



Ohio House Transportation and Public Safety Committee

David Braun, Vice President, P&C Operations

Autonomous and Connected Vehicles Study Insurance Testimony

Thank you, Chairman Green, Vice Chairman Patton, Ranking Member Sheehy, and members of the House Transportation and Public Safety Committee for your study on autonomous and connected vehicles.

I'm pleased to appear here today on behalf of Nationwide to provide insights related to the future impact of autonomous and connected vehicles on insurance. Nationwide is one of the largest and strongest diversified insurance and financial services organizations in the U.S. and we're proud to call Ohio home. We're especially proud to provide more than 14,800 jobs in the state and 1.25 million policies to Ohio residents.

A LOOK INTO THE CRYSTAL BALL

We have an obligation to our members to meet the challenges of this brave new world, to provide the protection that our members and motorists have come to trust.

As we consider the future, we believe fully autonomous vehicles will be widely available by 2025. This will ignite a shift in consumer behavior that will drive the rise of the sharing economy. We project that vehicles per household will decrease from 1.9 today to 1.1 by 2050. Fewer personally owned vehicles coupled with fewer accidents will result in a dramatic reduction in total automobile insurance premiums.

Nationwide is prepared to address the industry-wide impact that emerging vehicle technology will create and we see three primary areas of opportunity across the industry.

First, we anticipate a natural industry movement toward consolidation of insurers. Companies that are prepared for this market trend will be poised for acquisitions. Companies that lag will likely be looking for partners that allow them to remain competitive. At Nationwide, we have enhanced our technology platforms so that we will be well-positioned to meet future member needs.

Second, we recognize that emerging technologies coupled with shifts in consumer-mobility behaviors will create new product opportunities. Consumers will continue to require protection as owners of autonomous vehicles and passengers in these vehicles. We anticipate that consumer demand for usage-based insurance products offered through digital means will increase.

As a result, we are evolving our usage-based insurance product and will introduce a mileage-based program. We are also exploring the viability of products to address the sharing economy risks and mobility services needs of individuals and businesses. Other products under consideration include cyber and product liability insurance, as connected vehicles and manufacturer's liability will create greater demand for these two types of insurance coverage.

Finally, business-to-business partnerships present a significant area of opportunity to fully embrace the impact of emerging vehicle technology in the market. We have identified vehicle manufacturers and other mobility services providers that we believe will serve as the best partners to support our strategic direction. In addition, our venture capital team is investing in new, innovative companies that will help us deliver new, best-in-class products and services, as demonstrated by our recent investment in Nexar, an Israeli company that is on a mission to eliminate vehicle crashes.

SAFETY

Safety has always been a top priority for Nationwide. We strongly support efforts to make our roads safer by continuing intelligent vehicle research; developing technology to reduce vehicle crashes and injuries; and, heightening public awareness about safety benefits.

It will take time for fully autonomous vehicles to become the primary mode of transportation on Ohio's roadways. With 260 million vehicles on US roads today and only 16 million new vehicles produced each year, there will be a critical transition period where both driver operated and fully autonomous vehicles will occupy the roadways. This transition period creates a wide range of safety implications for our transportation system.

We believe there are two major technological advances that will significantly impact the insurance industry: Advanced Driver Assistance Systems (ADAS) and fully autonomous vehicles.

ADAS is advancing at a fast pace. The technology is already in cars on the road today, and it is having an impact. Statistics show that nearly 47% of all vehicle-to-vehicle crashes are the result of rear-end collisions. By incorporating just two ADAS capabilities, forward collision warning and automatic emergency braking, the frequency and severity of rear-end collisions are expected to be reduced dramatically.

In the near term, ADAS will drive down losses and average premiums. Over the long term, autonomous vehicles will drive down the frequency of accidents even further. However, the same trend does not hold true for severity. It is anticipated that physical damage loss severity will increase given the costs to repair and replace the new technology. And, because new technology includes proprietary restrictions, there may be a limited number of repair facilities with the expertise to fix autonomous vehicles and a significant reduction in the availability of affordable aftermarket parts that are commonly used in repairs today. The bottom-line is the large reduction in frequency will dwarf the increase in severity.

LIABILITY

While autonomous vehicles will be safer than human drivers, there will still be crashes. Crashes caused by autonomous vehicles will provide greater opportunity to argue comparative fault or

contributory negligence, and allow for the apportionment of responsibility for the loss among drivers and manufacturers. Current policies still retain the right to subrogate against other legally liable third parties, including negligent vehicle manufacturers.

Under current product liability law, there are several potential causes of action against the manufacturers of autonomous vehicles including manufacturing defects, design defects, failure to warn, misrepresentation, and breach of warranty. If an autonomous vehicle malfunctions and causes a crash, the list of potentially liable parties includes the vehicle manufacturer, the manufacturer of a component used in the autonomous system, and the software company or engineer who programmed the code used to operate the autonomous system, as well as anyone who serviced the vehicle or the vehicle owners themselves, if modifications were made. Even when manufacturers exercise all possible care to build safe products, the product may still contain unsafe defects. If that defect causes injury to the user of the product, the manufacturer and all actors in the supply chain, such as wholesalers and retailers, can be held “strictly” liable for the resulting damages.

NATIONWIDE’S POSITION

Nationwide supports policies that uphold our public safety goals to preserve the current liability system and require licensed drivers to pay attention to the vehicle’s operation and maintenance at all times.

We also believe that legislation authorizing the testing of autonomous vehicles on public roadways should specify that an engineer or operator must be able to intervene and take control of the vehicle when operating autonomously.

We support public policy that encourages the continued development of safety technology, coupled with laws that do not limit the type or amount of data collected.

Technology is constantly providing new insights about the best methods for accurately rating the risks and benefits of autonomous vehicles. To that end, Nationwide supports allowing aggregate, non-personally identifiable data to be made publicly available to better understand autonomous vehicle risk.

CONCLUSION

In conclusion, while emerging vehicle technologies will create disruption in the insurance industry, it will also lead to new and innovative opportunities.

Nationwide believes that legislative options need to be continuously examined and refined as technology continues to advance. Should Ohio move forward with the introduction of any legislation or the creation of a task force, we ask for representation of the insurance industry to help gather information and provide policy recommendations.

Thank you for your work on this committee and your time studying this important topic.