



Background

- What types of risk are insured under a typical auto insurance contract?
- What do *premium* and *loss ratio* mean for an auto insurer?

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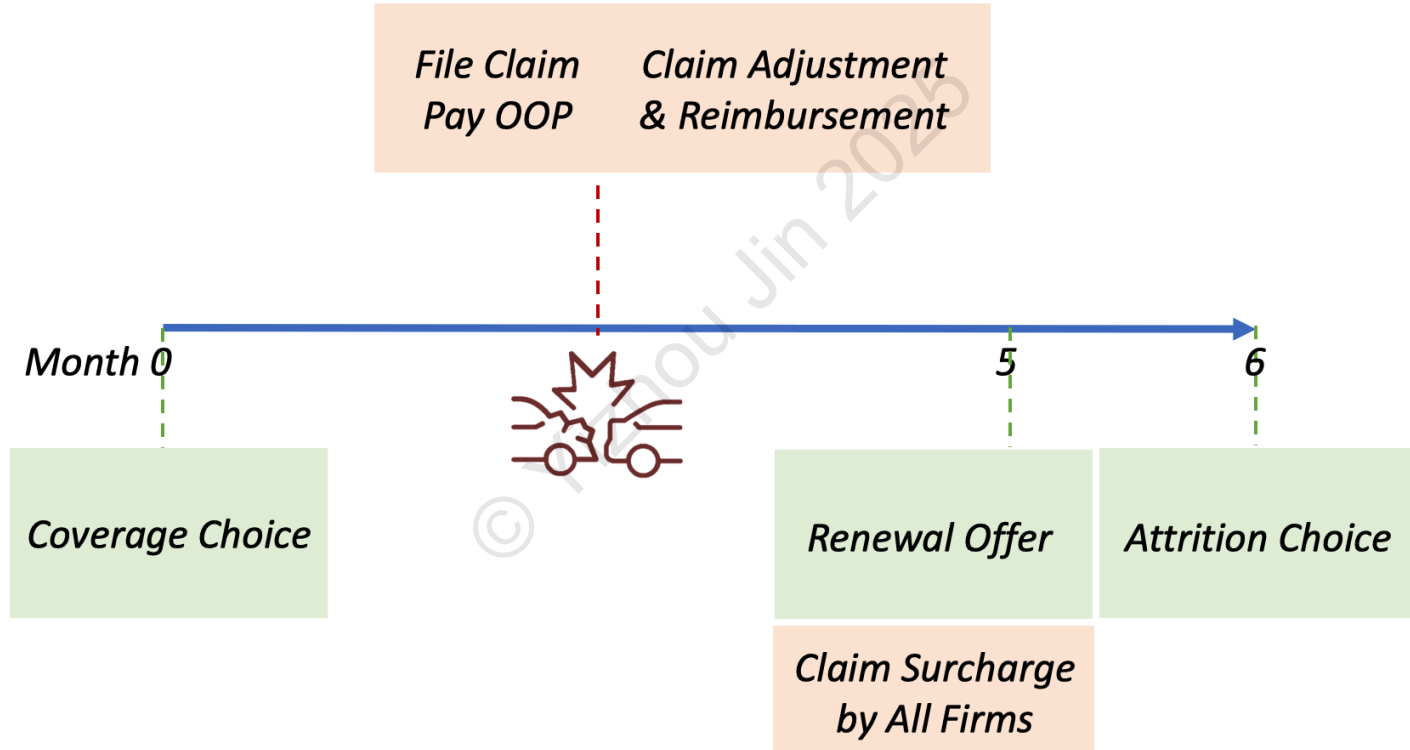
Auto Insurance

What does an auto insurance contract look like?



Auto Insurance

What does an auto insurance contract look like?



Progressive Case

- Is the auto insurance **industry** attractive?
- What are the main sources of **competitive advantage** for Progressive?
- What **corporate strategy** has Progressive pursued?
- What are some of the main **innovations** that Progressive has pursued over the years? Sustaining or disruptive?
 - How does **Snapshot** work?

Auto Insurance Industry

Low industry profitability

- Most important factor: undifferentiated products
 - High rivalry and buyer power as a result
 - Exhibit 4 + p4 "tough competition" and intensified "advertising battles"
- But the industry is \$300bn+ in 2024 (1.3% US GDP) and growing due to climate change

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Competitive Advantage

Cost is consumer-specific: target customers is key to business model!

