Reducing complexity and facilitating results: CAVs and Canadian auto insurance

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In January 2021, the Canadian Council of Insurance Regulators (CCIR) released a paper outlining a number of issues to address as connected and autonomous vehicles (CAVs) become increasingly prevalent in the automobile sector.

The CCIR's paper contains the results of a small-scale survey conducted across several government and industry associations. The survey indicates that most respondents acknowledge that CAVs will have a significant impact on automobile insurance. A majority also agreed that CAVs posed at least some risk to the industry. However, only half of survey respondents felt that insurance premiums would decline over the long term, which raises the question of what the perceived risk from respondents is, if not for a decline in premiums.

Survey responses suggest that the perceived risk lies not in a decrease in premiums but an increase in overall costs, in the form of more complex and difficult underwriting, claims handling, and litigation. In particular, the CCIR points to the difficulty of quantifying the risks of CAVs for underwriting purposes, the expense of repairing more sophisticated components, and the difficulty of assessing liability in complex multi-party litigation.

The CCIR's paper then reviews two proposed frameworks for insuring CAVs. The first, adopted by the United Kingdom in the *Automated and Electric Vehicles Act, 2018* renders insurers strictly liable for a CAV "driving itself" - a definition which does not directly mention the SAE automation levels.

The second framework refers to the single policy regime proposed by the Insurance Bureau of Canada (the "IBC framework"). The core of the IBC framework contains two components: (1) a single insurance policy covering both driver negligence and CAV technology; and (2) a data-sharing agreement between manufacturers, vehicle owners, and insurers. The IBC framework also proposes that insurers, manufacturers, and technology providers submit to a mandatory arbitration process to settle disputes between them.

Ultimately, the survey results reveal that, for insurers, CAVs are technically complex, difficult to underwrite, expensive to maintain and repair, and are more challenging to litigate. Mandatory arbitration may address at least one of the issues.

By

Jeremy Ablaza

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BLG Offices

Calgary
Centennial Place, East Tower
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Ottawa
World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9
T 613.237.5160
F 613.230.8842

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F 604.687.1415

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H3B 5H4
T 514.954.2555
F 514.879.9015

Toronto
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22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3
T 416.367.6000
F 416.367.6749

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