

ABI MOTOR INSURANCE TODAY

Find out why this year's Motor Conference is an unmissable event for anyone in the Motor Insurance market.



Paul Geddes

Keynote speaker
CEO, Direct Line Group
& Outgoing ABI Deputy
Chairman

THE UK MOTOR INSURANCE MARKET IS FACING A PERIOD OF UNPRECEDENTED CHALLENGES AND OPPORTUNITIES

The UK motor insurance market is facing a period of unprecedented challenges and opportunities, from the implementation of personal injury measures currently proposed in the Civil Liability Bill, to the development of autonomous vehicles and the changing demands and expectations of customers. The sector is facing a revolution which isn't just about distribution, the next decade will bring a fundamental change to the kind of insurance people will want and need.

Nowhere is this more apparent than motor where change is happening quickly. Advanced Driver Assistance Systems are already making cars much safer and paving the way for the development of Autonomous Vehicles which we expect to see on Britain's roads by 2021. The Autonomous and Electric Vehicles Bill currently going through Parliament will set up a new regulatory framework that promises

to revolutionise the use of driverless cars in the UK. This technology is, and will continue to fundamentally change the risk models we use. Insurers also have a critical role to play in the analysis and adoption of the technology, and helping to educate consumers about the benefits it can bring to them and the potential it has to save lives. This is a challenge for the whole industry as our consumer attitudes research has highlighted the level of scepticism that currently prevails – 67 per cent of people preferring to be in full control of their vehicle most of the time and only 18 per cent of the population believing that computers make better decisions than humans.

This year's ABI Motor Conference will bring together an unprecedented wealth and range of industry experts and policymakers to debate how motor insurers can thrive in this period of rapid change.



THE FUTURE OF MOBILITY

Fast & Furious 8 shows scenes of Connected and Autonomous Vehicles (CAV's) being hacked and sent round New York destroying people and property – that will do wonders for the reputation of 'Driverless Cars'...

I don't think!

Whilst I enjoyed the movie, my view of the future of road transport is a lot rosier, and that is based less on the creations of a Hollywood director, and more on the practical experiences, touches and tests from our involvement in CAV consortia.

AXA have been lucky enough to be part of four consortia that have received approval and funding as part of a Government initiative to put the UK at the forefront of CAV development. Our work with Venturer, UK Autodrive, Flourish, and now CAPRI, just recently announced has given us a real insight into the capability of this technology. Having sat in an autonomous test vehicle, albeit just going round the UWE University Car Park in

Bristol, I don't have to rely on other accounts and promises, I know for a fact what can be achieved, and can see the rate it is progressing as well.

Much of the technology that will form the autonomous vehicle of the future is going into production vehicles now. Thatcham, the Motor Vehicle Research Institute funded by insurers, shows that Automated Emergency Braking systems reduce accidents by 15%, and injuries by 18%. That's just one small component of the car of the future that I believe will save thousands of lives every year.

The Williams F1 Team is part of the Venturer Consortia and they have outstanding simulation technology. I've also sat in the simulator at Southampton University where independently they are also doing some great work. Maybe not as exciting as Forza 7 on the Xbox, but the point here is that we can test and refine systems and do millions of miles without even hitting the tarmac, giving comfort hopefully to any naysayers that these vehicles shouldn't just be allowed on the roads, but

massively encouraged.

I feel privileged to get to see 'tech' early - stuff that will transform lives, bring mobility to people who currently can't get out and about, and make our roads MUCH safer. I also see how prices are tumbling. One sensor for the UK Autodrive Pods is less than 10% of its original cost, after a little over a year, as more of these things are sold the cheaper they get, meaning that CAVs will not only be the province of the rich and famous. I also see things that cause me concern. SAE Level 3 vehicles are great, until they insist the driver takes back control as they don't like something, but that's why Ford and Jaguar Land Rover (also partners on UK Autodrive) have announced they won't be building level 3 vehicles. Levels 4 and 5 are much more capable and safer, and certainly the way to go!

So my view isn't entirely rose tinted - I'm a sceptical old underwriter at heart after all! But overall I do see a massive opportunity to make our roads safer, and am proud to be able to contribute to that.



David Williams

Chair of the ABI's Autonomous Driving Insurance Group

Technical Director, AXA Insurance

AN INTERVIEW WITH CRAIG DICKSON



Chief Executive,
DAC Beachcroft Claims Solutions Group

DACbeachcroft

Q:

What are the key challenges, risks and opportunities the industry is facing?