- A firm with a low-cost VP focuses on lowering prices for safer / less risk-averse drivers (pricing them separately from riskier drivers + handling underwriting/claims efficiently)
 - Progressive has a low-cost VP and targets safer drivers in high-risk segments
 - e.g. Students is a high-risk segment; Progressive offers lower prices for safe student drivers.
 - Since the 1950s, Progressive “used extensive **data** analysis to identify the lowest risk of the highest risk customers” (p2); immediate Response (1990) “reduced the time between an accident and inspection...settle claims faster, reduce the involvement of lawyers” (p2).
 - Exhibits 10a-c: Lower revenue but similar operating income compared to AllState
- A firm with a differentiation VP focuses on trust and service for risky or risk-averse drivers (full-service agents + high coverage)

Progressive: Corp Strategy

- **Horizontal relationships:**
 - Auto + Home: horizontal diversification in 2000, but the cost of corporate monitoring was just too high. Switched to partnership in 2008 (HomeAdvantage).
 - Great example of better-off test passing, but ownership test not passing
 - Better-off test: lots of shared resources and cross-selling potentials
 - Ownership test: if branding and know-how are powerful intangibles, then the sharing of these could justify ownership. But neither proved to be very powerful: consumers ended up being more price-sensitive than differentiation-seeking, esp. given Progressive's target customer segments; know-how is largely captured and limited by regulations and actuarial standards.

Progressive: Corp Strategy

- **Vertical relationships:**
 - Started with contracting relationship with downstream distributors (agents)
 - Even though there were contracting issues, the cost of setting up thousands of physical agencies across the US was just too big, until....
 - The proliferation of internet reduced the cost of entering the distribution business --> forward integration
 - Used longer-term contracts with downstream repair shops to reduce cost
 - Concierge services sounds like differentiation, but primarily benefited Progressive through lowering cost (scale economy, etc.)
 - Did not need to own repair shops – contracting is easy enough in this case

Sustaining Innovations in Underwriting/Claim Processing

1990: Immediate Response

- Improved the existing claims process by speeding up vehicle inspections and increasing customer satisfaction.

1993: Express Quote

- Enhanced the customer shopping experience by offering a service that provided quotes from competitors.

2000: Concierge Service

- Improved the post-accident experience by offering customers full-service repairs and rental cars, increasing convenience and retention.

2008: Name Your Price

- A process innovation that improved the online quoting experience by allowing budget-conscious customers to start with their price first.

Disruptive Innovations in Underwriting

1957: Nonstandard Insurance

- Targeted high-risk drivers ignored by competitors, creating a new market segment for Progressive.

1997: Internet Sales

- As the first insurer to sell policies online, Progressive created a new direct-to-consumer channel, disrupting the traditional agent model.

1998 → 2004 → 2009 → 2011: The Evolution of Usage-Based Insurance (UBI)

- **Autograph (1998):** failed first attempt using costly GPS technology
- **TripSense (2004):** iterative step using a non-GPS computer chip
- **MyRate 2.0 (2009):** testing UBI-data based pricing
- **Snapshot (2011):** National rollout of UBI, allowing Progressive to offer reduce cost by teasing out safer drivers and offering them lower prices.

Snapshot as Disruptive Innovation

What is it?



