

*August 2017***IN THIS ISSUE**

In this joint issue, David Rosenberg discusses the advent of autonomous self-driving vehicles and both their short and long term impact to the insurance industry.

The Rise of Autonomous Vehicle Technology Means that Insurance Companies Need to Become Just as Innovative in their Product Development

**ABOUT THE AUTHOR**

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In the fall of 1908, Ford began producing a vehicle known as the Model T. This was the first mass produced affordable automobile which allowed the average American, and ultimately the average citizen around the world, to own and operate self-powered vehicles. Since that time, car ownership has been part of the American dream. The car has become the image of freedom, excitement and exploration. It appears now, with the advent of autonomous self-driving vehicles, that is all in the process of changing. Now, many people do not look at car ownership as excitement and freedom, but as a necessity. After all, who is excited about being stuck in rush hour gridlock? Freedom now may be the possibility of not having the burden and expense of owning a car, but still having the ability to easily go where you want to go and when you want to go.

Fast forward to February 10, 2017, when Ford announced another innovation in transportation. On that date, it was announced that Ford committed to invest \$1 billion over five years in Argo AI, an artificial intelligence company established to combine computer science, robotics and artificial intelligence for use in self-driving vehicles. Argo AI is working with Ford's Autonomous Vehicle Development Team to create the systems necessary for a fully autonomous vehicle that Ford plans to introduce in 2021. Ford is not alone. Currently, Uber is developing, testing and operating driverless vehicles that can be seen every day in the streets of Pittsburgh.

These vehicles are transporting passengers already, although two Uber engineers are sitting in the driver's seat and front passenger seat to assure safety and record data. These vehicles are manufactured by Volvo who also is involved in creating autonomous technology. Many other manufacturers including Tesla and Mercedes already have autonomous features in their vehicles.

With the introduction of autonomous vehicles into society, there is going to be both a short-term and long-term impact to the insurance industry. For the short term, there will be some fully autonomous vehicles sharing the road with driver-operated vehicles and some autonomous vehicles in which the driver is operating but relying upon the technology in the vehicle to take over some of the driving functions. During this period, there will continue to be automobile accidents caused by human error, product defects, natural conditions and road conditions. While current auto insurance products and underwriting principles will continue to apply, some of the level of risks certainly will change. Additionally, the insurance industry will need to introduce new products to address the changes in technology and industry. We already are seeing many companies introduce new products to address ride sharing.

Many experts in the field believe there will be significant changes in automobile ownership and use over the next decade or

two. It is being predicted that 20 years from now combustion engine vehicles will be obsolete as will private ownership of cars, except as a hobby or in rural areas. Ride sharing concepts utilizing autonomous electric vehicles will replace individual automobile ownership. This will reduce costs for individuals significantly. There will be no more need to lease or pay for a car, buy traditional automobile insurance, pay for parking, pay for maintenance or pay for gasoline. Instead, it is anticipated that individuals will utilize different forms of self-driving vehicles owned by fleet operators. They will arrange for these vehicles to pick them up where and when they want. People will only pay for the use of this transportation. Vehicles will almost never be parked in garages and will be in use constantly. An electric motor has many fewer moving parts than a combustion engine. It is predicted that these vehicles will have a much longer life and be able to go 500,000 miles or more before being replaced. Currently most vehicles are not in operation 95% of the time. So, if individuals will no longer be owning cars they will no longer need automobile insurance. Further, the use of all autonomous vehicles that will be able to communicate with each other will substantially eliminate accidents. There will be no more distracted drivers. There will be no more inebriated drivers. There should be no more road rage. There should be no more erratic drivers and no more teen drivers on learner's permits. Without traditional red car, blue car negligence, government regulations in conjunction with the insurance industry will have to create

new methods to protect passengers of autonomous vehicles in the event of personal injury or property damage. Additionally, it appears that manufacturers of these vehicles will accept responsibility for accidents under products liability principles. Volvo, Google and Mercedes Benz have already pledged to accept liability if their autonomous vehicles cause an accident. So, perhaps the insurance industry will be working with manufacturers and fleet owners to create different types of insurance products that will be built into and passed along to consumers through the cost of use of the autonomous vehicles. Another option may be a combination of the legislation and insurance products to create funds, similar to what we see with workers' compensation.

CONCLUSION

Over the next decade or two, technology is going to bring advances in transportation that will come upon us quickly. It doesn't seem like it was long ago when a car phone was a rich person's toy that allowed people to communicate while driving. We know that it has evolved into technology used by people around the world to access information as well as communication. Expect the same types of changes in transportation. When that occurs, we will also have to expect similar changes in the insurance industry and the products in the insurance industry, the products that they sell, and the protections that they provide to the public.

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