# Disrupting the Car Insurance Industry

**The London-based start-up Cuvva competes with incumbents by making it easy for drivers to buy pay-as-you-go insurance.**

Disruptive ventures arise from mobile device ubiquity, data-powered AI and digital platforms that connect buyers and suppliers in new ways. They are reshaping industries such as transportation (e.g. Uber, Lyft, Didi Chuxing), hospitality (e.g. Airbnb, FlipKey), payment services (e.g. PayPal, TransferWise) and many more.

Conservative by nature, the insurance industry has been slow to embrace new digital business models and take on disrupters. But it won't be able to dodge the challenge much longer. Consider ZhongAn, the Chinese online insurer created in 2013 by e-commerce giant Alibaba, social network Tencent and insurer PingAn. ZhongAn has already **sold** more than 7 billion policies – mostly shipping return and flight delay insurance – to half a billion customers, creating massive waves in the industry with fast, innovative and customised products sold only online.

**Hourly car insurance cover**

Freddy Macnamara, the founder and CEO of London-based, mobile-only insurance broker Cuvva, is addressing several market frictions in the car insurance industry. Most people dread buying car insurance – an expensive product that's only needed in case something bad happens. After all, it is a product that few people like and even fewer people understand.

Launched in October 2015, Cuvva came about because Macnamara wanted to get insurance on an hourly basis so he could drive other people's cars. He saw that car insurance is one of those things that people instinctively associate with pain. He decided to use technology to make it as hassle-free as possible.

Consumers nowadays, especially millennials, often prefer to carry out transactions on their mobile devices. Since they're already using their phones to read books and hail taxis, why not use them to buy insurance? Many start-ups, including Cuvva, bet that more people will buy coverage if it's fast, easy and affordable to do so.

Cuvva's first product, called Cuvva for Sharers, targets customers in the United Kingdom seeking car insurance lasting anywhere from one hour to 28 days. They must be at least 19 years old and insuring a vehicle that's no more than 15 years old.

**Video:** Freddy Macnamara explains the sign-up process

To purchase insurance, users first need to download the Cuvva app. They are then asked to verify their identity and prove they own a valid driving licence.

Customers must give the Cuvva app permission to query the database of the U.K.'s Driver and Vehicle Licensing Agency, which will flag any potential problems. They must also upload a photo of their driving licence, a photo of the car and a selfie taken through the app.

Cuvva conducts administrative checks, including credit history and criminal record. Once this is cleared, insurance is issued almost immediately.

**Part-time and low-mileage drivers could be overpaying for insurance**

People who purchase traditional annual insurance policies sometimes complain that they pay to insure cars that sit idly in car parks or garages. To address this, Cuvva offers a different product called Cuvva for Owners, aimed at city dwellers who take public transport to work and only use their cars for evening and weekend leisure activities – typically driving fewer than 8,000 km a year.

By Cuvva's estimation, infrequent drivers will be able to save US$700 to $1,400 a year compared to what they would spend on a conventional annual policy. While some may find traditional car insurance more convenient, the potential savings could attract many occasional drivers.

**Ophelia Brown**, general partner at VC firm LocalGlobe (which has invested in Cuvva), said, "Pay-as-you-go insurance is a long overdue product in the U.K., where increasingly the trend is for drivers to use their cars less and less. It's crazy that people's premiums haven't and can't change to reflect that. Cuvva understands that just as consumers expect price transparency and flexibility with all other financial services, they should also get that with their insurance."

**Paying based on behaviour**

In 2016, Admiral, the largest U.K. auto insurer, launched **firstcarquote**, a product aimed at drivers aged 17 to 21 who were buying or driving their first car. By downloading the app and allowing the insurer to look through their Facebook posts, customers were eligible for discounts up to US$500 per year. The company had planned to use Facebook status updates and "likes" to assess the risk of first-time motorists, offering insurance discounts to those likely to be safer drivers.

Concerns were immediately raised over privacy and data protection, with one privacy **lawyer** describing the concept as "the tip of a very large iceberg that consumers and businesses are increasingly going to encounter". Facebook ultimately got cold feet over the experiment. It blocked Admiral from scouring social media profiles to set car insurance prices, forcing the company to abandon the idea. However, industry experts stated that other insurers were likely to try to use data in similarly innovative ways to assess risk. Macnamara believes that car insurance rates should be based solely on customers' behaviour, not their education or social networks (**watch video**).

Could Cuvva disrupt the US$17 billion U.K. car insurance market and gain significant market share? When asked about the competitive landscape, Macnamara expressed doubts that the larger players in the U.K. car insurance market were concerned about Cuvva's market share (**watch video**). Some venture capitalists, however, believe that insurance is such a big sector that even niche players have the potential to build large businesses. By June 2017, Cuvva had sold more than a million hours of cover, with customers paying an average premium of about US$9 for the first hour and up to US$27 for a day.

**Embracing digital innovation**

While many insurers expect digital innovation to transform how they do business with customers over the next five years, few have fully embraced it. According to **PwC**, only 28 percent have explored partnerships with fintech companies and just 14 percent have actively participated in ventures and/or incubator programmes. Less than half (43 percent) claim that fintech is at the heart of their corporate strategies.

Start-ups like Cuvva compete with incumbents by building better interfaces to sell policies via smartphones. They understand that traditional distribution models do not appeal to a younger demographic and that millennials view insurance products as too complex and opaque. Last but not least, such start-ups speak the language of the mobile customer.

Macnamara is convinced that Cuvva is the future of car insurance because people will want to insure themselves only when they are driving, whether it's their own car or someone else's as the sharing economy grows. The insurance industry's terminology and language puts off all but the industry players. This lack of transparency and the insurers' affinity for tried-and-true methods may be exactly the friction disrupters need to thrive in this huge market.

This is the second of a three-article series on digital disruption in the insurance industry. The **first article** discusses the extent of disruption in the insurance industry, the drivers, and the opportunities and challenges for new entrants and incumbents.

*INSEAD Strategy Professor Karel Cool, Brian Rogers of Swiss Re and Christophe Angoulvant of Roland Berger have documented the Cuvva story in a new business case study titled* ***"Cuvva: Disrupting the Market for Car Insurance"****. On 19 June 2017, Macnamara visited INSEAD to discuss his venture with students taking the new MBA course on* ***Fintech & Digital Disruption in the Financial Sector****.*

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