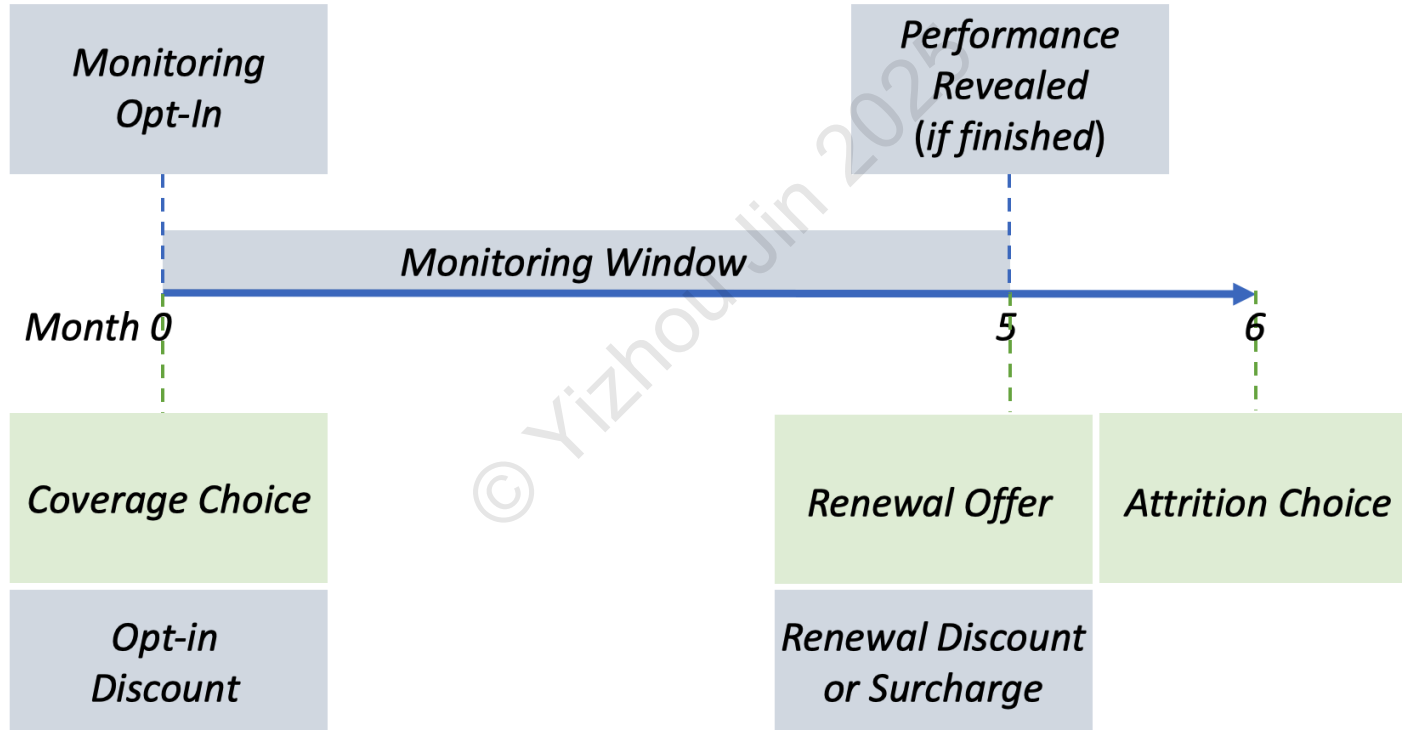
Snapshot as Disruptive Innovation

What is it?



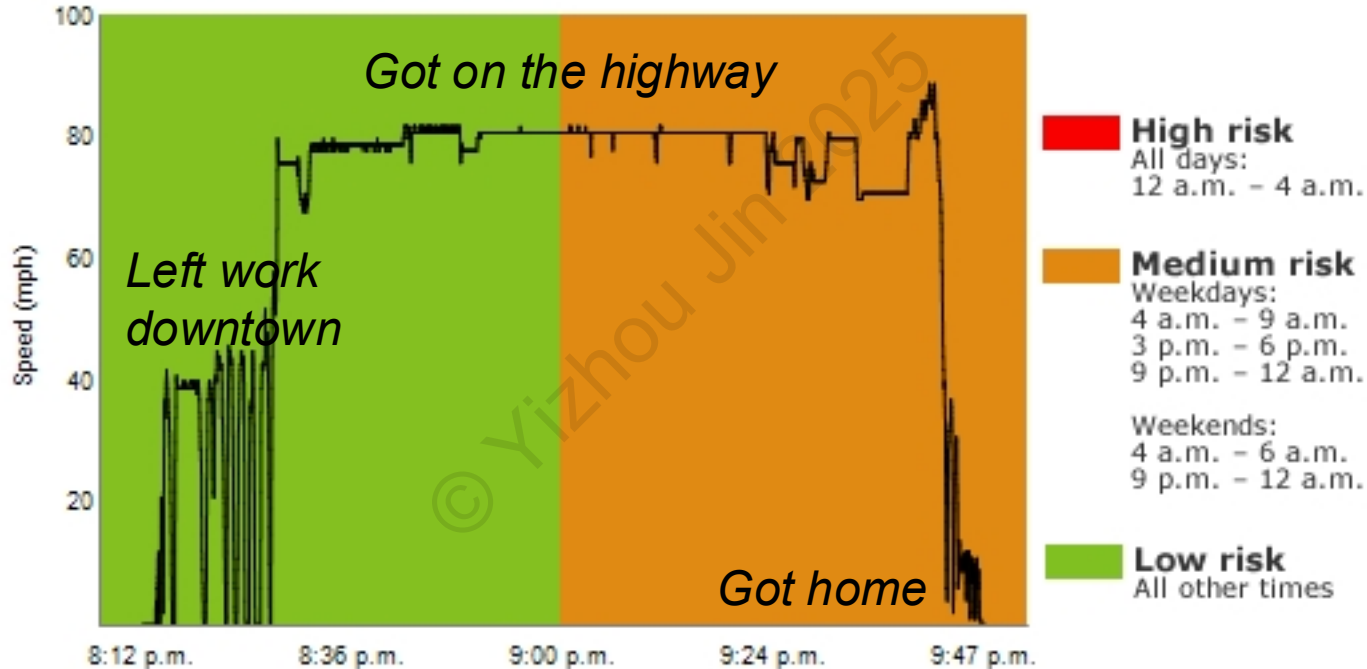
Snapshot as Disruptive Innovation: New Assets

