Insurance and auto subscription services:

Special considerations apply when insurance coverage for your customers is part of the cost of the product you sell.

Liberty Mutual INSURANCE

Auto subscription services need to think about insurance differently, understanding its nuances as an integral part of cost of goods sold. This makes accurate pricing — and an experienced carrier — more important than ever.

How insurance works in auto subscription

When customers subscribe to a service, they get everything they're looking for — including insurance coverage — with a single monthly payment. There's no need for them to find a carrier to secure auto and liability protection, because you provide it as part of the service you sell.

This makes it critical to understand the key drivers of insurance costs. When there's pressure to get to market fast, you might be tempted to select the least expensive quote, add this cost to your subscription price, and move on. But if you miss the mark on understanding how your customers' profile and driving behaviors influence ultimate insurance claims, you could be in for a big surprise at renewal when insurance costs skyrocket. And, if you end up raising subscription prices to cover those costs, you risk losing the customer trust you worked so hard to establish.

Complicated pricing requires an expert touch

To pinpoint insurance costs, you need a carrier with deep data to help predict how many customers are likely to make claims and what those claims are likely to cost. An experienced insurance partner with sophisticated data and cutting-edge analytics can make all the difference, providing the information you need to make sound decisions.

Pinpoint pricing relies on sophisticated data

With the right carrier, today's sophisticated analytics and algorithms give you the opportunity to set accurate insurance prices and determine a proper cost of goods sold.

Determining prices in 2000

1 + 2 + 3 = price

Determining prices in 2020

$1 + 2 + 3 \text{ x } (a^2 + n) + (z^3 \text{ x } 4) =$ laser-sharp price

The more accurate your prices, the healthier your business stays over time.

It's well worth hitting the pause button and taking time to study your insurance needs carefully with a trusted partner.

Subscription services that consider insurance as a critical component as they set pricing for their customers will do themselves a favor that pays off in the short run — and for years to come.

Four areas to watch when insurance is part of your cost of goods sold

The pain points that auto subscription services need to be especially mindful of include:

1. **Driver selection**

   Subscription models attract some drivers with clean records. But if you're not careful, they can also draw customers with poor records. Looking back to find that you signed up too many of the latter can prove especially problematic.

   Pitfall: skipping or skimping on driver screening helps you sign up drivers fast, but also increases your risk of gaining "expensive" customers. At renewal time, this can lead to a premium surge that you might not see coming.

2. **Auto subscription duration**

   Models range from a number of days to a calendar year. Choice and flexibility attract buyers.

   Pitfall: data shows driver behavior and performance vary with subscription length. If you fail to factor in true costs associated with the terms you set, you stand to lose money.

3. **Insurance pricing sophistication**

   The simplicity of flat rate insurance pricing can sound attractive when you are moving fast to get a subscription program deployed.

   Pitfall: not contemplating sophisticated insurance pricing variables to monitor and balance your subscribers' true insurance cost could lead to higher claim volume and inadequate rates.

4. **Consumer packaging**

   Sellers set prices that appeal to a critical mass of customers, keeping in mind that buyers consider both price and type of vehicle.

   Pitfall: in an effort to set the lowest possible price across all markets, you could undercharge for insurance and have adverse selection. Over time, that can lead to sky-high insurance costs, forcing you to change your subscription model and losing credibility with your customer base.

Choose an insurance partner that can protect and empower you

What can you do to avoid these snares? First and foremost, team up with the right carrier. As a global Fortune 100 company with ground-level experience in shared mobility, Liberty Mutual has the elements you need to stay financially stable and poised for growth:

- **Rich pricing data.** Carriers with extensive data points and powerful algorithms can help you accurately assess driver profiles and select risk – key for young operations with thin data.
- **Ability to integrate.** When you can integrate your screening and application systems with your carrier, you can target the right subscriber mix from the start.
- **Experience in your sector.** Look for a leader in auto subscription models, large-scale auto programs, and integrated personal and commercial operations that can help you build a custom program and set appropriate tiers for pricing and packaging.

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