International Underwriting Association (IUA) – Written evidence (AUV0057)

The International Underwriting Association of London (IUA) is the focal representative and market organisation for non-Lloyd’s international and wholesale insurance and reinsurance companies operating in the London Market. The IUA exists to promote and enhance the business environment for international insurance and reinsurance companies operating in or through London.

Response to questions posed
Rather than answer each question, we have focused on the questions that directly impact the insurance industry and fall within our area of work.

Question 3: How much is known about the potential impact of deploying autonomous vehicles in different sectors?

3.1 There are likely to be significant implications to the insurance sector following the deployment of autonomous vehicles (AVs), particularly in respect of the first and third party liability regime. However, the motor, cyber liability and product liability markets hold substantial capacity and would therefore be in a strong position to meet any increased demand for autonomous vehicle insurance cover.

3.2 One concern for the insurance industry is the potential for aggregated losses to occur. This relates to the platooning aspect of AVs in which a failure in the Autonomous Vehicle Technology (AVT) or the use of the AVT could result in multiple incidents occurring.

3.3 Whilst the public opinion is that in the long run premiums will be lower for consumers with safer AVs, as may well be the case, it is worth noting that the cost of the vehicle and the technology used is substantial and therefore the average costs of claims for AVs will probably be higher than that of vehicles currently in use.

Question 4: How much is known about public attitudes to autonomous vehicles?

4.1 The key aspect for consideration, in respect of public attitudes, is the need for autonomous vehicles to be classified and therefore for consumers to understand the capabilities and limitations of the technology they are using. The possibility for misunderstanding and perhaps overestimating the abilities of the AV, in a developmental world whereby control is still deemed to be in the hands of the driver, could result in a number of incidents occurring. This is specifically prevalent in ensuring the difference between Advanced Driver Assistance Systems (ADAS) and AVs is clearly understood. If manufacturers and other industry representatives such as insurance companies engage with consumers in order to educate them on the technology in use these risks can be mitigated. However, clearly, government needs to play a leading role in this regard.
4.2 It is anticipated that the majority of consumers would today, with their current knowledge, not purchase a driverless car. But, it should be considered that autonomous features exist in a wide number of cars at present and that consumers have become comfortable with technology, such as Anti-lock BS, of which they feel they have an understanding of.

4.3 From an insurance perspective there may be a need for insurers to monitor AVs in a ‘black box’ style manner in order to determine liability should an incident occur. AV drivers should be given the option to provide telemetry data to insurers in order for them to rate the risk of the individual driving more accurately. It would also allow faults in technology to be identified at an earlier stage and ensure that fraudulent claims whereby consumers could blame AVT are countered. In a developing data environment where personal information is held on individuals by many different types of firm, it is hoped that consumers will be comfortable with this fact in view of the potential benefits of safer AVs, such as lower premiums. Furthermore, this concept is not completely new to consumers given the prevalence of telematics within current insurance policies, particularly those for young drivers.

**Question 5: What is the scale of the market opportunity for autonomous vehicles?**

5.1 The insurance market is highly competitive with significant levels of capacity. These levels of capacity will ensure that market opportunities exist in relation to AVs in terms of the ability for insurance products to be provided.

5.2 However, there are several issues that need to be considered that might impact the insurance market opportuning following the introduction of AVs. For example, AVs are far more complex and will require greater expense to maintain, monitor, update and repair. Further, data is obviously very limited in respect of large loss injuries involving AVs. Arguments about severity and frequency will not be resolved for some time. As with any emerging risk, this impacts how products are priced.

5.3 It is likely that catastrophe exposure pricing will rise in line with claims inflation until sufficient data is gathered to suggest there is an actual change in exposure. Products liability costs would increase if a higher compulsory limit of liability is applied (than is currently normally provided), claims handling could become costlier and protracted, particularly if the traditional policy triggers and defences, such as negligence and the 'state of the art defence' are not in place. Given that current profit margins are relatively low it would seem likely that, if the initial costs of providing AV cover were significantly higher, in the short term this may be passed on to insurance buyers.

**Question 7: Is the Government doing enough to fund research and development on autonomous vehicles, and to stimulate others to do so? Should it be doing more to coordinate UK actions?**

7.1 Whilst it is clearly vital that a robust regulatory framework is developed, our members have expressed concerns in respect of the rolling programme of regulatory review in that the adoption of new AV systems may be hindered as it could be
considered limiting. It should also be noted, in reference to the programme, that the AV technologies extend beyond motorway assist, remote control parking and platooning.

7.2 Clearly the pace of technological advancement requires a flexible and responsive regulatory review in order to ensure that the UK is a world leader in regards to the development and use of driverless cars from both a public and corporate perspective. Therefore, in parallel with the regulatory framework, there needs to be a similarly robust research and development programme in place to ensure that the UK does not fall behind other global players in bringing AVs to the roads. We think more can be done from this perspective.