New resources: chips hardware + new data and pricing model



Snapshot as Disruptive Innovation: New Assets

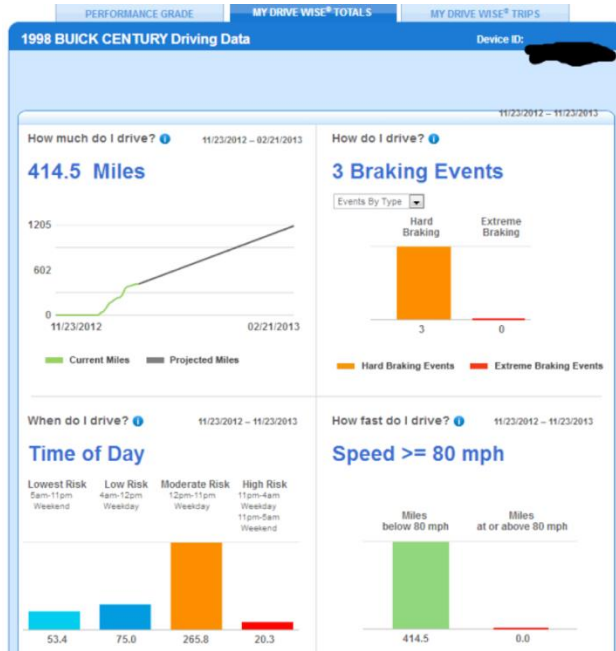
New resources: chips hardware + new data and pricing model



develop algorithms to turn raw sensor data into actual driving behaviors

Snapshot as Disruptive Innovation: New Assets

New resources: chips hardware + new data and pricing model



Common Factors:

0 0 7 4 3 2 5 1
 Miles Driven



Hard Braking

000107

Mileage

Drive less than 25-30 miles per day to be more likely to save.



Speed

Avoid high speeds.



Hours

Skip the late-night trips.



Brake activity

Don't follow the car in front of you too closely and avoid hard stops.

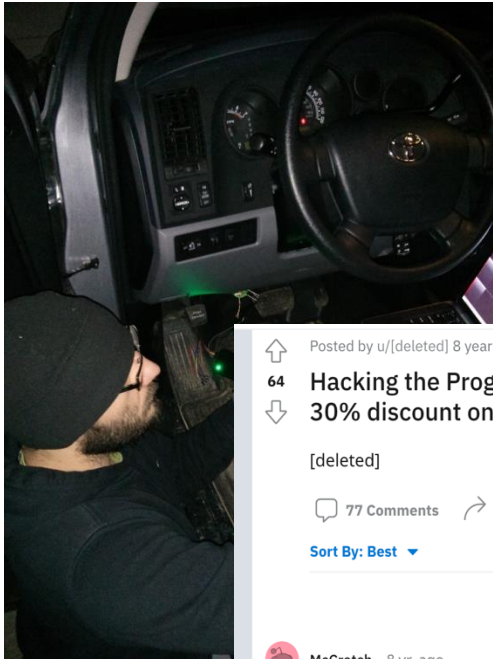
What we use to calculate your Snapshot result

