THE HIDDDEN IMPACTS OF THE EV CREDIT ON FINANCIAL SERVICES

As futurists working with companies through climate scenario analysis, we are analyzing the second- and third-order impacts of the Inflation Reduction Act on the financial services and insurance industry. Take one component of the IRA as an example: the electric vehicle (EV) credit. This credit, intended to reduce U.S. reliance on carbon-based fuels, brings downstream opportunity and uncertainty. We think through some of these potential consequences below:

Payment Methods: With the rise in EVs, we may also see more demand for machine-to-machine payments. This will mean authorizing machines like EVs to initiate and confirm payments to vendors like charging networks. Consumers will need to trust that these transactions are secure and be able to easily setup and manage authorized machines.

Rewards Partnerships: Financial institutions may want to develop partnerships with charging networks to support M2M payments and negotiate discounted rates or increased bonus points/dollars for members. As the number of these transactions increase with greater EV use, partnerships may offer incentives that encourage consumers to remain loyal to a particular card and reduce churn.

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ESG Investments: With FIs facing greater scrutiny around ESG, the IRA should incentivize a growing portfolio of startups in alternative fuels and domestic expansion of existing players. This provides an opportunity to structure focused investment products for banking clients. There may also be an opportunity to develop specialized loan programs to support the wave of construction projects sparked by IRA tax incentives.

Cost of Claims: EVs are more expensive to repair, especially if an accident damages the battery pack. If overall EV ownership increases, insurance companies will have a higher probability of accidents involving EVs and may experience increased cost of claims. This increases the risk that higher premiums might not fully cover cost of claims without impacting customer churn.

Prohibitive Premiums: Higher insurance rates for EV owners may offset reduced maintenance costs and result in less disposable income. Some customers may opt for insurance minimums or essentially be underinsured given substantial deductibles. The result may be that a vehicle accident creates another source for debt that weighs on households.

Loans: In-home Level 2 chargers can easily run as much as $3,000 for a standard installation, barring needed electrical upgrades. The charging credits in the IRA cannot be taken as rebates, which means the full costs will be out-of-pocket for homeowners. New loan products built around timing of these credits could be created to simplify the process. Partnerships with installation firms could draw additional customers with convenient payment options.

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NAVIGATE FINANCIAL SERVICES UNCERTAINTY WITH CLIMATE SCENARIO ANALYSIS

The EV credit is a single facet of the much larger Inflation Reduction Act, which is bound to have unintended consequences and bring uncertainty to the financial services and insurance industry. Our climate scenario analysis considers your unique organization amid these rapidly changing forces. Together, we can help you mitigate the risks and capitalize on the opportunities in the transition to a greener future. Contact us to learn more about how our future-focused consulting services can benefit your business.

Schedule your 45-Minute Intro Session Today