers.

Consumers: In tough markets like TX and FL especially, consumers will find fewer carriers to choose from, increased premiums, and drive more shopping actions, especially in the standard/preferred market. As well, there will be data privacy issues as those large companies combine and begin operating on similar systems.

Marketplace: Consolidation could cause turbulence for many marketplaces as they will need to renegotiate contracts with their carrier partners as they get acquired, have fewer carriers to work with and reducing the number of decision makers controlling a more concentrated pool of marketing dollars.

New Entrants

Carriers: Additional competitors entering the market may be an issue for established incumbents as new entrants are becoming more sophisticated, often have close ties to the Automotive industry, and are technology driven. Good examples of these new entrants are OnStar Insurance[2], Toyota[7] and Tesla[4]. All are utilizing telematics data collected by their vehicles to inform a better driving score and holistic ownership experience. Others include Root and Lemonade/Metromile (if they can sort out their expense ratio woes), that bring a fresh look and feel to insurance and sell the idea that they provide 'fair' auto insurance coverage.

Consumers: Additional choices generally lead to lower premiums for consumers and these new entrants will likely lead to some consumers switching to this new class of 'insurtech' carrier. However, with these more attractive premiums come new concerns of how their driving habits are tracked and how their data is stored and shared. Consumers have been slow to adopt telematics from larger incumbent carriers but with these new carriers, they may opt in more quickly, hoping to save money.

Marketplace: The entry of new carriers has injected several cash flush competitors into the market, but they are not nearly as disciplined as the incumbent carriers. The incumbents, in many cases are publicly traded companies or mutual companies with quarterly goals, making their budgets more rigid by the nature of their own compensation and reporting structures, unless catastrophic events occur. Whereas the insurtech carriers are much more likely to spend to show growth ahead of funding rounds, meeting short term goals rather than long term profitability, i.e. Root[15].

Regulatory environment

The regulatory environment for auto insurance is in flux across the country. The politicization of Departments of Insurance is very real, and the power held by an elected insurance commissioner can have huge impacts on carriers, the marketplace, and the consumers they represent (Google 'Geico Missouri claim' and grab some popcorn). The largest issues under review include the following:

Is credit 'fair?[18]': Several states are evaluating the efficacy of the continued use of credit as a rating variable. This presents a very real concern for incumbent carriers as most of their programs are credit-based models. The NAIC is actively lobbying in states where these conversations are occurring to slow the charge towards removing credit: NY, CO, OR, and NJ which would follow CA, MA, MI, WA, and Hawaii limiting the use of credit as a rating factor. The new entrant carriers are hedging against this potential change by using some form of driving score as a core part of their insurance product rather than credit.

California Department of Insurance: California is the largest single insurance market in the country and its DOI is notoriously difficult to work with, resulting in extended time frames to complete rate revisions, lengthy reviews and adjustments to rate plans. The re-elected commissioner has made statements[21] that they will not allow carriers to increase rates in the state despite known issues like auto supply chain holdups, insufficient rental vehicle pool, and year over year claim severity increases. Changes made in the largest insurance market in the country also impact other states as they look to California for guidance on enacting policies within their own. However in late October, the first increase was approved with an effective date in December: after they had secured the election[22].

How is LeadCloud uniquely suited to serve the Carrier, Consumer, and Marketplace?

Carrier: LeadCloud delivers a service that enhances their ability to grow profitably. Our embedded filtration/analytics capabilities, industry expertise, and one-to-many integration capabilities has made LeadCloud the trusted integration partner of over 60 insurance carriers. This trust and consultative approach to our services allows our partners to focus on their core business, and us on the health of their integration.

Consumer: LeadCloud generates new opportunities for consumers to interact with insurance providers and aggregators, which would not exist without our integrations. We help our partners serve the consumers' need to be serviced where they are: whether it is online, on the phone, by an agent, or a mixture of all three.

Marketplace: When marketplaces are looking for an integration partner, they know LeadCloud is the premier choice. Our carrier selection and speed to completion are huge competitive advantages. They also understand the value we provide to carriers and that we provide a matchmaking service that can help them speed up the time to launch with carriers.