- **Hard braking**—Hard brakes are decreases in speed of seven mph per second or greater. Minimize hard braking to work toward a discount.
- **Amount of time driven**—The number of minutes that your engine is running during a trip. To earn a discount, try to minimize your time behind the wheel by combining trips, carpooling or using public transportation.
- **Time and day**—The number of minutes you spend driving during higher risk hours—the highest risk are between midnight and 4 a.m. on the weekends.
- **Fast starts**—Fast starts are increases in speed of nine mph per second or greater. Also known as “jackrabbit starts” or just “putting the pedal to the metal.” Use a lighter foot on the gas pedal to work toward a discount.

build dashboards and promotional materials to enhance transparency and driver education.

Snapshot as Disruptive Innovation: Uncertainty

Initial adoption of Snapshot was lackluster.



Posted by u/[deleted] 8 years ago

64 Hacking the Progressive Snapshot OBDII device for perpetual 30% discount on insurance

[deleted]

77 Comments Share Save Hide Report 90% Upvoted

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McCrotch · 8 yr. ago

Couldn't progressive just tweak their algorithm to take into account unexplained changes in the odometer reading during the time it's plugged in?

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- Regulators blocked UBI surcharges for risky drivers, which also limited how much discount the firm can give to safe drivers
- Many technical issues remain (e.g. fraud)
- Consumers unwilling to pay privacy/hassle costs without promise of large discount.

Snapshot as Disruptive Innovation: Uncertainty

Hard to understand the promise of new disruptive innovations

Traditional Auto Insurance

Immediate Response
 1990
Express Quotes
 1993
Concierge
 2000
Name Your Price
 2007

1998
Autograph
 2007
TripSense MyRate 2.0
 2012
Snapshot

Device - UBI

?

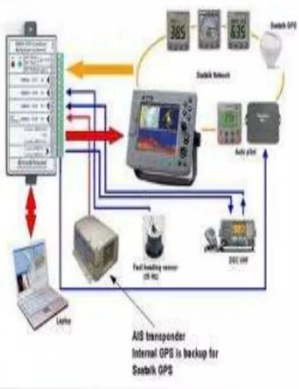
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UBI as Disruptive Innovation: Low Cost

Autograph Market Test:
 Houston (1998)
 Texas State (1999)

PROGRESSIVE
 DRIVE[®] Insurance

COST → \$ 500 per vehicle



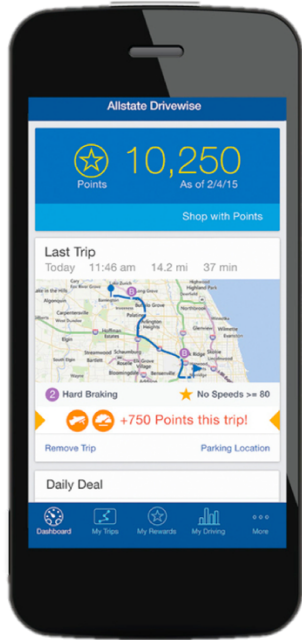
GPS transponder
 Cellular Communication
 Small Computers

• 15

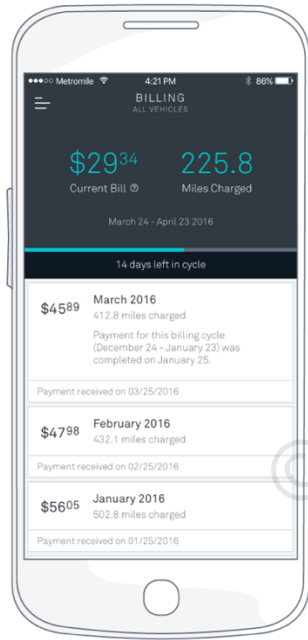
- Autograph did not commercialize well in 1998 (NOT low cost)
- Snapshot did not offer enough cost saving / pricing discount to substantially shift the industry

UBI as Disruptive Innovation: Low Cost

Will newer UBI models finally disruptive the industry?



Allstate Drivewise



Metromile



Vitality - John Hancock Life Insurance

The industry (and many others) has shifted again to smartphone-based tracking to further reduce cost.