

June 25, 2020

AUTO INSURANCE and COVID-19

Consumer outlook and trends

Consumer behavior stable, but risks present

Kyle Schmitt

Vice President and Global Managing Director

Insurance Intelligence and Solutions

Consumer outlook is growing amidst re-opening, but risks remain in August and September

June 25, 2020

Our key themes from May remain, but continue to evolve as economic conditions appear poised to dominate the next 12 – 18 months:

- **Did premium relief create loyalty or prevent disloyalty? Overall satisfaction remains almost 20% below pre-COVID levels**
 - Consumer satisfaction is a key retention indicator—consumers are about 20% less satisfied on average today than before COVID
 - Consumers AWARE of premium relief (56%) remain 12% below pre-COVID satisfaction indicating that loyalty was preserved more than created
 - Consumers UNAWARE of premium relief (44%) are 25% below pre-COVID satisfaction indicating they may be less loyal today
 - The auto insurance industry has a satisfaction deficit vs. pre-COVID; additional shocks could see rapid behavioral change
- **Three behavioral groups remain, but the future retention outlook may come back into question during Q3 and into Q4**
 - *Employment NOT impacted*: largely exhibit pre-COVID satisfaction, rate sensitivity and service expectations today
 - *Employment impacted*: lower satisfaction, high rate sensitivity, elevated propensity to shop / switch and likely to act swiftly if financial situation changes
 - *Forward-looking drivers*: less tied to employment, but clear outlook for reduced mobility—looking for their carrier to anticipate their ‘new’ situation
- **As consumers settle into a reduced mobility outlook, telematics interest remains high**
 - Consumers outlook for reduced miles driven continues (59%), and they remain highly interested in telematics solutions (46%)
 - BUT, they appear to be on the move again at close to pre-COVID levels... will perceived needs catch up to actual behaviors?
- **Incomes will likely be going DOWN in Q3 and into Q4, perhaps rapidly—how well do you know your customers?**
 - When CARES Act stimulus enhanced benefits (07/31), federal eviction freezes (07/25), Fannie / Freddie foreclosure moratoriums (08/31) and federal student loan forbearance (09/30) expire, individual impacts may materialize quickly and result in surges of shopping / switching / cancelling activity

KEY RISK



MARKET CONTEXT

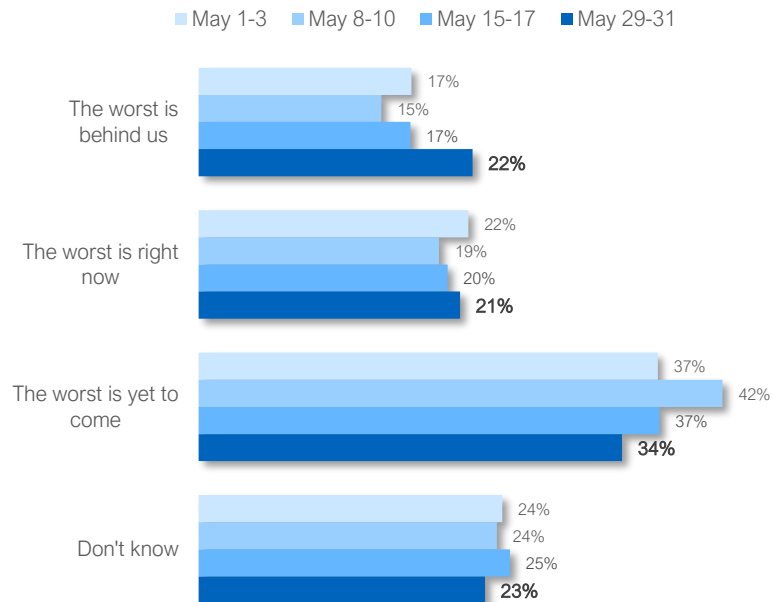
COVID-19

Consumer economic sentiment rising from lows

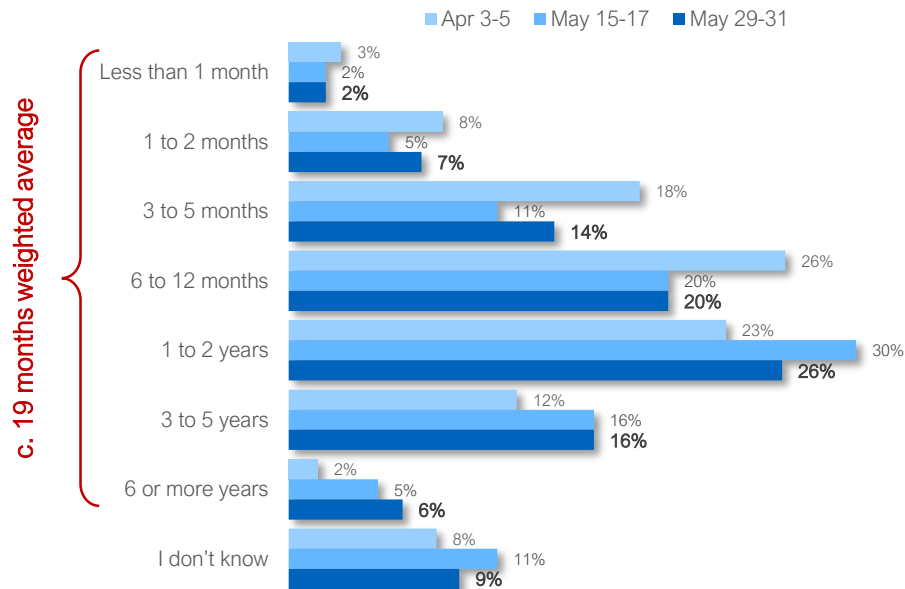
Consumers exhibit a cautious near-term outlook, but there are signs that optimism is growing as more believe the worst is now or behind us. In general, consumers see a c. 18 month horizon for macro conditions to look like a recovery

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Individual consumer economic sentiment shows signs of caution, but with growing optimism emerging



51% of consumers feel that it will take 1 year or more to recover jobs lost due to COVID-19



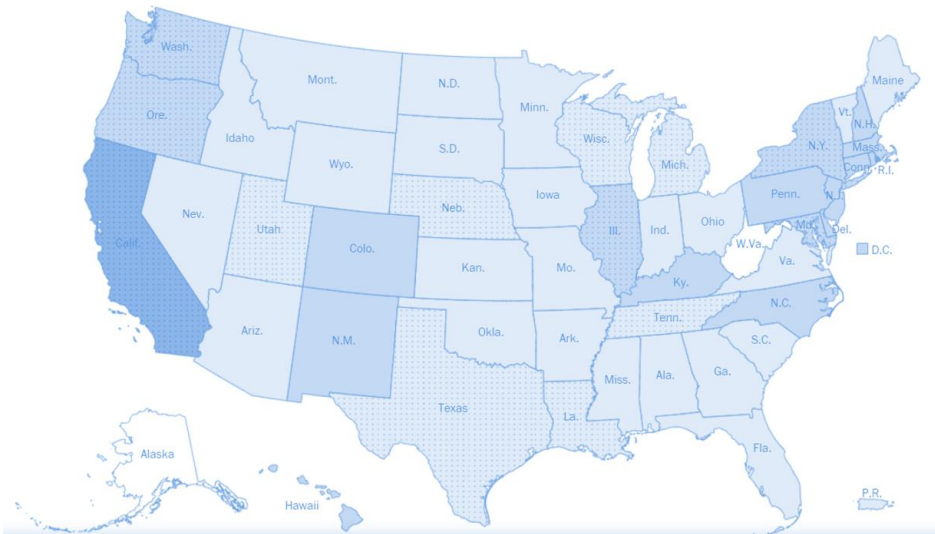
Economic activity is beginning to increase

