Tesla’s insurance plans—the possibility of a revolutionary product

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Tesla CEO Elon Musk recently declared that the company intends to create an insurance product ‘much more compelling than everything else out there’. Victor Fornasier, partner at Hogan Lovells, discusses Tesla’s plans and what they could mean for the car insurance industry.

What are Tesla’s plans for offering own brand car insurance?

The overall plan is not clear. Elon Musk indicated in a recent investors call on 25 April 2019 that Tesla would be introducing an ‘insurance product’ that it would be selling with its vehicles. But, it is not clear how this will be structured, by whom it will be underwritten and how it will work. Some press reports claim that Tesla will be creating an insurance company within its corporate structure to underwrite its proposed insurance product—there are reports of Tesla hiring various insurance underwriters and having filed the necessary corporate applications to do so. There are other press reports which suggest that the ‘insurance product’ will be underwritten through Tesla’s existing insurance partnership with Liberty Mutual Insurance.

In terms of how Tesla takes this forward it would seem to me that establishing an insurance company within the group gives rise to a considerable shift in the commercial profile of the group. While not unheard of for automotive companies, introducing an insurance company into the group is also an introduction into one of the most heavily regulated industry sectors (regulated by jurisdiction—and there are 50 separate insurance jurisdictions in the US), with heavily prescribed capital requirements, and heavily prescribed selling regulations. I do wonder whether some sort of ‘white-labelled’ insurance product, underwritten by an insurance partner but designed by Tesla, might make the most sense at least to introduce the product to market as quickly and as efficiently as possible without any exposure to the underwriting risk arising from being the insurer itself.

What does appear to be certain, and probably the most interesting aspect of Tesla’s proposed insurance is that, whoever underwrites it, it will offer and incorporate varying degrees of data analysis taken from continuously connected vehicle systems that are built in as standard to Tesla’s vehicles. The theory is that having a greater volume of real-time/current driver and vehicle data will help hone the underwriting process which should lead to reduced premiums. That is the theory at least. I am not sure if greater volumes of data regarding an individual’s driving habits and their vehicle performance will mean that every driver can expect reduced premiums. The whole basis for insurance is to mutualise the exposure to claims and losses among a larger population (on the basis that not everyone will be making a claim at the same time/same year etc). As the underwriting process becomes more designed to reflect individual driving performance and individual vehicle status, then it would seem to me that premium levels will need to go up for some drivers as well.

With regard to the current and imminent state of development and commercial use of autonomous vehicles (semi-autonomous capabilities and driver dependencies), what are the benefits to the insuring model of having such own brand insurance? (Eg streamlining sales and claims processing).

I have not had a detailed look at what insurance products are presently available in the market designed for or around autonomous or semi-autonomous vehicles, so I am not sure what the state of the market is for such products. However, I think that one of the main advantages for an automotive company like Tesla with being able to offer an 'own-brand' product would have to be the distribution channel that it would be tapping into. Provided that Tesla can demonstrate at the point of vehicle sale that its 'own-brand' insurance product was well-priced from the customers' perspective, with an acceptable level of continual data collection on driving performance from the customer's perspective (some drivers might find that difficult), Tesla would be able to offer its insurance at the most opportune time, ie when insurance will be most prominent in the vehicle buyer's mind. Insurance regulators are alive to the risk in the consumer context of having such a captive buyer audience and, from a European regulatory perspective at least, have introduced various regulatory mechanisms to ensure that the point-of-sale advantage is not unjustly exploited.

Moreover, there is an open question for autonomous vehicles (less so for semi-autonomous vehicles) as to who should be insuring (eg for third party liability from collisions). Should it be the manufacturer of the vehicle. If different, should it be the manufacturer/designer of the algorithms/technology systems that drive the vehicles autonomous functioning, or should it be the driver (if the vehicle is fully autonomous then, arguably, the driver has nothing to do with any collision). By providing a third-party liability insurance for drivers to purchase, Tesla has answered that question. But, I expect that time will tell whether insurance for fully autonomous vehicles at least remains an obligation of the driver.

What criticisms have been levelled at the model? (Eg conflict of interest as to whether accidents caused my human error or machine failure).

I am not sure that there is enough detail to really be able to answer this yet. Again, there is an open question as to who the right party is that should be taking out insurance for autonomous and semi-autonomous vehicles. We have not seen a final landing on this yet. It could be that a relevant insurance product might be taken out by the relevant manufacturer, the premium for which would be incorporated into the purchase price of the vehicle or alongside monthly financing costs of the vehicle.

Are we ready for this business model? Can we trust the manufacturing industry to establish a robust, fair and independent insurance model?

I don't see why not. Speaking from a European regulatory perspective, offering insurance is heavily regulated in terms of not only selling requirements (ie required consumer disclosures about the cover, the exclusions, the premium etc), but also in terms of manufacturing insurance products. Whether a Tesla 'own-brand' insurance product is designed and put together by a Tesla insurance company or by Tesla in conjunction with an insurance partner, Tesla would be considered an insurance product manufacturer and would need to comply with a number of regulatory requirements concerning the insurance products that it manufactures (eg ensuring the insurance meets the demands and needs of the target market).

Moreover—and again from a European regulatory perspective, as an insurance distributor—Tesla would have to ensure that it took into account any potential conflicts of interests in its operating/distribution model. Generally-speaking insurance regulators (rightly) would not be expecting that offering insurance alongside vehicle sales would give rise to conflict of interest to such a degree that would mean the insurance sales would have to stop (while in extreme circumstances that may be possible). The expectation would be that the vehicle sellers/manufacturers would have to properly manage those conflicts.

Interviewed by Tom Inchley.

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