



When the Driver is a Computer:
**ADDRESSING AUTO
INSURANCE ISSUES
SURROUNDING
AUTONOMOUS
VEHICLES**

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Driverless cars and autonomous vehicles are a common sight in futuristic science fiction movies, but now they're becoming a part of present-day reality. In fact, the physical act of driving a car may soon become a thing of the past.

The Insurance Institute for Highway Safety estimates that there will be 2.5 million self-driving vehicles on U.S. roads by 2025, and 4.5 million by 2030. This number jumps to 23 million by 2035 according to a study conducted by Accenture as reported by the Harvard Business Review.

That's close to 10 percent of the nearly 250 million total cars and trucks registered in the U.S. Many of today's high-end cars and even some mid-grade ones already have driverless vehicle technology options.

The increasing presence of all these autonomous vehicles on U.S. roads gives rise to new and unique issues for the insurance industry. Why the demand for driverless cars in the first place? The major reasons are safety, efficiency, and convenience.

The U.S. Dept. of Transportation National Highway Traffic Safety

Administration attributes 94 percent of auto accidents to human error. Motor vehicle crashes in the U.S. caused more than 37,000 deaths in 2016, or 1.18 deaths per 100 million vehicle miles traveled. It stands to reason that when you remove human error as a factor, the roads naturally become much safer.

Most autonomous vehicles of the near future will be owned by auto manufacturers and technology companies, not individuals. Fleet owners can utilize these assets on a 24-hour basis, amortizing the cost of ownership. Thus, individual consumers may

no longer need to own a car themselves to get where they're going. Transportation and logistics companies will also integrate autonomous vehicles at a rapid pace for the same reasons.

Current vehicle regulations bar self-driving cars without equipment such as steering wheels, pedals, and mirrors. However, the current U.S. administration is in the process of revising these rules. In addition, vehicle manufacturers are seeking exemptions from such rules as they now exist. According to the *Insurance Journal*, General Motors Co. recently filed a petition seeking an exemption from the requirement for vehicles to have steering wheels and other human controls for a ride-sharing fleet it wishes to deploy as soon as 2019.

RISKS AND RISKY BEHAVIORS PERSIST EVEN WITH DRIVERLESS CARS

When you have a moment, Google “sleeping Tesla drivers” and check out some of the search results that pop up. They'll include several news stories and even YouTube videos of drivers asleep at the wheel as their autopilot-driven vehicles propel them down the road. It's a shocking sight, and it's hard to believe that this could be a safer situation than a fully awake driver who's completely in command of their vehicle. The fact is that when you remove human control you don't always remove human error, and you don't necessarily guarantee safety.

In 2017, the National Transportation and Safety Board faulted Tesla autopilot technology in a May 2016 car crash that killed the autonomous car's driver. The NTSB said the “probable cause” of the accident was “the truck driver's failure to yield the right of way and a car driver's inattention due to over-reliance (on autopilot technology).” Tesla stated in a blog post about the incident that the driver ignored repeated warnings to keep his hands on the steering wheel.

In 2018, a Tesla vehicle fatally struck a pedestrian as she was crossing the street. Video from inside the car at the time of the incident showed the driver was distracted and not paying attention to the road when it occurred.

Based on these and many other incidents involving autonomous vehicles, we can conclude that insurance will continue to play a major role in the automotive and transportation industries. The question is, “How?”

IMPLICATIONS FOR INSURERS

Nearly half of insurers consider autonomous vehicles to be an important emerging issue according to a 2016 survey by the International Organization for Standardization. However, most respondents had only engaged in informal dis-

cussions on the topic, if they had discussed it at all. This needs to change because the number of individual auto policy owners is poised to fall dramatically in the coming years as the number and severity of accidents and insurance claims drop due to autonomous vehicle technology.

One of the most prominent industry leaders to recognize this fact is billionaire investor Warren Buffett whose company, Berkshire Hathaway, owns insurance titan Geico. He said, “If the day comes when a significant portion of the cars on the road are autonomous, it will hurt Geico's business very significantly.”

Of primary concern is where blame will be apportioned when auto crashes occur involving autonomous vehicles. Typically, blame is shared among drivers vis-à-vis comparative fault. But when some of the blame fell on the autopilot systems involved in the 2017 and 2018 fatal Tesla crashes, it created an uncomfortable level of ambiguity as to how to proceed for insurance purposes. Product liability may become a greater factor in litigation arising from autonomous vehicle crashes. But such litigation is arduous and time-consuming and can also produce cascading claims.

Some technology companies and auto manufacturers have stated that they'll assume liability for their autonomous vehicles' level of responsibility in crashes. Google, Volvo, and Mercedes-Benz already accept such liability, and Tesla is extending an insurance program to those who've purchased their vehicles. However, it may not always be up to the private businesses as to whether they accept responsibility. Michigan recently passed a law which specifies that automakers must assume liability when the driverless cars they manufacture are at fault and must also insure every autonomous vehicle in their fleet.

One possibility could be for insurers to offer hybrid product liability and auto insurance. This could reduce the length and cost of litigation while covering both the driver and the manufacturer at the same time. But, the overall compatibility of such hybrid coverages with current laws remains unknown. State legislatures have so far done little to address the implications of autonomous vehicles in existing auto insurance laws. Another option is for insurers to revise or expand no-fault insurance options and comprehensive insurance to address issues pertaining to autonomous vehicles.

WHAT INSURERS CAN DO NOW

There are three main areas with significant profit potential for insurers as autonomous vehicles become more commonplace.

These areas will help insurers offset revenue losses from decreasing individual policies and premiums. They are:

- **Cybersecurity** – The increase in reliance of motor vehicles in internet-connected technology also increases potential vulnerability to cyberattacks.
- **Product liability** – When crashes occur as a result of faulty technology products and not human error or in addition to human error.
- **Infrastructure** – Cloud servers and other technology infrastructure that enable vehicle autonomy must be safeguarded against any potential liabilities.

To address these areas, insurers should develop expertise in internet-of-things technology, big data, and analytics. This will enable them to understand data generated by autonomous vehicles which will give them an advantage over competitors who lack these capabilities. They should also develop actuarial and modeling techniques that specifically address features of autonomous vehicle technology. This will help them adjust their business models as the technology becomes more commonplace. Finally, they should network to develop new and deeper relationships with automakers as well as communication technology companies and local and state governments. One other thing to note is that decreasing premiums may ultimately make mergers and acquisitions more likely as larger carriers purchase smaller ones to maintain revenue.

Driverless cars and autonomous vehicles are already becoming a reality, and the insurance industry needs to keep up with technology. Understanding the issues surrounding such technology and making strategic adjustments to your business model now will give you an advantage over your competition in the not-too-distant future.



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