As states re-open and many businesses return, economic activity is showing signs of return—while the rebound has not been immediate, consumers have money due to CARES Act and other programs enabling them to spend

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States are re-opening at varying speeds, but consumer mobility and economic activity continue to increase

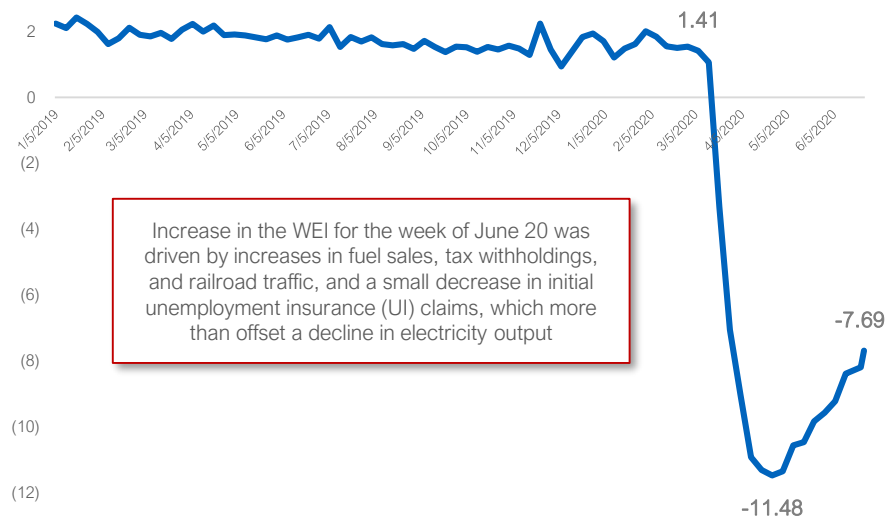
State restrictions: Major Moderate Minor None Vary by region



Source: Washington Post (updated 24 June, 2020)

Weekly Economic Index (WEI)

The WEI is an index of ten daily and weekly indicators of real economic activity, scaled to align with the four-quarter GDP growth rate



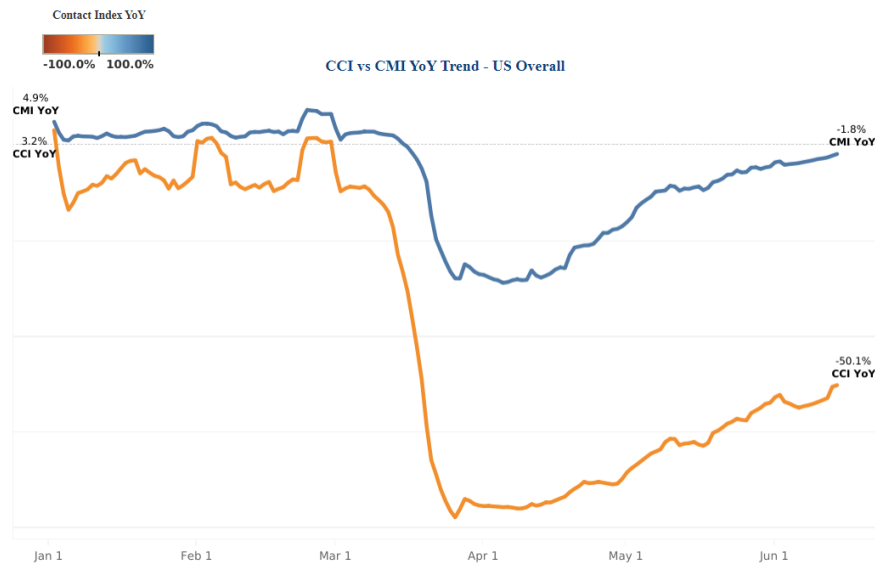
Source: Federal Reserve Bank of New York as of June 25, 2020

Consumers back on the move, but in a new way

Consumer mobility is back to near pre-COVID levels. Given few office openings, this movement is clearly different as contact with others remain significantly reduced

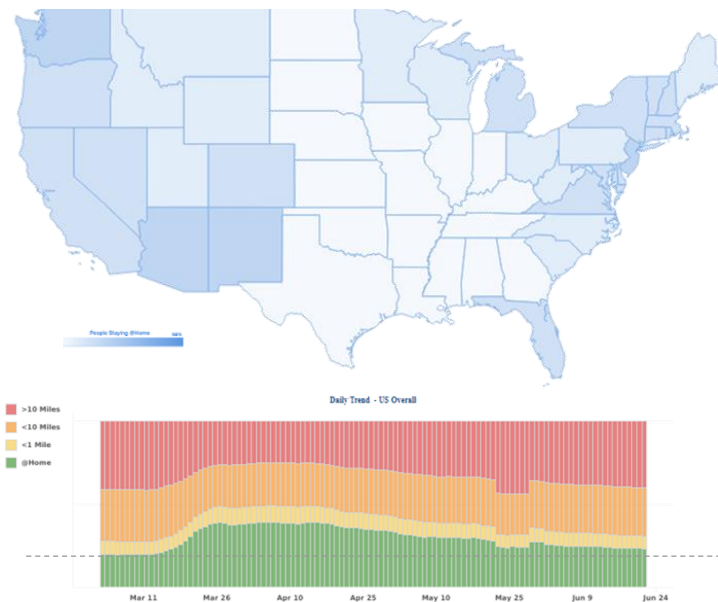
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Mobility is returning, but contact with fellow consumers remains down significantly YoY



Source: Cubeiq

Consumers staying at home continues to decrease, but appears to be stabilizing at slightly elevated levels



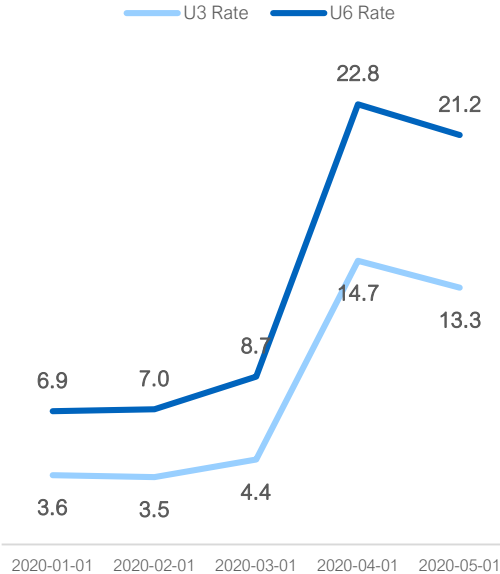
Source: Cubeiq

Household fiscal cliff risks in Q3 / 4 should be monitored

The CARES Act provided substantial economic benefits to help families and individuals cope with widespread, sudden job loss. Those additional funds have kept the consumer afloat, however, a reversal in August could rapidly change behaviors

