

AN ALERT FROM THE BDO INSURANCE INDUSTRY PRACTICE

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AUTONOMOUS VEHICLES: WHAT INSURERS NEED TO KNOW

By Imran Makda

Ready or not, autonomous vehicles will soon drive Americans into a new era of transportation.

IHS Markit research [projects](#) more than 33 million autonomous vehicles (AVs) will be sold globally in 2040, while sales are set to increase significantly starting in 2021. The U.S. market is particularly well-poised to adopt autonomous vehicles, with AV production starting as early as next year. In terms of regulation, twenty-one states have enacted legislation related to autonomous vehicles, according to the National Conference of State Legislatures.

While federal regulations and mass consumer adoption will take time to develop, the technology introduces new questions around liability, premium costs, and overall demand for auto insurance. Here's what insurers need to know as the AV market revs its engine.

THE ROAD AHEAD

Consumers won't be tossing out their keys overnight. Two-thirds of Americans are still uncomfortable with the idea of self-driving cars, and only 27 percent would feel comfortable being in one, according to a Reuters and Ipsos [poll](#). But the initial resistance to change will likely soften as ride-hailing services begin to use self-driving cars more frequently.

Later this year, Alphabet's Waymo and Lyft will launch a service in partnership that allows passengers to hail its driverless fleet of cars via an app. Additionally, General Motors is expected to deploy its first fleet of AVs for commercial ride-sharing services in 2019. The transport-as-a-service (TaaS) market is expected to grow considerably over the next decade as competing fleets of AVs enter the market. This market shift will help shape consumer attitudes toward the technology, which will likely spark a sea change in Americans' personal mobility preferences.

Meanwhile, federal regulation is stalled. The American Vision for Safer Transportation Through Advancement of Revolutionary Technologies (AV Start Act), which various



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companies are currently advocating for Congress to pass, would enable developers to test and market AVs before detailed federal safety regulations. Pedestrian, cyclist, law enforcement, and consumer safety groups are urging the Senate to re-work the bill to include stronger safety standards, while automakers and tech companies are pushing for action before the end of May.

International regulatory developments abroad may also compel U.S. lawmakers to move quickly. In early March, the U.K. government—eager to get AVs on the roads by 2021—announced [a three-year regulatory review](#) to address issues the new technology raises, such as liabilities, civil responsibilities, criminal offenses, and safety concerns.

COMPANIES PREPARING FOR THE FUTURE

As the adoption of autonomous vehicle technology continues to evolve, insurers can begin to re-examine the fundamentals of auto insurance in a new light.

Questions around liability are already beginning to surface, as Michigan [recently announced](#) it would collaborate with the U.K. government to further develop its regulations for autonomous vehicles. But how much liability should ride-sharing companies and manufacturers realistically assume? This is one of many questions insurers will be forced to address sooner rather than later. To start, insurance companies can consider the initial concerns outlined below.

TOP CONSIDERATIONS FOR INSURERS

1. Which levels of automated vehicles is my company prepared to insure?
2. If humans have less and less control behind the wheel, how will my company determine premiums? What new or additional risks will need to be insured?
3. Where does my insurance company fit in the new ecosystem of ride-sharing, considering the ultimate buyer of insurance products will change over time?
4. How will my insurance company adjust its underwriting and pricing models as the current model of driver-centric insurance products eventually ceases to exist? What impact will this have on the company's existing distribution channels?
5. If driverless cars could conceivably deprive auto insurers of significant revenues, how can insurers maintain the integrity of their revenue streams?
6. Where will my company focus its resources during the transitional period of change as some urban markets will adopt driverless vehicles quickly, while other markets will be slow to adopt?
7. Are my company's existing systems and technologies equipped to handle the new autonomous vehicle ecosystem? If not, how

much investment is needed to maintain competitiveness and market share in the new data economy?

8. How will the new automated technologies affect the cost of claims including frequency and severity of losses over time?
9. If a self-driving car crashes, who will be found liable for damages? What if the crash is caused by a weather event, or the self-driven car itself?
10. Will there be conformity in regulations across various state lines, and what impact will new regulations have on pricing and claims adjudication?

While more uncertainty exists at this point than absolutes, there is no doubt the transportation industry is set to experience a complete transformation. Insurance companies can't afford to buckle up and play it safe this time. Now is the time to start actively engaging in reshaping the future and testing the conditions for a new way forward.



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