Testimony of Cathy Schwamberger, Associate General Counsel for State Farm

California Department of Insurance Public Hearing on Autonomous Vehicles

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Good morning, my name is Cathy Schwamberger, and I'm an associate general counsel at State Farm. We appreciate the opportunity to participate in today's hearing, and we acknowledge Commissioner Jones for thoroughly identifying the issues that will need to be considered as automated vehicle technology advances.

It's been suggested by some, to State Farm's frustration, that insurance or even insurers could be an obstacle to the development of this technology, presumably because it could disrupt insurers' business models. State Farm has a decades-long history of standing for auto safety for the benefit of our customers. Because automated vehicle technology has the potential to reduce crashes, deaths, and injuries, I want to make it clear that State Farm supports its development.

We are actively seeking to understand how automated vehicle technology will reduce risks and whether any new risks will emerge. We are a member of the Center for Automotive Research at Stanford, which is working on issues related to automated vehicles. In 2013, we announced a collaboration with Ford related to the development of automated vehicles. Also, and this was just announced on September 5th, State Farm will be a founding partner in the creation of the University of Michigan's Mobility Transformation Center, a public/private R & D initiative, the goal of which is to accelerate

progress in the development and implementation of connected and automated vehicle technology.

We're looking forward to being a part of the dialogue in California as related insurance issues are addressed.

Insurance considerations can be broken down into three areas: Underwriting, Pricing, and Claim handling. First, Underwriting – Historically, the characteristics of the driver have been very important in assessing risk. As we go forward, the car's characteristics will become more important, while the driver's characteristics may become increasingly less important, including driving safety record and years of driving experience.

Second, we will need to think through pricing considerations, which are complicated by Prop 103. An insurer's goal is to establish a price that matches the risk, and this is already a challenge under Prop 103. As with Underwriting, the vehicle's characteristics may become more important, while the driver's characteristics may decline in importance. At the beginning, insurers will be challenged to gather the loss experience needed to establish a price that matches risk.

Finally, for claim handling, insurers will need data from the vehicle to understand how a crash occurred. As drivers become less attentive to the driving environment, they will become less aware of what led to a crash. The sensor data from the vehicle will shed light on the cause of the accident, which is important for ensuring that injured parties are compensated fairly. There are other issues related to claims. The assumption is that crash frequency will go down with increased automation. But what will happen to severity? Will the accidents that do occur be worse? Will the cost of the technology significantly increase the cost to repair damaged vehicles? Who will be able to repair the vehicles given the on-board technology?

In light of these comments, I'd like to briefly address some of the other questions raised by the Commissioner:

a. First, will a product be available in 2015, and will it be a traditional personal auto policy? As long as the driver is responsible for monitoring the vehicle and taking control as needed (which we believe will be the case for the foreseeable future), the traditional personal auto policy will be an appropriate product with its liability, uninsured and underinsured motorist, medical payments, comprehensive, and collision coverages. Most of those coverages will be needed as long as today's vehicles are still on the road and as long as we continue to face other hazards like falling or bouncing rocks, animals crossing the road, and bad weather. That said, it's likely that insurance products will need to change as risks change, when vehicles become completely driverless, and if liability laws evolve over time.

b. Second, how do insurers rate vehicles with other semi-automated safety features? Insurers gather data and loss experience over time and then make appropriate adjustments. Insurers generally look to their own loss experience to determine the appropriate rate for a given coverage; but, if claim experience is unavailable for a new vehicle type or new technology, an insurer may seek the data from elsewhere.

c. Third, how would insurers handle aftermarket automated vehicle technology? From an underwriting perspective, insurers would carefully consider the effectiveness and safety of a product installed aftermarket. From a rating perspective, it may be difficult to gather the volume of data needed to make adjustments. Also, to the extent insurers use the year, make, and model of a car to identify the existence of safety features, it may be challenging initially to account for aftermarket technology.

d. Finally, what should the Department of Insurance do to accommodate automated vehicles? It will be important for Department staff to be flexible as they review rate filings. Insurers will not have a large amount of data as they seek to set rates for increasingly automated vehicles. It will be critical for the Department to allow company actuaries to make reasonable assumptions based on available data. This flexibility will be key to allowing insurers to set a price that matches the risk, which may help consumers see the value in purchasing automated vehicles. If consumers see the value in this technology, and part of that may hinge on whether they perceive that their insurance premium is matching their risk, this will create demand for and lead to production of this potentially life-saving technology.

Thank you for the opportunity to be a part of today's discussion.