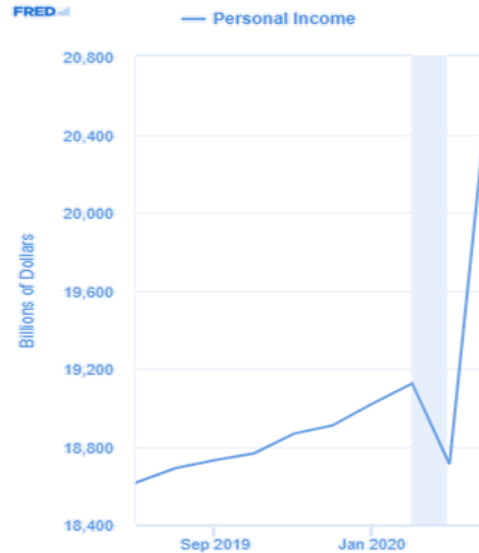
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Unemployment remains at elevated levels



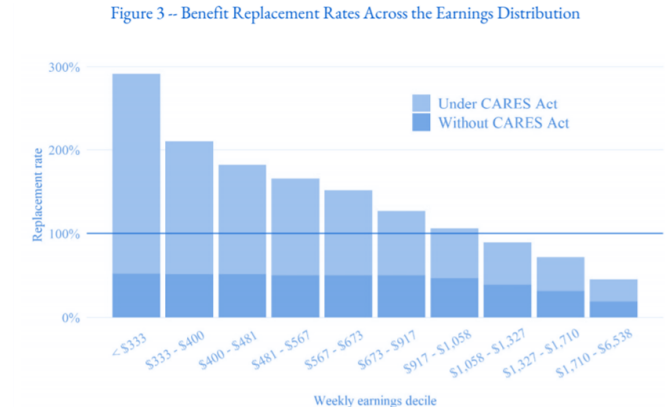
Source: U.S. Bureau of Economic Analysis, St. Louis Federal Reserve

Incomes have risen since April due to stimulus



Source: Dept. of Labor, St. Louis Federal Reserve

Stimulus has been significant for lower income bands



Source: National Bureau of Economic Research, Working Paper 27216 (May 2020)
Notes: 1) This figure shows the fraction of earnings that are replaced by unemployment benefits for workers at deciles of the weekly earnings distribution. The horizontal line shows a replacement rate of 100%, which is where benefits are equal to earnings.

Miles driven returning, but seasonally down

Consumers are back on the move as miles driven returns to pre-COVID levels, however, as we move into the heavier summer driving season miles driven remains down 4 – 9%

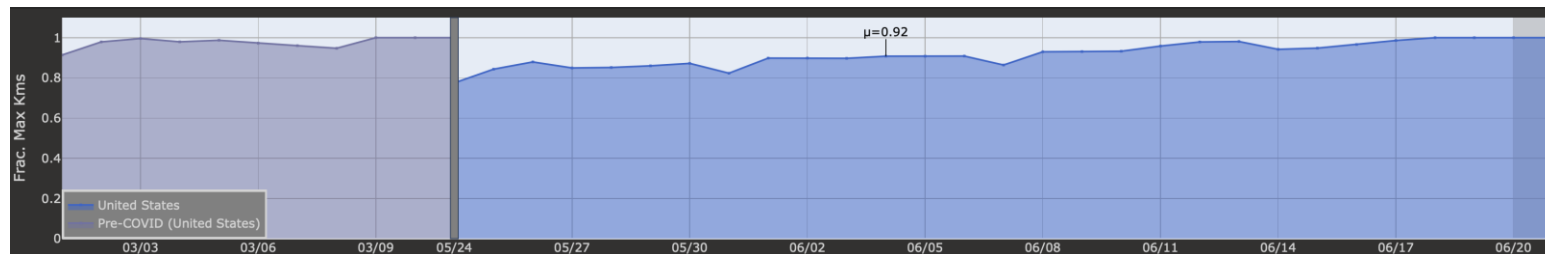
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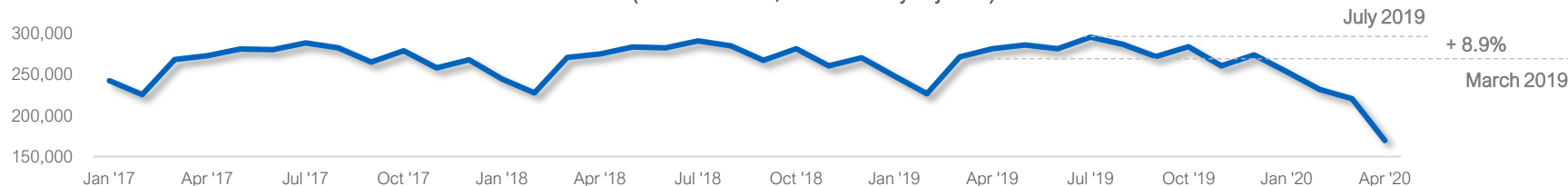
CAMBRIDGE
MOBILE TELEMATICS

US miles driven per day is basically back to pre-COVID levels as mobility returns during re-opening



June / July driving levels tend to be 4 – 9% higher than march indicating that 'typical' driving has not yet returned

Vehicle Miles Travelled (millions of miles, not seasonally adjusted)



Source: Cambridge Mobile Telematics, U.S. Federal Highway Administration

Watching for potentially sudden risk shifts

Speeding remains up as miles driven increases, but hard braking is down indicating congestion remains light compared to pre-COVID; however, impact severity is increasing potentially putting pressure on profitability

