



Association Internationale de Droit des Assurances
International Insurance Law Association
Associazione Internazionale di Diritto delle Assicurazioni
Internationale Vereinigung Versicherungsrecht
Asociacion Internacional de Derecho de Seguros

**MINUTES OF JOINT MEETING OF THE AIDA CLIMATE CHANGE WORKING PARTY
AND THE AIDA MOTOR INSURANCE WORKING PARTY**

CLIMATE CHANGE, MOTOR VEHICLES AND INSURANCE – TAMING THE BEAST?

Co-chairs: Tim Hardy (UK) and Peggy Sharon (Israel)

**DOLTONE HOUSE, DARLING ISLAND WHARF, PYRMONT, SYDNEY
11:30HRS-13:30HRS WEDNESDAY 18 SEPTEMBER 2013
AUSTRALIAN INSURANCE LAW ASSOCIATION NATIONAL CONFERENCE**

1. **Welcome and introduction and apologies for absence**
 - 1.1 Tim Hardy (as CCWP Chair) welcomed everyone to what was the sixth meeting of the youngest of the AIDA working parties, the Climate Change Working Party (CCWP), and the first joint meeting with one of the oldest, the Motor Insurance Working Party (MIWP), recently rejuvenated under the Chairmanship of Sara Landini, who like many WP regulars had had to relay her apologies for absence from the meeting and the Vice Chair, Peggy Sharon, who was co-chairing the meeting.
 - 1.2 He thanked the host Chapter, AILA and the conference organisers for help in staging the meeting and particularly welcomed and introduced Chris Rodd and David McKenna from AILA who had been particularly supportive of the WPs' recent activities; Eduardo Mangialardi, the AIDA Vice President who supervised the work of all the AIDA WPs; and the invited guest speaker, Robert McDonald of the Insurance Australia Group.
 - 1.3 Given the geographical diversity of the WP members, as ever, many unable to attend had relayed apologies for absence, but had also made most valuable contributions to the WPs in the form this time of providing responses to a questionnaire compiled jointly by Sara Landini and the MIWP in respect of "*Green Car and Insurance*" and some wider issues in the context of Climate Change prepared by the CCWP. All attending the WP meeting for the first time were encouraged to leave business cards/email contact details to allow them to be added to a WP circulation/contact list in the hope that they might be willing and able to follow WP activities by reference to the AIDA website pages and to be kept abreast of and to contribute towards future work being advanced.
 - 1.4 One of the recent objectives of the CCWP - some four years since AIDA National Section reports had been delivered to inform the General Report on Climate Change and Insurance prepared after the last AIDA World Congress session on the theme and out of which the CCWP was created - was to prepare some systematic updates upon on some major issues. Today's collaboration with the MIWP afforded the opportunity to review all aspects of motor vehicles, insurance and climate change, with the identity of the "beast" of the session's title

being left for individuals to decide upon: man-made climate change, motor vehicles, ourselves or others behind the wheel or even unleashed regulators or insurance companies and their treatment of us as motorists!

1.5 For the day's session it was felt it would be helpful to start with a global overview of trends in motor vehicle use, manufacture, emissions and regulation before addressing more specifically some features of motor insurance practice of recent times and developments in new technologies and design most especially in the context of a new generation of neutral or low carbon emission motor vehicles and any discussion of issues to which this all gave rise.

2. First presentation : Overview of Motor Vehicles, Manufacture, Insurance and Climate Change – Tim Hardy (UK)

2.1 Many motor vehicle manufacturers' advertisements boast of "climate control as standard", but of course refer only to the well-being of those inside the car! Some seemingly incontrovertible facts are that: the act of driving is the regular activity of the average person which makes the greatest contribution to man-made climate change; three-quarters of all transport emissions come from motor vehicles; motor vehicles account for 50% of all trips made in Western Europe and 90% of those in the US; the number of motor vehicles continues to rise, in the developing world even more quickly than elsewhere; and that as of 2010 there were more than 1bn motor vehicles in use, a figure expected to be doubled by 2020.