A:

I see four key challenges for the UK motor insurance market at this time:

Getting the Civil Liability Bill reforms through parliament

We need to get the Discount Rate in a shape where it strikes the right balance between under and over compensation, and get the whiplash reforms to where they need to be. Getting The Civil Liability Bill through will be a challenge given the constraints on parliamentary time, not least because of Brexit. But we need to remain positive that hard work by the industry will result in the right outcome.

Ensuring customer confidence

The public will rightly expect the industry to deliver on its promise to pass on the benefits of the reform package under The Civil Liability Bill to customers. And on issues such as addressing a fair balance between the treatment of existing and new customers and tackling fraud, the public will expect the industry to be doing the right thing by its customers.

Technology

The industry must keep up with and adapt to the rapid pace of technological change. This

includes ensuring that everyone understands the difference between driver assisted and truly autonomous vehicle technology. Artificial intelligence and machine learning is changing how insurers operate, and the industry needs to ensure that it meets rising consumer expectations around service.

Fraud

The industry has got better at detecting and tackling fraud, but it remains a key challenge, as ever enterprising fraudsters are continually looking for new opportunities. And motor insurance remains more vulnerable to fraud than other insurance sectors.

Opportunities

Getting on top of each of the challenges above, will bring opportunities for motor insurers.

Getting the Civil Liability Bill enacted in its entirety can bring cost benefits to millions of motorists. Insurers harnessing new technology in an open and transparent world will be to the good of customers. And continuing to devote time, money and resources in the fight against fraud is in the interests of all honest insurance customers.

One thing we must do more of as an industry is be better at shouting about all the good work we do – the value of our products and the service we provide to help millions of customers.

All of this adds up to an ABI Motor Conference that anyone who is working in the industry cannot afford to miss, because if they are not present then they will miss out on some very serious and informed debate on the future of the motor insurance market.

A FAIRER DEAL FOR LONG-STANDING INSURANCE CUSTOMERS

Increasing consumer trust in insurance must be a priority for everyone involved in the motor insurance industry. While of course motor insurers do a great job for their customers, the industry needs to do better when it comes to those loyal customers who get charged more for their cover than new customers. The ABI recognises that this issue has a serious reputational impact that needs to be tackled. This is why, together with BIBA, we recently launched a set of Guiding Principles and Action Points for key personal lines insurance products such as motor, home, and travel insurance.

Key under the Principles are that ABI and BIBA members will make it clear in written, online or verbal customer communications that the new customer premium only applies for that year and subsequent renewal premiums may be higher. The ABI and BIBA members who impact the final premium paid by customers will review their pricing approach

for customers who have been with them longer than five years and assess whether this approach delivers a fair outcome. The ABI and BIBA will also publish a report in no more than two years' time that demonstrates how ABI and BIBA members have sought to tackle excessive differences between new customer premiums and subsequent renewal premiums that unfairly penalise long-standing customers. These Principles highlight how the industry can work together for the collective good, as everyone in the industry benefits from increased consumer trust in it.