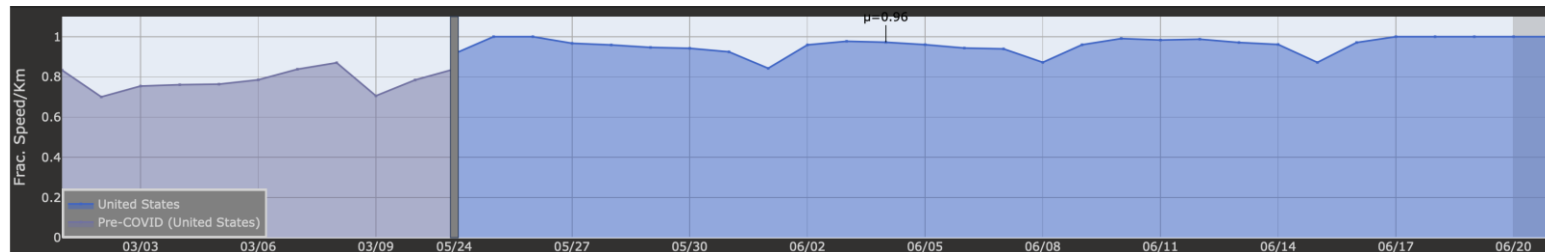
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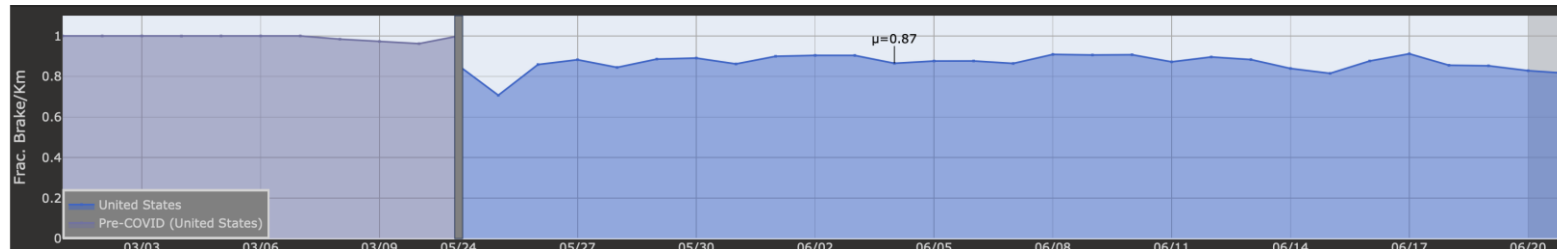


CAMBRIDGE
MOBILE TELEMATICS

Speeding continues to be c. 20% higher than pre-COVID driving and continues to remain elevated despite mobility increases



Hard braking continues a downward trend indicating that roads are less congested than is typical



Source: Cambridge Mobile Telematics



AUTO INSURANCE

Impact of COVID-19 on the auto insurance consumer

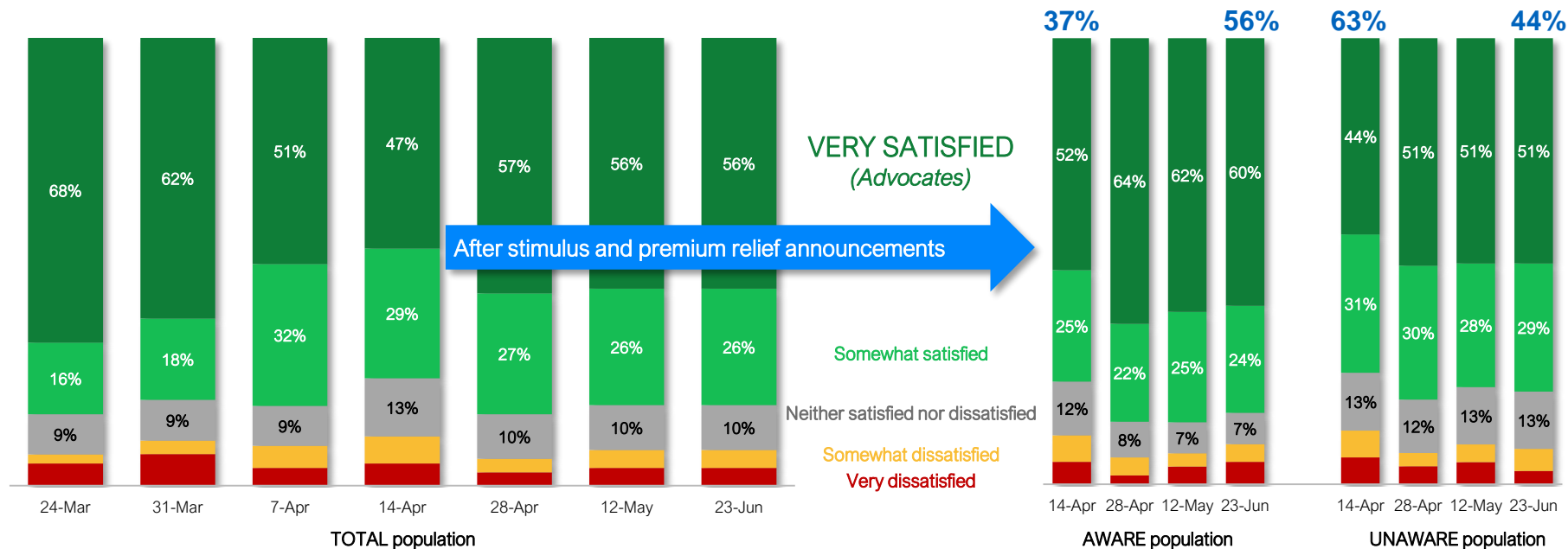
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Consumer satisfaction deficit remains

Carriers still have an almost 20% consumer satisfaction deficit compared to March. Satisfaction is a key driver of retention with *very satisfied* customers also acting as brand advocates

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How satisfied are you with your current auto insurance company?

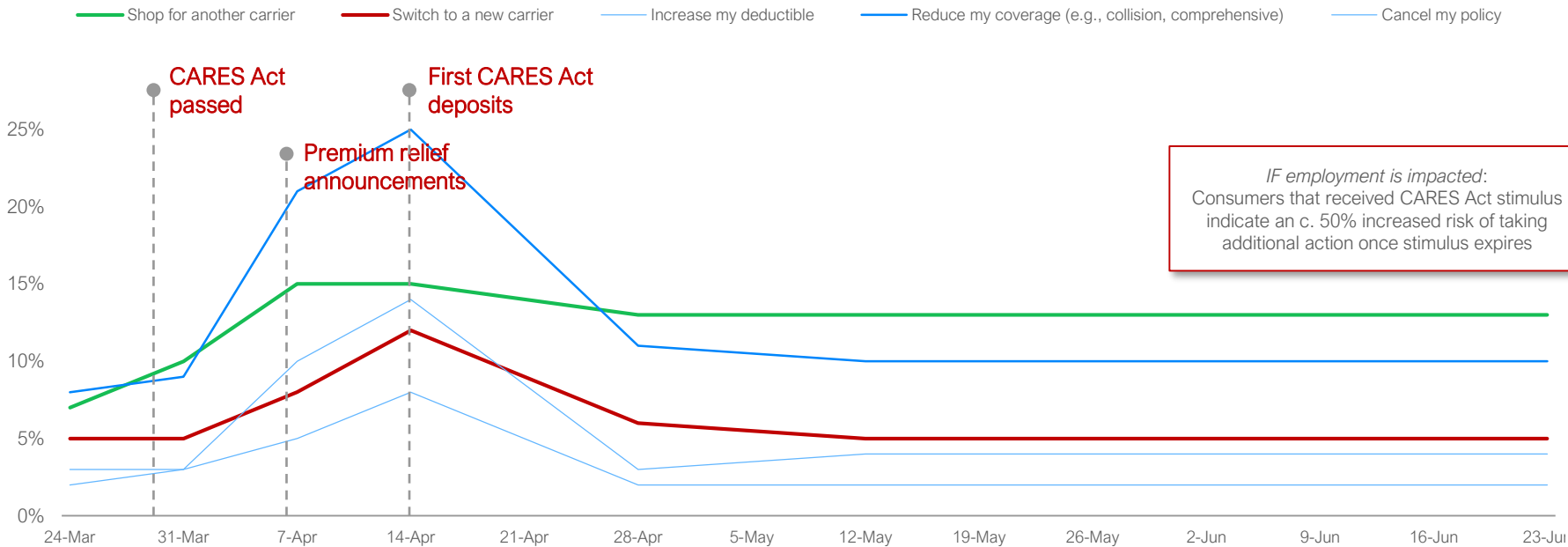


Shopping behaviors remain stable since late April

As the extraordinary changes being experienced during late March and April have subsided, consumers intent does not seem to indicate broader behavior changes at the moment—shopping remains slightly elevated, but no current shocks

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What, if any, methods do you plan to use to manage the cost of your auto insurance?



