AV Working Group
November 14, 2017

Insurance Perspective

John P. Murphy
Executive Director
Mass Insurance Federation

Tom Karol
General Counsel- Federal
NAMIC
Overview

• Lots of Uncertainty---but that’s OK – we’re in the uncertainty business

• More questions than answers....

• Disruptive change creates opportunity
Purpose of Insurance

• Provide financial protection for policyholders for damages or liability associated with accidents, events or other perils

• Hallmark of insurance is the spreading of risk

• Predictive – relies on past experience to predict future results
How Insurance is Regulated

- State based
  - Each state has its own laws and regulations
  - State tort law
  - Makes uniformity challenging
Mass Auto Insurance Requirements

- Compulsory
- Sold to the owner/operator of the vehicle
- No-fault
- Protects against person injury, death, damage to property
Underwriting and Pricing

- Based on exposure to risk
- Many different factors taken into account
- Must be supported actuarially
- DOI oversight
Innovation and Safety

• We ❤ safety innovations
  ▫ Seat belts
  ▫ Air Bags
  ▫ ABS Brakes
  ▫ Driver assistive technologies

• Safer Vehicles = Fewer Losses/ Fewer Claims
Autonomy in cars could significantly impact the auto line for insurers

According to 2016 SNL reports, auto insurance is by far the largest single line of property casualty insurance.
AVs Promise Fewer Accidents

• Autonomy replacing human error is predicted to reduce crashes, injuries, damage and fatalities

• KPMG: over the next 25 years, 80% fewer accidents
Still, Accidents Will Happen

Pivotal Question Remains:

Who or What will be responsible for their consequences???
Driver Control Remains Key Focus

- Current reparations system should continue to function as long as driver exercises or has the responsibility to exercise ANY control over vehicle

- Path to a completely autonomous vehicle will be incremental and evolutionary
As Cars Become More Fully Automated

• Focus shifts from human driver to automated driving system

• Who’s Responsible?
  ▫ Car Manufacturers (OEMs)
  ▫ Component Part Manufacturers/Suppliers
  ▫ Software/Hardware Designers
  ▫ Dealers/Servicers
  ▫ Ride Service Companies/Lessors
  ▫ Government

• Allocating blame
When Fully Autonomous

• Does the owner bear any residual liability
  ▫ Was the car maintained?
  ▫ Software updates current?
  ▫ Assumption of the risk?
Questions and Issues Going Forward

• How to Insure?
  ▫ Product Liability?
  ▫ New Commercial Auto Policy?
  ▫ Self-insurance?

• Who to Insure?
  ▫ Do individuals need insurance if they aren’t driving?
  ▫ Car Share Companies/Car Providers
  ▫ Manufacturers?
  ▫ Car Sellers?
Federal Activity - Safety

• NHTSA sets safety standards

• NHTSA reiterated the *exclusive role* of the Federal Government in providing a uniform U.S. safety and certification regime.

• Several bills in Congress to prohibit states and municipalities from regulating the “design, construction, mechanical systems, software systems or communication systems” of highly automated vehicles.
Legislative and Regulatory Policy

- Flexibility – allow products will evolve to meet changing market needs

- Public Policy rarely ahead of the technology curve and must be careful not to stifle innovation

- Oversight and Guidance not strictures
Legislative and Regulatory Policy

- The federal government (NHSTA) should set the safety requirements for AVs

- States should retain authority for registration, licensing and operation of AVs, and auto insurance
Public Policy Questions

- Will there be enough capital/risk spreading if insurance becomes product liability based?
- Governmental Liability?
- Cybersecurity Issues?
- Data & Data Recorders—ownership and access?
Legislative and Regulatory Policy

• Insurers must have access to AV data and information
  ▫ For Underwriting
  ▫ For Rate Approval by DOI
  ▫ Post-Accident

• Access to and understanding of AI and Machine Learning
Hope vs. Experience

- AVs promise safety, fewer fatalities and other benefits, but there are no fully autonomous vehicles today.
- Integration of full AVs will take time.
- Insurance will be looked to to deal with known knowns, known unknowns and unknown unknowns.
Questions?