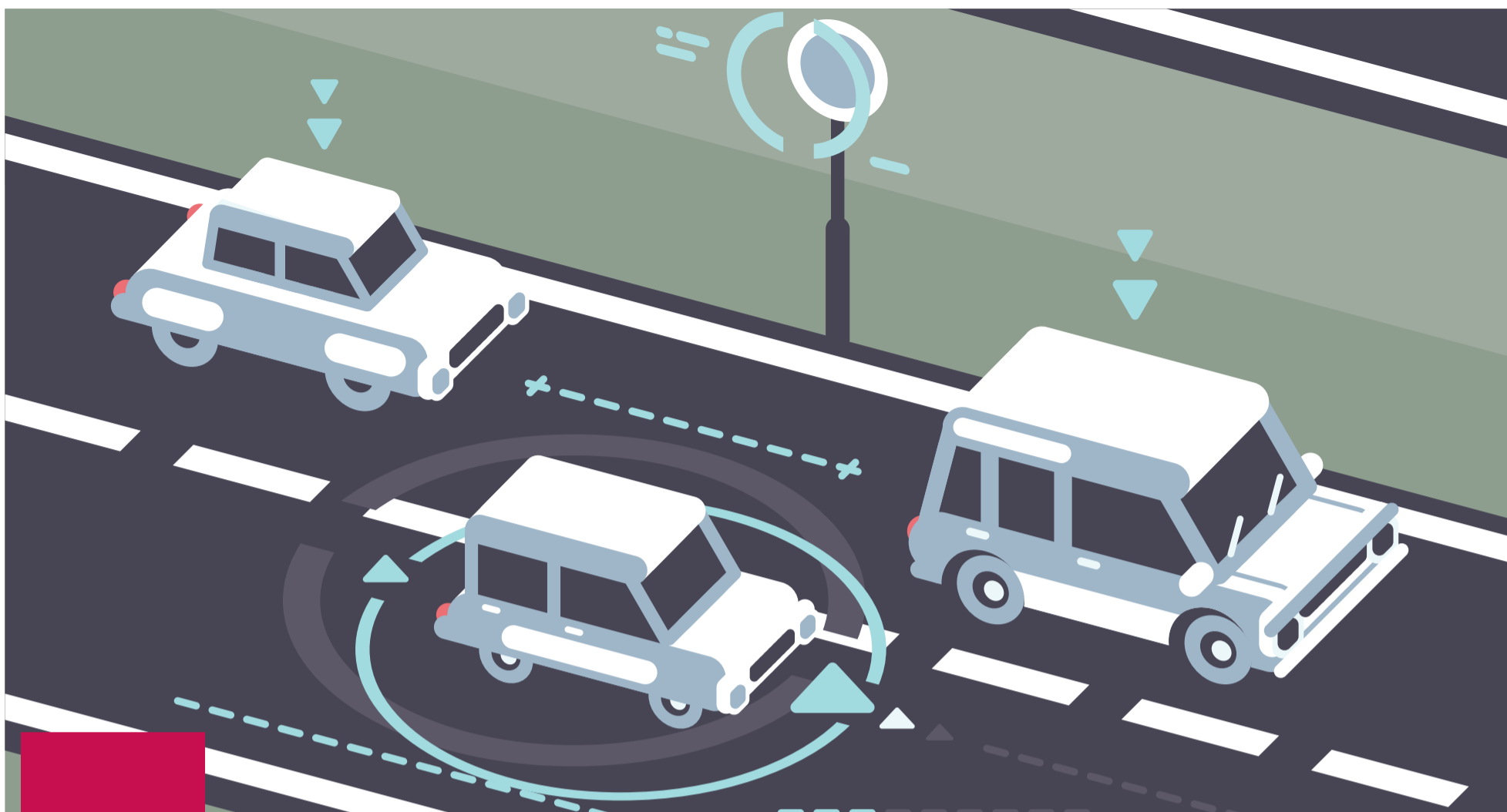
Improving the reputation of the motor insurance market will underpin the ABI's annual motor insurance conference that takes place on 20 November. This will bring together an unprecedented wealth and range of industry experts and policymakers to debate how motor insurers can thrive in this period of rapid change.



The industry needs to do better when it comes to those loyal customers who get charged more for their cover than new customers.

ABI MOTOR CONFERENCE 2018

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RESEARCH

ASSISTED AND AUTOMATED DRIVING POSES IMMEDIATE CHALLENGES FOR INTERNATIONAL REGULATORS



**Matthew
Avery**

Director of Insurance Research
Thatcham Research

The last twenty years has seen a dramatic improvement in the safety features protecting drivers involved in a car crash, with seatbelts, multiple airbags and side protection beams on every new model. But we're now moving beyond the age of passive safety (protection in the event of a crash) into active features such as automated braking and lane control systems that assist the driver to help avoid the crash in the first place. The technology journey continues as these functionalities are now being combined to allow the vehicles to drive themselves (automated driving) to the point where crashes could be prevented altogether. However, if these benefits are to be realised, we must not lose focus on the driver's understanding of what these various systems are, and are not, and what the drivers obligations might be. Are they in control or the vehicle? In the split seconds before a potential crash, will they be available to take back control of the vehicle quick enough if the system can't cope?

Vehicle manufacturers are actively preparing to roll-out highly advanced automated driving features within the next few years – the first wave from 2019 will provide the driver with more assistance and some limited automation. From 2021 onwards, we'll see technology capable of taking over entirely from the driver on certain roads. By 2025 the car may be able to drive door to door without driver intervention.