Source: Bureau of Economic Analysis (BEA), May 29, 2020

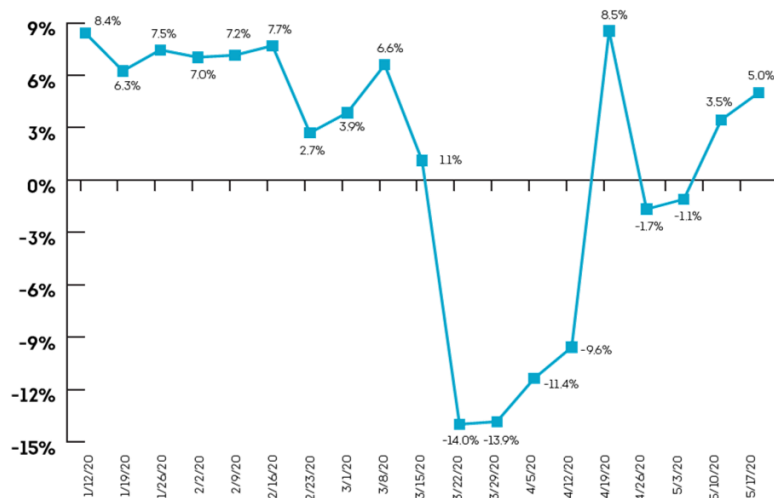
Consumer sentiment and behaviors closely aligned

When comparing consumer sentiment to actual behavior, we see similar trends—YoY shopping remains elevated, especially compared to March levels. TransUnion has indicated that these May trends remain relatively stable through June

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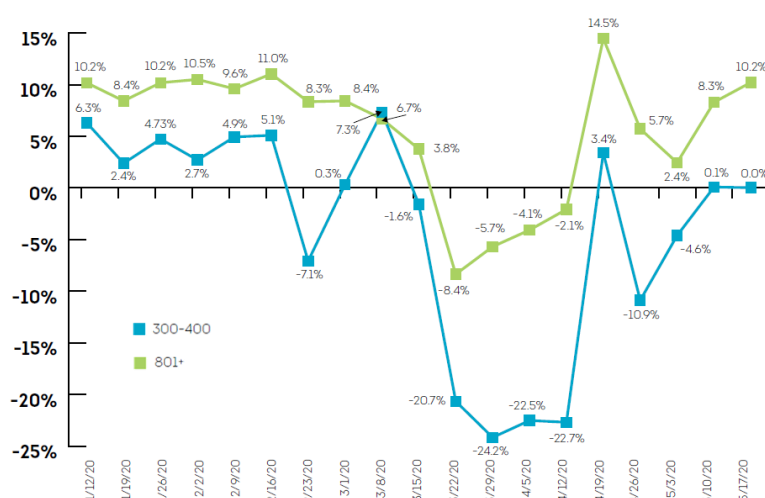
Actual consumer shopping behavior closely followed sentiment by just a few days / weeks...

2019-2020 YoY shopping change (overall)



Higher credit tiers shopped at elevated levels since premium relief announcements and stimulus

2019-2020 YoY shopping change by TrueRisk Auto Score (1)



Source: TransUnion

Notes: 1) Percentage of total shopping population: TrueRisk Auto Score 300 – 400 (15%) and 801+ (10%)

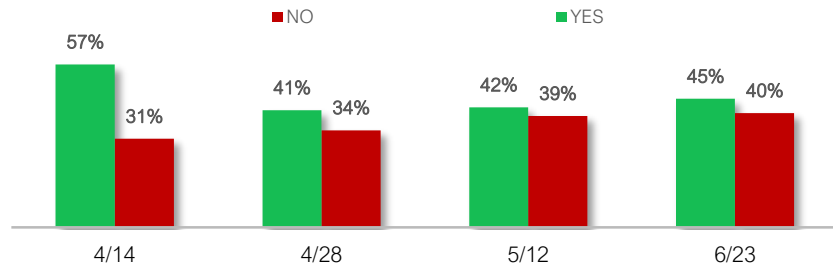
[CLICK HERE for access to TransUnion June Snapshot Report](#)

Consumer finances dominate premium confidence

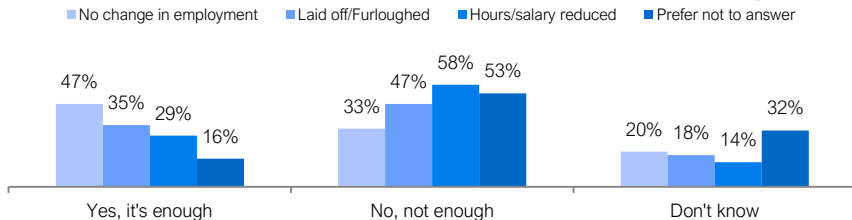
While premium relief was generally well received and the timing was right, employment status is driving confidence indicators in continuing ability make premium payments

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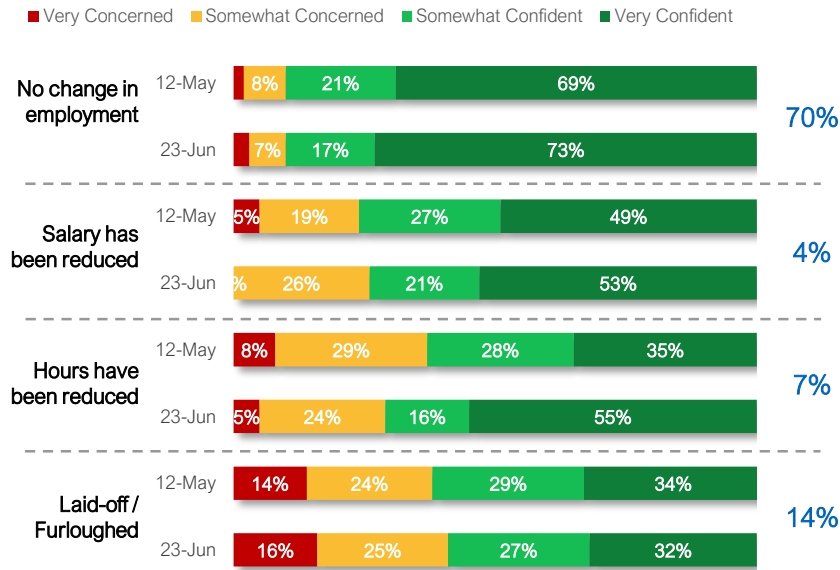
Are premium actions enough to help ease financial pressure (of those AWARE)?