**Question 8: How effective are Innovate UK and the CCAV in this area?**

8.1 We have responded to the CCAV’s consultation entitled Pathway to Driverless Cars: Proposals to support advanced driver assistance systems and automated vehicle technologies. The consultation addresses many of the key questions being considered by the insurance market. We are looking forward to seeing the results of the consultation and the continued work of CCAV in this area.

**Question 9: Is the environment for small and medium-sized enterprises (SMEs) working in this sector sufficiently enabling?**

9.1 It is important to consider that SMEs are the most vulnerable types of business to large scale change and to give sufficient consideration to this fact when assessing future statutory / regulatory / policy proposals.

**Question 11: How might a move from current levels of highly automated vehicles to their extensive deployment best be managed? What do you see as the key milestones?**

11.1 The key milestone for the insurance industry will be deemed to be the finalisation of a clear insurance liability regime in respect of AVs. A regime of this kind that clearly depicts how liability is apportioned and determines how claimants are indemnified is vital. We would urge government to continue its work with the industry to progress this.

**Question 12: Does the Government have an effective approach on data and cybersecurity in this sector?**

12.1 At this early stage it is difficult to be certain as to the government’s approach on cyber security in relation to driverless cars. From an insurance perspective the level of security of manufacturers' systems would be taken into consideration when apportioning liability to a loss resulting from a hacking incident. Furthermore, it is possible that such incidents could be covered by a cyber-insurance product attaching to the motor policy - this would obviously be factored into pricing. However, the need to clarify where liability resides with regards to hacked vehicles remains, this is
the same issue that is being discussed within the aviation insurance market in respect of UAVs (drones).

**Question 13: Are further revisions needed to insurance, regulation and legislation in the UK to create an enabling environment for autonomous vehicles?**

13.1 Our members have suggested that the Government’s proposal to amend road vehicle compulsory insurance primary legislation (in Part 6 of the Road Traffic Act 1988) to include product liability for automated vehicles, is the simplest way of accommodating AVs within the current insurance framework. This would incur the least amount of changes to current practices whilst ensuring that victims of collisions are indemnified without unnecessary delays.

13.2 This is not, however, the universal opinion of our members. Some have expressed the contrary opinion that this is not a suitable amendment, stating that the right of motor insurers to subrogate against product manufacturers should remain. It was also suggested that consideration should be given to whether or not there should be minimum products liability limits that should be purchased by manufacturers. If this amendment was to be made, the limits of indemnity for products liability should ideally mirror those limits under the motor policy.

13.3 Overall, our members have proposed that the following situations should be avoided:

- an injured party would receive more or less compensation in an accident depending on whether the claim was classed as a product or motor risk.
- any areas of uncertainty whereby forum/class shopping occurs for higher possible rewards.
- where the motor insurer or the MIB, whilst not liable, picks up the exposure value of an award over and above the limit of liability provided under the product liability policy.

13.4 Members recommend further considerations within the proposal as follows:

- many current motor insurers, whilst providing some public liability cover (taxi, households), may not be geared up for writing, understanding or managing products exposure, especially complex risks such as Vehicle Crucial Parts and Cyber.
- as things stand, the proposal would require substantial changes to regulatory licencing requirements and might have an effect on solvency calculations. If the size of motor claims is duplicated in the product liability arena and an increased use of Periodic Payment Orders (PPOs) occurs, then solvency issues may then again ensue.
- these exposures could be picked up as an extension to existing product liability policies already placed with the market. All Motor Critical Parts, for AV or otherwise should have compulsory insurance requirements with minimum limits of liability.
- the government should consider the possibility of a firm, specifically an AVT manufacturer, entering voluntary liquidation in the event of a major claim and
therefore how those aggregated claims may be dealt with and any impact on the fund for uninsured losses (MiB).

13.5 In reference to consideration of other insurance options in respect of driverless cars:

In general, we support the proposal that there should be required products liability cover for AVs. Whilst this might be achieved by extending the current motor insurance requirements there are other potential options. If provided as part of the motor cover there needs to be a clear right of subrogation, possibly enshrined in statute, allowing motor insurers to recover product liability losses from the negligent vehicle manufacturers. It is also possible that a process could be put in place whereby the motor insurer would deal with the product liability claim in the first instance to ensure that the injured parties are compensated immediately before liaising with the vehicle manufacturer on their potential liability (as being responsible for the malfunction that gave rise to the claim). Subrogation rights would also need to be established in this scenario.

Question 18: What are the implications of exit from the European Union for research and development and the autonomous vehicle industry in the UK? Are specific actions from the Government needed to support or protect the autonomous vehicles sector in the short term or after the terms of Brexit have been negotiated?

18.1 We would suggest that the key action for the government from an insurance perspective is to ensure that the current regulatory certainty applicable to UK motorists is maintained in light of ‘Brexit’. Specifically, the Motor Insurance Directive (MID) should be replicated or maintained with a clear and comparable safety framework that includes parameters for AVs.

26 October 2016