Conclusion

Many factors influence the auto insurance market, but we believe the items highlighted are the most impactful for the environment we are entering in 2023. LeadCloud is uniquely equipped to address these issues, and add value for carriers, consumers, and the marketplace. Whether it is enabling our partners to make smarter, faster decisions, deliver richer consumer experiences, or rapidly adding new partners to existing clients, we are confident that value will continue to grow in 2023. If your organization is looking for new ways to connect 3rd party data, marketing partners or legacy systems, we've got the experience and tools to help accomplish your goals.

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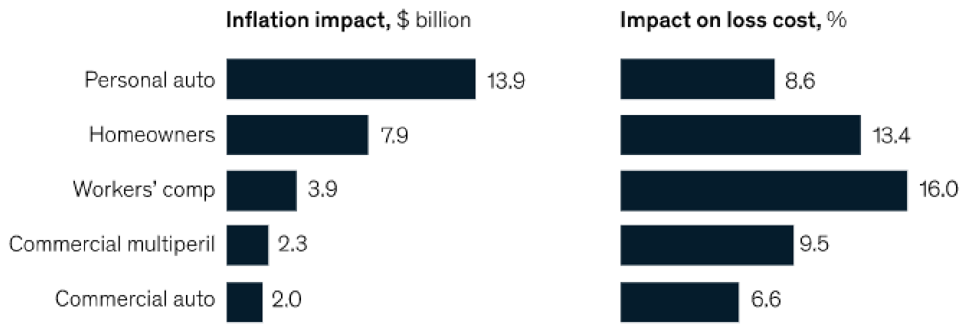
Appendix.

Exhibit 1

Inflation has had an adverse impact on most property and casualty lines of insurance, dampening favorable trends and accelerating unfavorable ones.

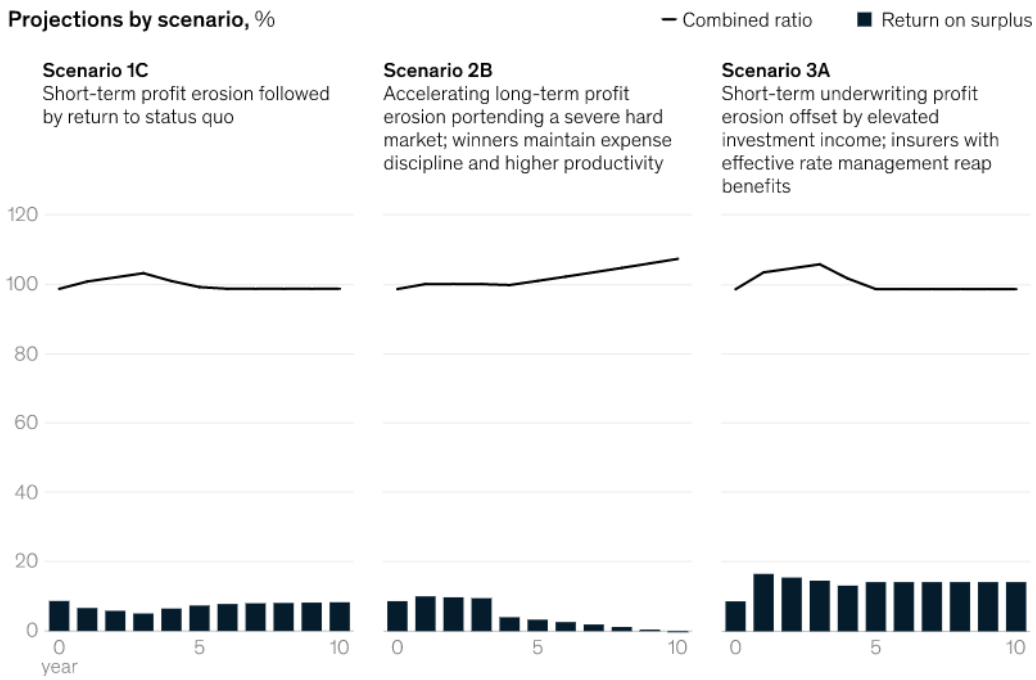
Inflation impact in US



Source: S&P Global, US 2019 accident-year incurred loss and unpaid loss reserves; McKinsey analysis

McKinsey
& Company

Based on scenario projections, property and casualty insurers' short- and long-term profitability will follow one of three patterns.



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