Of those AWARE, employment status is a key indicator of whether premium relief eased financial pressure enough



Confidence in making payments largely driven by employment and compensation status

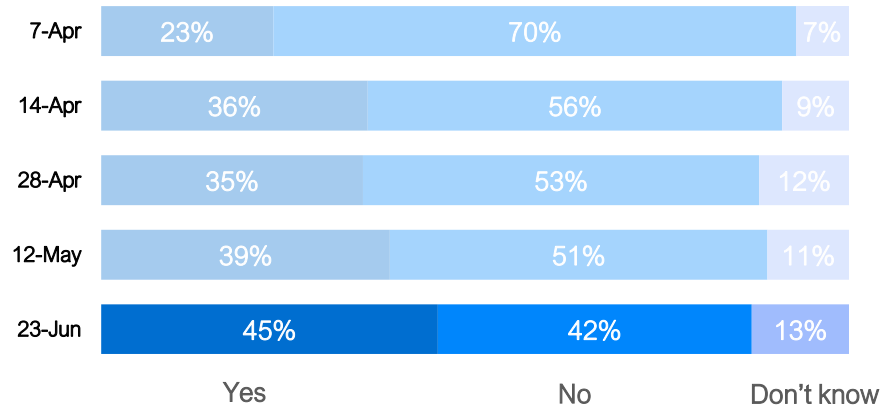


Getting out the message is critical to retention

Contact from carrier continues to lag awareness indicating that many consumers are being communicated with via mass market channels despite active and personal communications driving better results

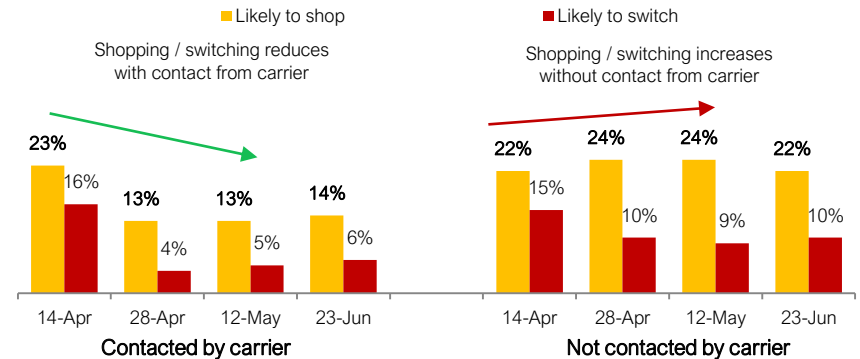
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Have you been contacted by your insurer about actions they are taking to help customers manage costs as a result of COVID-19?



Shopping / switching propensity by communication

- Still more than 50% of consumers have not heard, or noticed attempted communication, from their carrier since the onset of COVID-19
- Consumers that have received contact are almost 2x less likely to shop and switch compared to those who have not received communication
- While a difficult task, personal outreach to understand individual situations and to help find personal solutions is a highly effective method of driving retention

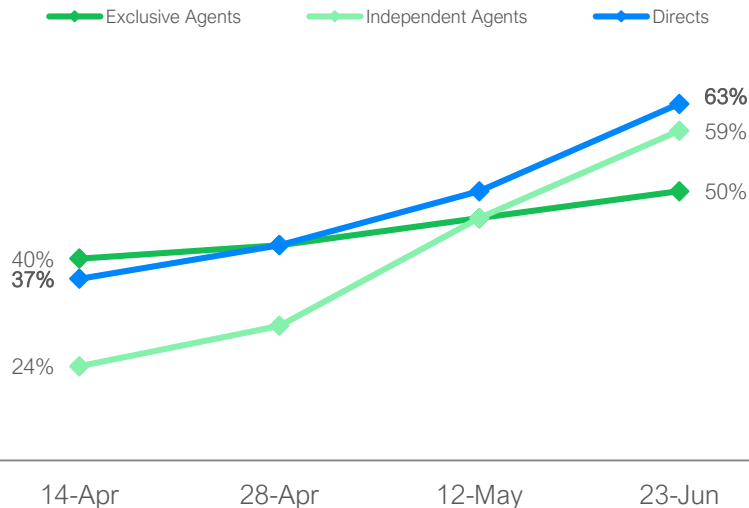


Exclusive agents haven't sustained the message

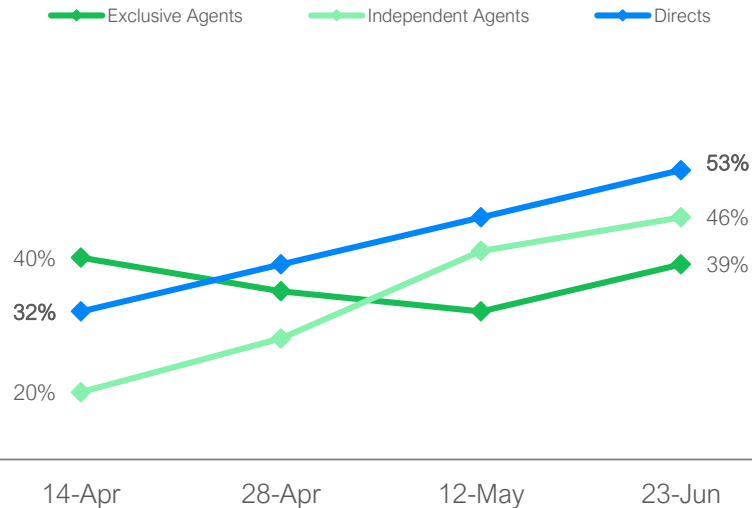
While off to a quick start, exclusive agent's haven't sustained delivery of the premium relief message while directs have continued to make contact and grow awareness, a key indicator of satisfaction

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Has your insurance company announced they will reduce premiums or provide refunds during COVID-19?



Have you been contacted by your insurer about actions they are taking to help customers manage costs as a result of COVID-19?