2.2 Less easily established than might be thought, the proportion of the world's GHG man-made emissions attributable to motor vehicles is in the region of 16%: a figure likely to remain constant as fuel consumption savings are offset by predicted increased vehicle usage.

2.3 The economic downturn of 2008 plainly made a big impact upon slowing vehicle sales in many parts of the world, but with sales still rising, the most marked increase is in Asia, where double the number of vehicles were produced in 2012 than in the US, with China leading the list, accounting for 23% of all 2012 sales, with the potential to double its sales every five years. Nonetheless, given their large existing numbers, OECD countries are expected to remain until at least 2030 responsible for between 50-60% of the world's motor vehicle emissions.

2.4 In terms of total motor vehicle emissions the US continues to head the list by a very considerable margin, now followed by China, whose emissions are surpassed only by the total emissions from the whole of the EU combined. In the EU transport emissions are the only sector where despite the impact of regulations emissions are still continuing to rise. Without major changes in transport policy, vehicle design and use and other initiatives, global road transport emissions are on course to rise by 75% by 2030.

2.5 The means of reducing emissions extend beyond the setting of reduction targets and offsets and innovations in vehicle design and repair and fuel efficiency to radical changes in fuel use and new types of motor vehicle, to more economic driving practices and a reduction simply in the number of vehicle miles travelled.

2.6 Attempting to reduce vehicle miles travelled takes many forms and involves wider public transportation and urban design policies, taxes and investments from congestion charging to subsidies and incentives to motorists and manufacturers alike. The history of efforts to reduce motor vehicle emissions, other than GHG emissions, dating back to the 1960s has shown the part economic factors, such as the price of oil, may play in the success of any emission reduction efforts.

2.7 As a measure of how far alternatively-fuelled vehicles have yet progressed, the UK's Society of Motor Manufacturers and Traders reported that in 2012, just over 27,000 alternatively-fuelled vehicles were registered out of 2.045m in all and of these all but 3,000 still relied on petrol in some part. More happily, CO₂ emissions of the average new car in the UK had dropped in 2012 to 133.1CO₂g/km from 172.1CO₂g/km in 2003.

2.8 By way of concluding the brief overview, it was thought informative to consider which facets of emissions reduction policies might be expected to appeal most respectively to manufacturers and to governments, also to insurers and to motorist/insureds or at least subject to what contingencies or affordable transport alternatives which might realistically be made available. Much may remain open to debate or to changes in the

economic and political climate, but identifying where support or interest is neither even nor shared can help to identify the future role if any that that insurers may be expected to play in the reduction of emissions from motor vehicles.

