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EMERGING RISKS ON THE ROAD AHEAD - MOTOR INSURANCE FOR DRIVERLESS CARS

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For some time already, new generations of cars have become equipped with an ever expanding array of automated technologies. Today's premium (and some mid-priced) cars already come fitted with features such as automated lane-keeping, automated braking and automated parallel parking. Provided that regulators will ultimately allow it, few today doubt that fully automated and driverless cars will become commonplace a few decades ahead. For insurers, this may be good news, bad news or both.

On the bright side, it may be expected that the number of accidents will be greatly reduced if driverless cars become the norm. Eliminating the human factor, which according to studies cause 90 % of road accidents, would of course reduce claims costs for motor insurers. Diligent underwriting, aided by built-in "black box" components, should thus be able to compensate for the lowered premiums that may be expected from decreased risk.

However, it is unlikely that all motor insurers will be able to participate on the ride. Lowered claims costs leading to lowered premiums means that the motor insurance market as a whole will shrink. Industry experts estimate that the size of the personal motor insurance market may be less than half of its current size within three decades. With lower written premium to go around, some insurers may have to phase out, sell or consolidate their motor business. In the market turmoil that can be expected, it will be important for insurers not to lose sight of rational and realistic pricing, as intensified competition in a shrinking market may at first lead insurers towards attempts of maintaining market shares and covering operational costs.

Of course, it cannot be expected that accidents and claims will be done away with altogether – and the accidents that will occur may give rise to more complex and costly claims as cars become more automated. Troubleshooting, repair and replacement costs following accidents will likely become more expensive as advanced technology, hardware and software will also require fixing alongside mechanical damage after accidents. The emergence of driverless cars may therefore give rise to a shift from high-frequency claims, to mid-to-high *severity* claims.

However, the largest disruption for auto insurers upon a future adoption of driverless cars may very well be the applicable liability rules. In gradually doing away with the human factor, a shift from the realm of personal and general liability to commercial and product liability lines may be anticipated for insurers covering motor risks.

At present, it is difficult to foresee whether liability will be sought from auto manufacturers, software developers, service companies, or a combination of the above. Furthermore, a number of grey areas for coverage and liability may emerge. To the extent that drivers will have the option to turn off the automated technologies and drive cars themselves, the proportion of manual driving may, somewhat ironically, become an important dimension for the coverage of motor risks. In addition, external factors such as poor road conditions and severe weather may give rise to further grey areas as to the allocation of liability. As such, combinations of personal liability and product liability may still be applied alongside each other in separate insurance products.

It is therefore also difficult to foresee who the purchasers of tomorrow's motor insurance products will be. This could go a number of ways. For instance, auto manufacturers and software developers may purchase product liability insurance to cover compulsory third party risks for entire fleets of cars, and then pass on premium costs on the price of individual cars, whereas car owners, whoever they may be in the future, may still purchase property damage protection. But it cannot be ruled out that the development may go the opposite way, with manufacturers and software developers seeking to convince legislators to exclude product liability as far as possible, citing reasons of ensuring the continued advancement of technology.

As a result, insurance industry stakeholders should seek to influence the legislative process so as to adapt liability regimes which adequately protect the interests of both individuals and corporations, whilst at the same time ensuring that the adoption of new technology is not hindered. As insurers begin to navigate the future of driverless cars, only one thing remains certain – there will still be the risks, and therefore, there will still be motor insurance.