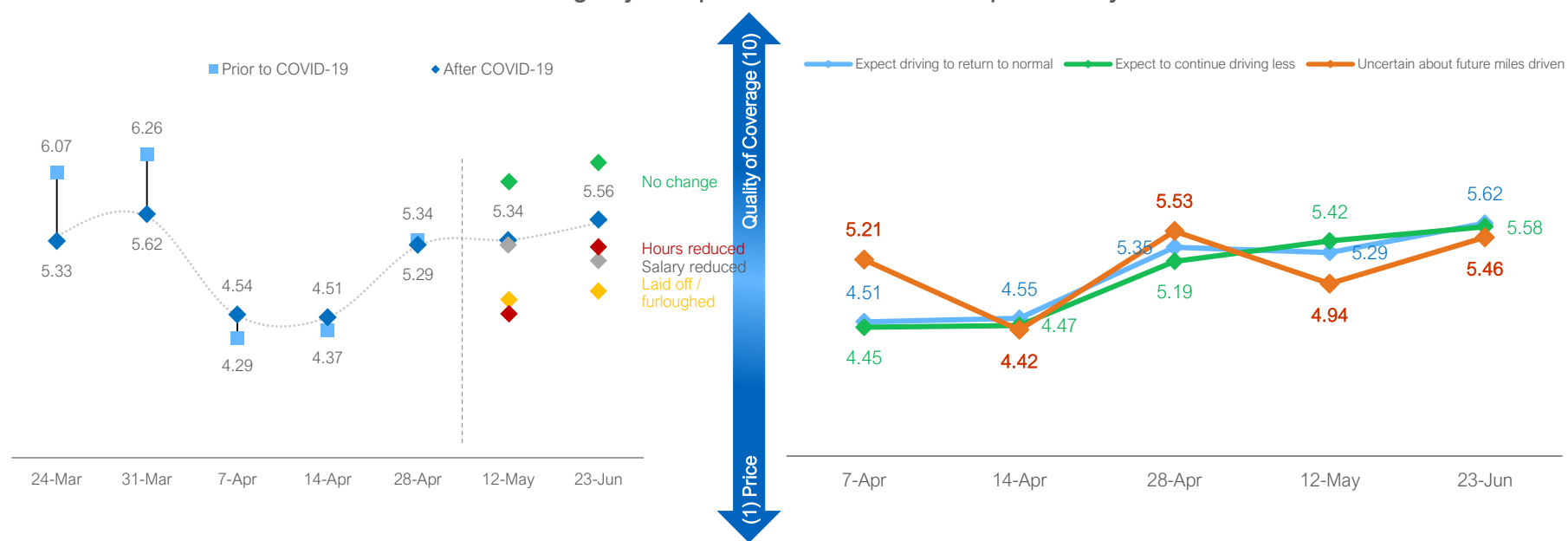


Employment status continues to drive rate sensitivity

Consumer rate sensitivity has returned to pre-COVID levels on average. Given close ties to employment status and financial anxiety, fiscal and economic developments moving into Q3 and Q4 could drive a greater bifurcation

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Has COVID-19 changed your opinion of what is most important in your auto insurance?



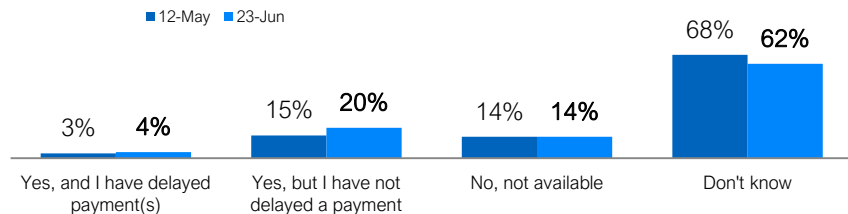
Note: 1) Price v. Quality prior to COVID-19 no longer asked.

Employment status impacts delayed payments

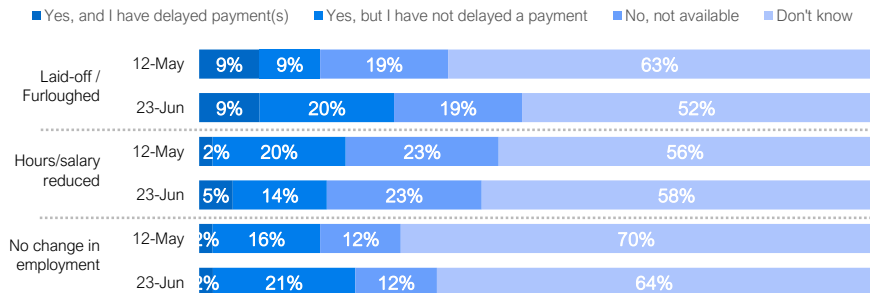
Employment status for 25% of auto insurance consumers has been impacted in some way since the onset of COVID. For those most impacted, awareness remains low and most have not explored options

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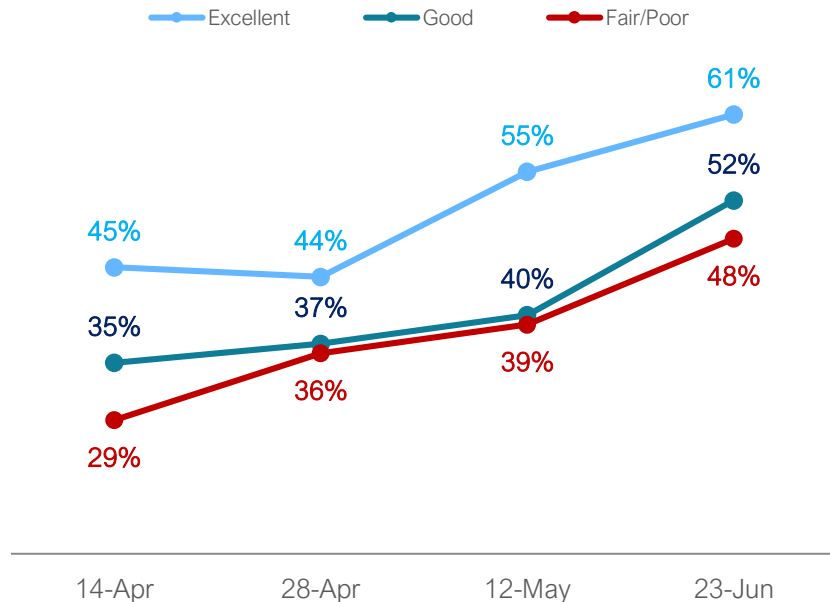
Does your insurance company allow you to delay payments due to COVID-19?