Thatcham Research has been using insurance industry data and road safety statistics to develop a 'Claims of the Future' model, which we are developing to help insurers prepare

for this technology. All our projections show a positive impact for this technology, with an overall crash reduction of circa 20% over the next 10-15 years.

However, before we reach full automation, there is likely to be a transition phase where drivers are required to perform less and less of the driving task, but are still obliged to take back control. This may seem like a logical approach at first, as it seemingly allows drivers to get used to increased autonomy gradually. However, it may create new risks that the drivers and insurers are not prepared for. When cars come with such a high degree of "Assisted Driving" functionality (but are not fully automated) they appear to be 'driving themselves'. But the driver may not be aware that they still play a crucial role in monitoring this automation, and are still required to take back control in the event of a sensor failure, or when at the end of an automated domain. This misunderstanding may indeed end up creating more crashes, and many of these could be catastrophic high speed crashes on motorways.

Regulations governing the construction and use of vehicles are set internationally (within the UNECE's working party 29) and the process of changing these regulations is complex. Arguably, this process was never intended to address the kind of rapidly evolving technological challenges it now faces. Most of the key decisions are focused on assisted and automated steering systems, but it is clear that automated driving will affect every aspect of a vehicle's functionality including braking and signalling. We believe that a dedicated

work stream that adopts a more streamlined view of automated technology is now needed if the benefits of these systems are to be realised quickly, but still within a regulated environment.

Thatcham Research has been working with insurers to develop a set of proposals for how this "Assisted Driving" functionality must operate, to prevent drivers either intentionally, or unintentionally, misusing this technology. Our proposals for minimum standards for any "Assisted Driving" vehicle that receives type approval from international regulators include geo-fencing, so it can only be used in certain locations, ensuring automatic braking and collision avoidance systems are always active, monitoring when the driver is attentive and warning them when they're not, and allowing the vehicle to stop safely at the side of the road in cases where the driver fails to respond to a takeover request. Later "Automated Driving" systems should, by their very nature, have these capabilities and not require the driver to intervene to remain safe, but the differentiation in these capabilities must remain clear.

There need to be clear standards for what drivers are expected to do when using this technology. If regulators do not address this, there is a risk that certain manufacturers will feel the process is holding them back and seek ways to 'get around' the regulatory regime, as some have appeared to do already. Much of this technology carries exciting safety benefits, and the insurance industry wants to encourage these systems onto the roads, but it is vital that regulation keeps pace so that the rollout of automated technology can be managed safely.

THE INDUSTRY'S RESPONSE TO THE EVOLVING MOTOR INSURANCE FRAUD THREAT



The term 'victimless crime' has been synonymous with insurance fraud for many years. Too many people still see insurance fraud as being socially acceptable, rather than socially corrosive. In reality, the cost of fraud is paid for by everyone through higher motor premiums. Moreover, valuable public resources such as within the NHS, emergency services, and courts are spent on dealing with fraudulent cases.

Insurers detect claims fraud worth around £1.3 billion annually. Motor insurance fraud remains a significant concern with around 65,000 claims frauds detected each year with a value of £775 million.

Perhaps the most commonly known form of organised motor insurance fraud is 'crash for cash'. The Insurance Fraud Bureau (IFB) estimates crash for cash to be worth £336m. One in ten personal injury claims are linked to crash for cash, which encompasses induced, staged and contrived incidents. Most crash for cash is believed to be orchestrated by professional criminals who use what appear to be legitimate businesses, such as claims management companies (CMCs) and credit hire organisations, as fronts for their illicit activity.

But it isn't just claims that are vulnerable to fraud. Application fraud remains rife, as people lie to try to secure cheaper motor policies. A common fraud, colloquially known as 'ghost broking', occurs when fraudsters pose as genuine brokers to sell insurance. Ghost brokers will typically operate via word of mouth, social media, online advertisements or drop door leaflets.

Ghost broking may involve the fraudster not purchasing cover and pocketing the premium. In other cases, the fraudster will purchase cover from legitimate insurance companies, but then change key risk information to secure a cheaper premium or cancel the policy afterwards without advising the victim. In both cases, the 'policyholder' is left facing the consequences of being uninsured.