3. Second presentation: Green Car & Insurance - Peggy Sharon (Israel) and Tim Hardy (UK)

- 3.1 Peggy Sharon commenced the presentation of the second topic by describing the work done by Sara Landini and her leadership of a proposed project concerning the “**Green Car & Insurance**”, which had been submitted for approval to the European Commission by the University of Florence (with the collaboration of Sant’Anna School of Advanced Studies of Pisa and of the University of Cagliari and with a formal manifestation of interest of AIDA Europe, the City of Florence and Arpat-Regional Agency for Environmental Protection in Tuscany). This is intended to provide a review of measures currently taken by insurers to encourage among other things the use of carbon offsets and more eco-friendly practices by way of vehicle repairs and maintenance, the use of greener vehicles, the more eco-friendly use of vehicles, designed to reduce fuel consumption, emissions and congestion and at the same time to improve vehicle efficiency and road safety.
- 3.2 With the help of twelve correspondents, many from among the AIDA Working Parties, providing responses to her initial questionnaire posted on the MIWP website reporting upon the status in their respective countries, Sara had already prepared a draft report of findings and conclusions. Further information and material was continuing to be provided both by responses to the fuller questionnaire distributed by the CCWP in advance of this meeting and by additional research being conducted of the position prevailing in other leading jurisdictions. These would be reflected both in her draft report as it continues to be prepared and in the updating of any CCWP reporting.
- 3.3 For the benefit of this meeting Sara had prepared an outline of the nature of the topic and the findings established to date. Insurers’ contribution to ecology presently takes various forms, but the speed of introduction of some of these practices varies greatly from country to country: carbon offsetting (reforestation projects and the like); premium discounts offered for hybrid/electric vehicles; eco-friendly repair networks and practices; pay-as-you-drive (PAYD) insurance products; and eco-driving policies whereby premium takes account of the type of vehicle, its emissions record and vehicle usage. Good eco-driving practices have been identified as have the means by which insurers have moved in some quarters to recognise that the adoption of some of these may reduce the likelihood and cost of accidents so as to permit premium reductions to be allowed.
- 3.4 To assist with the presentation and immediate discussion of the findings to date a Powerpoint presentation had been prepared identifying a country-by-country status report for 12 countries (Argentina, Australia, Belgium, Germany, Hungary, Israel, Italy, Japan, Netherlands, Switzerland, UK and the USA) confined to three main topics: 1) Availability/features of PAYD insurance; 2) Incentives for the use of Green Cars in the form of a) premium/other policy provision or b) taxation treatment; and 3) Summary of Legal Measures regulating or affecting Green Car usage. Additional countries from which answers or materials had already been obtained included Brazil, France, P R China, Sweden and Uruguay.
- 3.5 The status of PAYD insurance was so far very mixed. It was not yet available at all in Argentina, Hungary, Israel or Switzerland. In Japan it was adopted on a self-reporting basis by some companies, but without any reliance upon telematics or a “black box”. In Australia although many vehicles have carried data for some time PAYD insurance tended still to be on a self-reporting basis, some insurers are only now actively exploring the use of telematics. Elsewhere, PAYD insurance relying upon the vehicle’s own data or upon a box supplied by insurers (or latterly a smartphone app) took various forms and was meeting with variable acceptance or concerns. In Germany it was doubted that it would prove sustainable. In countries such as the USA and the UK where schemes had been in operation for a number of years there were conflicting opinions expressed over the extent of its impact and ultimate market share. Privacy issues have been common to many countries and have been the subject of court rulings, practice guidelines and consultation papers, especially in the context of any tracking of the precise location of the vehicle and of any hours of usage.
- 3.6 Discussion of the topic identified issue meriting further consideration and investigation such as how account was to be taken of named or authorised drivers, what penalty or other provisions would actually apply where estimated mileage was exceeded or driving practices were found to be less than satisfactory. Further, which categories of driver would tend to benefit. Also to be considered were any longer-term consequences (for motorists or insurers) in terms of the usage of driving data by future insurers or the need for this to be disclosed.
- 3.7 A review of incentives in terms of premium discounts saw a number of countries reporting discounts of varying margins for drivers respectively of lower emissions cars or of alternatively-fuelled vehicles. A question meriting further investigation however is how the so-called “discount” is actually calculated. If this is simply described as such in promotional literature, does it truly reflect more than the fact that a premium for a smaller (lower

emitting) vehicle, has always traditionally attracted a lower premium than a larger model owing to the sum insured/repair costs being lower or is this a genuine fresh incentive? Similarly, are premiums for vehicles of the same sized engine, reduced if the vehicle is a hybrid or uses a lower-emitting fuel or does the “discount” take the form of not carrying a surcharge where the actual repair costs of the greener model may prove higher? Also, if linked to PAYD or eco-driving terms to what extent is any discount a reward for the vehicle chosen or the manner of its use? Indeed, the observation was made in discussion that it was not for insurers to volunteer any reduced premium if no reduced risk of loss was expected. Among other notable driving practices apparently rewarded with a premium discount in some countries are special terms for car-sharing/pooling.