Consumers exploring delayed payment by employment status



Premium relief awareness by credit tier

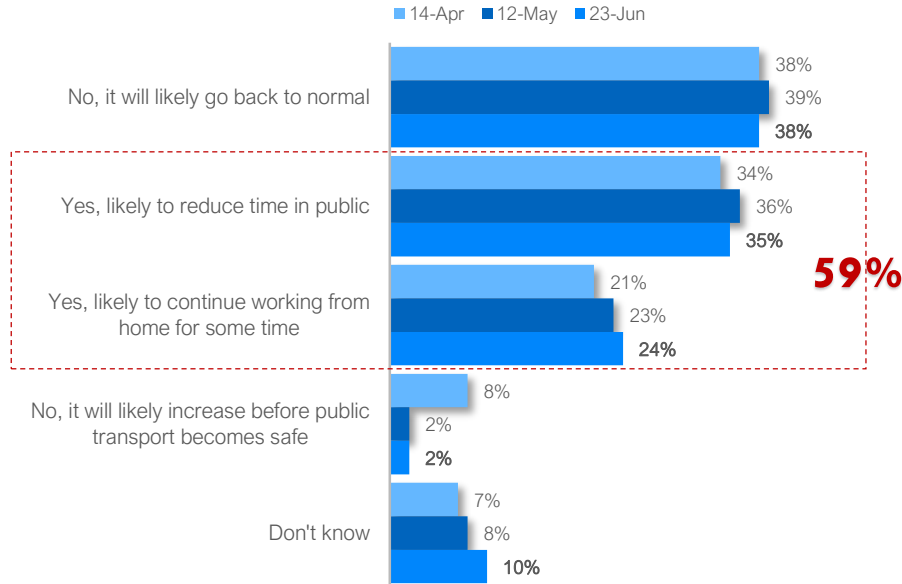


Telematics interest remains high, but could collide with reality

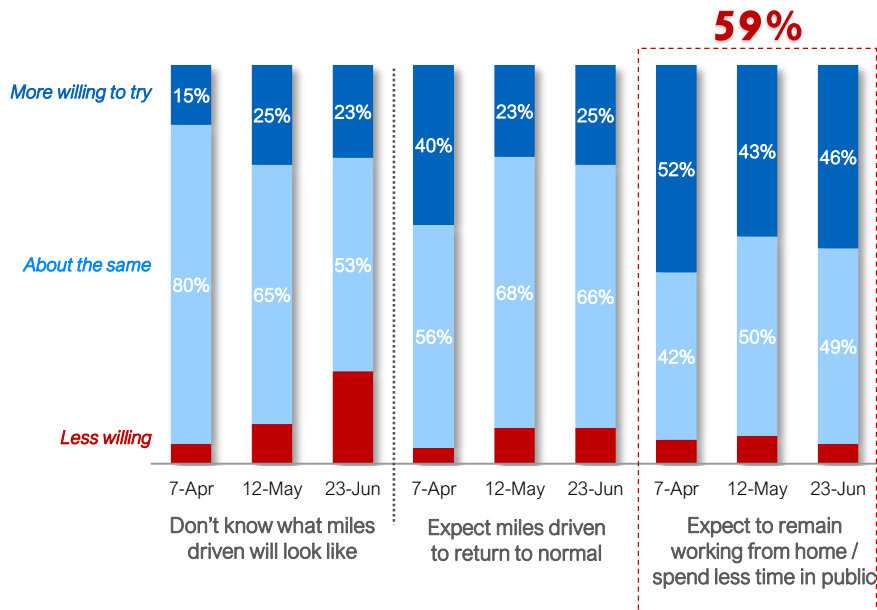
Almost 60% continue to see fewer miles driven in the future despite increased in miles driven. Perceptions may have permanently changed, but driving the personal risk mitigation value proposition will be key to sustaining interest

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Do you anticipate any changes to the average number of miles you drive will remain after COVID-19?



Willingness to use Usage Based Insurance (UBI) by Expectation for Future Miles Driven

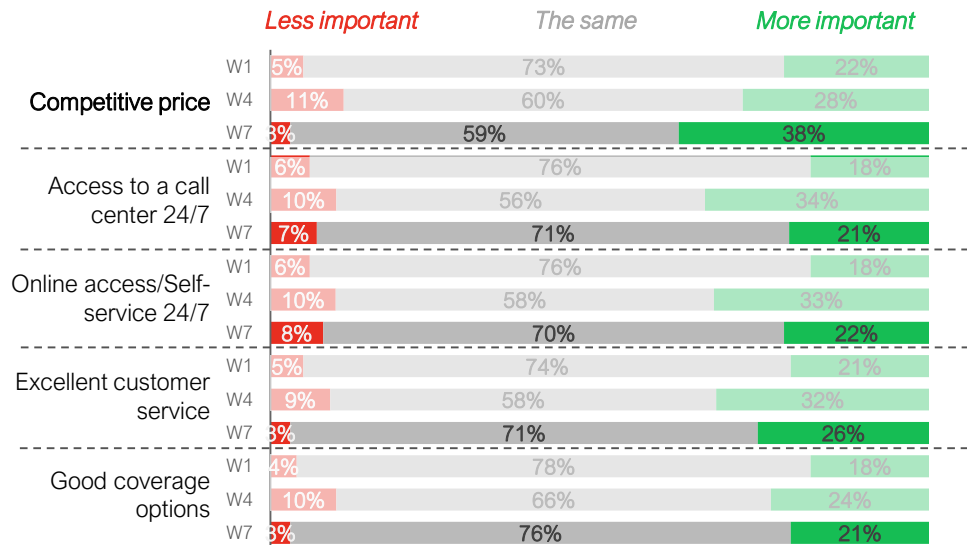


Rate / service expectations elevated due to satisfaction?

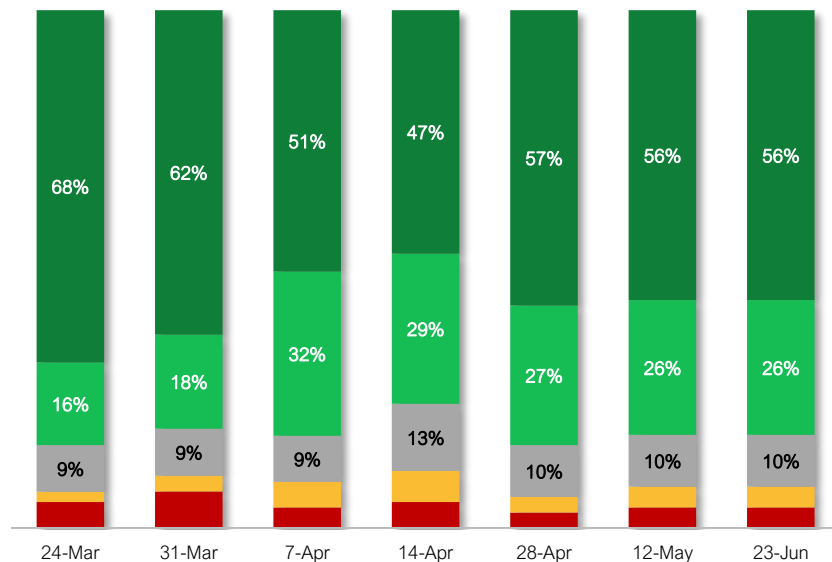
While service expectations appear to have settled around pre-COVID levels, it is likely that the actual level of service expected is heightened due to broader reduced satisfaction—the bar is higher on a relative basis

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Due to COVID-19, has the importance of your insurance relationship changed due to any of the following...?



With lower overall industry satisfaction, service excellence will be heightened in relative terms



Ryan McMahon

Cambridge Mobile Telematics

Vice President, Insurance and Government Affairs

Contact Information:

+1 857 366 2167

rmcmahon@cmtelematics.com

Kyle Schmitt

J.D. Power

Vice President and Global Managing Director

Insurance Intelligence and Solutions

Contact Information:

+1 309 826 7958

kyle.schmitt@jdpa.com

David Drotos

TransUnion

Vice President, Insurance Solutions

Contact Information:

+1 440 804 6332

David.Drotos@transunion.com

Tom Super

Head of P&C

Insurance Intelligence

Robert Lajdziak

Senior Consultant

Insurance Intelligence

J.D. POWER