The scale of ghost broking is not wholly known, but the Insurance Fraud Enforcement Department (IFED), a bespoke unit housed within City of London Police, received 850 reports of ghost broking between November 2014 and October 2017, costing each victim an average of £769.

So how has the industry responded to the ongoing threat posed by motor fraud? Tackling motor fraud remains an industry priority: it is conservatively estimated that the industry spends around £250m each year on combatting fraud.

Many insurers now have well-established counter-fraud systems and controls as well as assign board-level ownership of the fraud risk. They subscribe to commercial analytics solutions which can be tailored to their bespoke needs and supplement their more traditional risk management tools.

The insurance industry recognises the importance of collaboration and working in partnership to mitigate the fraud threat. Aside from the IFB and IFED, there are several industry-wide databases operated by the industry, including the Insurance Fraud Register (IFR), the Claims and Underwriting Exchange (CUE), MyLicence and the No Claims Database.

As fraudsters use new technology to develop creative ways to cheat insurers, insurers are using technology to improve their detection methods and decrease the pay-outs for false claims. Different types of fraud require different responses. At the lower end of the spectrum, opportunists may be deterred if they have a better understanding of the role and value of insurance, as well as the consequences of insurance fraud, both for the fraudster and society at large. The industry is currently working with behavioural experts to understand how 'nudge theory' can be harnessed to increase an individual's propensity to be honest when applying for insurance or making a claim.

However, organised fraudsters, who commit fraud for a living, require a different approach. They won't be dissuaded simply because their actions increase insurance premiums, waste public resources and put innocent lives at risk. They will continue to commit fraud if they think the reward outweighs the risk. So while the insurance industry will continue to do all that it can to stamp out the threat posed by fraud, it is vital that the Government, regulators and the judiciary play their part too.

The ABI supports the Government's reforms of the soft tissue injury claims process, which will help to fix our broken civil justice system. The reforms will reduce the excessive amount



of cash in the personal injury compensation system and remove some of the perverse financial incentives which drive fraudulent behaviour. The ABI also supports the transfer of regulation of CMCs to the Financial Conduct Authority. The primary factors driving poor CMC behaviour are financial and the FCA is well-placed to understand the underlying business models of CMCs. Moreover, the FCA is a well-established regulator with mature enforcement powers.

A key way to disrupt organised fraudsters is to deprive them of their lifestyles. However, despite Sentencing Council Guidelines recognising the serious physical, as well as economic, harm caused by insurance fraud, Home Office data shows that the number of individuals sentenced for fraud has declined since 2010. Even when sentenced,

most offenders receive either community or suspended sentences. And while the Serious Crime Act 2015 introduced changes designed to make the asset recovery process simpler and more effective, the process is still unnecessarily protracted, so the Home Office's commitment to publishing an action plan is welcomed.

The best way to tackle crime is to bring together expertise from across government, law enforcement, regulators and the private sector. The new Economic Crime Centre will have a key role to play in making the UK a more hostile environment for committing crime, including motor insurance fraud. The ABI will continue its collaborative approach to tackling fraud, acting as a conduit between the public and private sectors and leading industry initiatives to respond to evolving trends in motor insurance.

ABI

MOTOR CONFERENCE 2018

20 NOVEMBER 2018

GRANGE TOWER BRIDGE HOTEL, LONDON

HEADLINE PARTNER:

DAC beachcroft

To book your place, visit www.abi.org.uk/events/motor-conference-2018

And enter the code **ABIMOTOR-DM** in to the requirements box on the second page of the booking form.

AN INTERVIEW WITH JAMES BLACKHAM

Insurtech firms are at the forefront of innovation in motor insurance. Here we talk to one of the movers and shakers in the sector, Co-founder and CEO of By Miles, James Blackham.

Hi James, could you tell us what By Miles is all about in a nutshell?

Ultimately it's a smarter and fairer way of pricing motor insurance.

It makes sense: half of the UK's cars are driven less than 150 miles a week but traditionally insurers have a very flat rating structure for mileage – or worse, charge lower mileage drivers a higher premium because they don't believe the miles the customer claims they drive.

By Miles offers driving insurance that's tailored to an individual driver's needs and habits. We can charge people for the exact number of miles they drive and give them the opportunity to see how much each journey costs them in real-time in our mobile app.

We've done away with annual policies and it works more like a rolling monthly mobile phone bill. You'll pay less if you go on holiday, for example, because you'll just be paying the monthly subscription to cover your car when it's parked while you're away.