- 3.8 Other incentives such as the offering of carbon offsetting etc were common to many countries but had limited bearing on other policy terms, conditions or practices.
- 3.9 Incentives to use green cars in the form of taxation measures take one outside the scope of insurer practices, but plainly have a bearing. Common to many countries were favoured tax treatments of those encouraged to use low-emitting diesel or other fuels, hybrid or electric vehicles, with local authorities in many countries also differentiating by reference to vehicle or fuel type the cost of registration and motoring to the motorist. Only in Argentina of those countries reporting was their evidence that green car users found themselves positively disadvantaged owing to heavy import restrictions and luxury tax on imported vehicles.
- 3.10 Finally, in terms of legal measures regulating or affecting green car usage there still remained work to be done in collating information supplied. Many countries had introduced legal measures to encourage or oblige the meeting of emissions reductions targets emanating from motor vehicles, but there was an interesting variety of methods by which this was being done. In some countries, such as the UK, there were detailed obligations imposed on motor vehicle manufacturers concerning the emissions and fuel consumption performances of advertised vehicles. In others, there is none. In the Netherlands “gentlemen’s agreements” with manufacturers are still favoured over detailed mandatory provisions. Changes in the majority ruling party in government, such as most recently in Australia, are likely to affect the speed or likelihood of legislative measures to be expected in many countries.

4. Third presentation: New Technologies in Vehicle Design – Robert McDonald, IAG (Australia)

- 4.1 As a professional mechanical engineer managing the Insurance Research Centre near Sydney of one of the largest insurance groups in Australasia, the Insurance Australia Group (IAG), Robert McDonald is responsible for all IAG’s road safety activities, new vehicle assessments and liaison with the car industry. He is also Chairman of the Steering Committee of RCAR, the Research Council for Automobile Repairs, an international body of twenty-four research centres operating around the world.
- 4.2 This afforded him insight into how features of both existing and new models of vehicles presented different challenges to insurers in terms of anticipated accident and repair costs. This enabled comparable costings to be prepared between fleets as well as their susceptibility to particular perils, not merely different types of accidents or collisions, but also natural perils such as recent hail storms in Sydney or storm damage in Melbourne.
- 4.3 Car manufacturers and insurers are thus able to exchange valuable information in this way through such research initiatives, which helps to identify which design features manufacturers implement may lead to expensive parts and disproportionate repair costs. The challenge for insurers was particularly acute in the changing technology towards electric cars and the like. The more features designers introduce to improve safety or performance and/or to reduce emissions the greater very often the expense and technical and repair complexity involved, which in turn comes to be reflected in insurance premiums imposed.
- 4.4 A few trends and issues were worthy of particular mention. The burgeoning Asian market for motor vehicles was notable for significant de-specification of models sold, thus reducing both the initial sale price of vehicles and also the repair risk exposure. Technological research into individual features such as the design and uniform height of bumper bars had led to dramatic reductions in the extent of damage caused by collisions and also the repair costs resulting. Testing enabled vehicles to be attributed an ANCAP (Australasian New Car Assessment Program) rating for safety which was of direct benefit to consumers, manufacturers and insurers. Robert showed a video of the impact of different collisions and how design adjustments reduced impact and costs many times over.
- 4.5 Tesla-manufactured all-electric cars are beginning to find significant favour in California where manufacture and repairs cost challenges will determine the extent to which they – or competitors - may improve the affordability - and so the popularity - of such products. At Volkswagen a dramatic reduction in manufacturing costs has been achieved by their designing a range of models all constructed upon the same basic chassis platform. Other areas of research and innovation of note are the development of AEBs (autonomous emergency braking systems),

autonomous (driverless) vehicles and collision avoidance by way of car to car communication. Only from the fruits of such research will the viability and shape of the future motor vehicle market be established and in turn the manner in which any emissions reductions and affordable motor vehicles may be realised.

5. Future activities of the CCWP and MIWP and next meetings (Athens, May 2014)

At the end of two hours of presentations and discussion there was no time to make plans for the next meetings of the respective Working Parties (in Athens in May 2014), but news of this, together with progress with the projects concerning Motor Vehicles and Insurance would be reported upon to all who had provided email details who were also encouraged to visit the AIDA Working Parties website pages.

With thanks expressed to all who had shown interest by attending and to those who had made presentations or contributed to the materials presented, the meeting was closed.