We're all about providing a service that better fits the lives of our customers and puts them back in control.

And what about you – could you tell our audience something interesting or surprising about you?

Believe it or not, I'm actually halfway through the process of becoming a licensed Uber driver.

I drive a Toyota Prius already and I thought it would be a good way to get a better insight into the lives of occasional drivers and the world of private hire.

Unfortunately, the life of a start-up founder keeps me very busy so I haven't been able to complete the process just yet – it's still on the to-do list though!

You worked for Goldman Sachs before embarking on this major career change. Where did you get the idea that a firm offering motor insurance by the mile could be a winner, and was it a tough decision to take such a leap?

As someone working in central London and only driving at the weekend, I've long thought that the premiums I pay on my annual car insurance don't offer value for money.

It's odd to think that we accept paying for an annual policy that doesn't take into account how much we actually drive and doesn't encourage us to take public transport.

There was obviously an element of risk in starting By Miles but I'd spent years specialising in insurance at Goldman Sachs and it was difficult to ignore such a huge market opportunity. Since we launched, I've had customers constantly remind me that this product is something drivers in the UK really want and need.

We were recently named 'Innovation of the Year' at the Insurance Choice Awards, which was decided by a public vote, so that's been a particular high point.

Talk to our readers a little more about By Miles. What exactly will it offer its customers, how will it interact with existing firms and platforms within the sector, and what kind of timelines are you operating on?

Our app is a key component and it makes keeping on top of your driving insurance a lot simpler. You can see the cost of every journey, view all your policy documents and get reminders for when your MOT and car tax is due.



Insurance hasn't really kept up with the changes in technology in wider society.

You can even set yourself a monthly budget and decide to cycle or take the bus if you think a small trip might put you a bit over your month's target. It's about being more transparent and giving the customer more control over their money.

We've been authorised by the FCA and completed a three-month beta trial, collecting over 150,000 miles of data to perfect the product. We're aiming to operate as an MGA selling insurance directly to customers.

Does it surprise you that there hasn't really been any systemic disruption of the traditional annual policy, across personal lines insurance? What is it that allows By Miles to be viable today when it may not have been just a couple of years ago?

It certainly is surprising. Insurance hasn't really kept up with the changes in technology in wider society. We've had pay-as-you-go mobile phone contracts for over a decade but still have inflexible annual insurance policies. It doesn't make much sense.

Over the last few years, I think people have become increasingly open to trying new ways of doing things and quite rightly demand more

personalised experiences. We're just trying to respond to these changing expectations.

Another thing we can't ignore is our reliance on smartphones now. We're constantly using them to manage everything from our weekly shop to our home energy bills. It seemed obvious that you should be able to manage your driving insurance policy through a mobile app too – an app that wasn't just acting as a container for your policy documents.

While the first incarnation of a pay-per-mile policy was attempted in 2006, that was before the invention of the iPhone. The smartphone and telematics technology has moved on a lot since then and we're able to take advantage of that.

Finally, what would you expect to have achieved with By Miles in three years' time?

We'll have solidified our reputation as a highly responsive and customer-centric car insurer by then. We want to provide a reliable, trustworthy service that's used by lots of satisfied customers that stay with us because they feel they're getting the best deal for them.

In three years, I hope we'll be forcing change in the rest of the industry as they look at our growing base of happy, low risk, customers.



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20 NOVEMBER 2018

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REGISTER TODAY!

The ABI's 2018 Motor Conference will take place on Tuesday 20th November, in partnership with DAC Beachcroft – Motor and Liability Partner for 2018.

This conference will bring together senior representatives from Government and the insurance industry with legal experts and the

wider motor industry supply chain to consider the long-term prospects of the motor insurance market. A key agenda item will be the impact of the Government's work to reform how the Discount Rate is set and the ongoing compensation culture reform agenda. This will also be a chance to assess progress with tackling insurance fraud and consider

what still needs to be done and to look ahead to the impact of rapidly evolving vehicle technology on the industry. There will also be a detailed discussion about the development of conduct regulation, looking in particular at GDPR and the Insurance Distribution Directive. As the official date for Britain's withdrawal from the EU approaches, industry

experts will also assess what impact this will have on the future of the motor market.

BOOK YOUR PLACE TODAY.

