

Analysis: E-vehicles - A missed opportunity?



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As people are increasingly switching to electric vehicles, are insurers taking the opportunity to explore this market?

Currently, there are more than 610,000 electric vehicles in Europe according to the IEA's *Global EV Outlook 2019* report.

At the end of 2018, there were 15,800 EVs registered for the first time in the UK accounting for 0.7% of all new registered vehicles, according to the Department for Transport's 2018 vehicle licensing statistics.

While this number does not seem high at the moment according to Peter Allchorne, **motor** partner at DAC Beachcroft, we are yet to see mass-market

adoption of EVs “due to a combination of high purchase/leasing costs, and limitations regarding range, charging times and infrastructure”.

Richard Billyeald, chief technical officer at Thatcham Research, says that electrification is driving a significant short-term change in the automotive industry.

He says: “We anticipate that over half of all new vehicles sold by 2025 will be electrified, representing a dramatic shift in the UK car park and a transformation bringing inevitable challenges for insurance and risk modelling.”

Challenges

Allchorne adds: “There is a distinct lack of data available for underwriters to assess risk and price accordingly. It is perhaps not surprising that, to date, there have been a limited number of insurers prepared to insure EVs, though more are now entering the market.”

He adds that until EVs gain in popularity such that economies of scale begin to apply, both repair and servicing costs are likely to remain higher than for conventional vehicles.

Billyeald agrees with Allchorne that a claims database would help underwriting: “Accurate underwriting is challenged by the absence of a claims database, due to the relatively low volume of electric and hybrid vehicles on the road today.”

Some of the other challenges highlighted by Billyeald include the high cost of repair and expensive batteries that require specialist skills to replace in the event of an accident.

“New warranty products are necessary for new risks, such as failure of the battery and the electricity supply unit. Data-driven insight coupled with a deep understanding of emerging vehicle technology will become increasingly vital in informing risk assessment for insurers in this dynamic environment,” Billyeald adds.

Meanwhile, Glyn Hughes, director of personal lines underwriting at Ageas, highlights that the acceleration in EVs operates differently to conventional motor vehicles and that is a potential accident risk for unaware drivers.

He says: “New developments in vehicle design will have an impact on how insurers appraise the risk of individual models, for example, the introduction of commercially available rear wheel drive vehicles poses a different risk to the current front-wheel drive models, particularly if it is introduced without traction control software.”

According to David Williams, managing director of underwriting and technical services at Axa, the biggest challenge is that posed to motor repairers.

“They often require specialist equipment and sometimes vehicles have to be moved between different service providers during the repair process. The good news is that with more EVs coming on to our roads, it becomes more worthwhile for these repairers to invest in the equipment themselves. If a car can be repaired in just one place at a more competitive rate, then savings can be passed on to policyholders in reduced premiums,” says Williams.

He adds that the battery, which “accounts for a very large share of the vehicle’s value” also poses a big challenge.

He says: “With current technologies, a damaged battery needs to be replaced not repaired, and you need to take very serious precautions because of the potential fire risk.”

William Zachry, senior fellow of Sedgwick Institute, agrees that the cost of repairs for EVs may be an issue: “The cost of repairs for EVs may be problematic because, unlike the internal combustion market, there is no widely established infrastructure to deal with the body parts required and the skills to repair the electronic engines. This will change and repair costs will decline as EVs penetrate the market. Damage to the batteries or the electronic components can be quite devastating to the integrity of an EV. However, many EVs are being manufactured to allow easy replacement of damaged or faulty parts. Again, the design will improve for these challenges as the market experiences some insurance losses. On a positive note, EVs can also do a more efficient self-diagnose on any need for maintenance, damage or faulty parts.

“As **artificial intelligence** and the **Internet of Things** are deployed, EVs which have the latest technology will actually be a much lower exposure to losses

than the fleet of vehicles that do not have the latest AI and IoT technology. Newer cars will provide lower exposure because the IoT will learn from every accident and the system will be better at pushing the avoidance technology (and even driver training) to the newer cars.”

According to Greg Podlesny, partner at Sollers Consulting, EVs have fewer breakable parts, so they should break less frequently. However, it’s not as simple as that.

He says: “When they do break, fixing them is more expensive not only due to more expensive parts but also due to the lack of infrastructure to fix them. Did anyone check how many garages are already capable of fixing a Tesla? The answer is: let’s just hope it won’t break.”

Tailored policies for EVs

The majority of mainstream insurance companies now insure EVs as part of their standard policy and not tailored specifically to EVs.

Only a few offer a tailored policy, these include LV and Zoom.

Tom Clarke, head of EV strategy at LV, says: “We launched our product about six months ago in April and we are the only insurer in the UK with a product designed specifically for EVs.

“We took a different approach in the sense that we looked at what are all the things that a consumer needs for their EV. One of the key concerns

Vehicle registrations

	Battery electric vehicle	Plug-in hybrid electric vehicle
September 2018	2290	4671
October 2018	1256	3448
November 2018	1414	3441
December 2018	1534	3964
January 2019	1334	2268
February 2019	731	1373
March 2019	3917	4941
April 2019	1517	1922
May 2019	1990	2362
June 2019	2461	2268
July 2019	2271	1764
August 2019	3147	907
September 2019	7704	5179

Source: SMMT

consumers have still got about EVs is running out of charge – we cover them in case they run out of charge and take them to the nearest charging point.

“We also cover charging cables and home charging points are covered as well,” Clarke adds.

According to Clarke, this means the customer does not need to worry about whether their charging point is covered by their home insurance or whether it should be covered by their motor insurance.

As part of LV’s EV insurance, the battery is covered under the policy, even if it’s leased.

While Zoom works with a panel of insurers to introduce tailored policies for EVs.

Zoom CEO Greg Fairbotham says that research performed by Zoom 18 months ago found that the insurance experience for EVs wasn’t where it needed to be and that policies didn’t cover EV specific scenarios.

Zoom worked with insurers to incorporate wording that ultimately meant that it could provide more comprehensive cover. This wording covers things such as charging cables, public liability, battery cover and breakdown/recovery.

According to Hughes, most insurers believe that EV is no different from traditional vehicles that are powered by an internal combustion engine.

He says: “While we believe that there is no real need for a bespoke product for EVs we do offer one tailored product through **brokers**. The main difference between this and our standard motor policy relates to how charging cables are used and how the vehicle is charged.”

Williams adds: “All our standard policies cover electric vehicles. We don’t offer anything bespoke ourselves as the insurance element is fairly standard, but the majority of our business is placed via insurance brokers and intermediaries, who do often bundle additional covers and services to the end customer.”

Jonathan Moss, head of transport at DWF, believes that the uncertainty surrounding the precise nature of claims arising from EVs means that pricing models for EV insurance are untested and unchallenged.

“As this is uncharted territory and a bespoke cover, at least in the short term, insurance cover for EVs will cost more than for conventional cars. As the technology employed in EVs bears little resemblance to conventional car mechanics, the costs of servicing, software updates and the overhaul of data presents a financial burden for insurers, which is presently being evaluated,” Moss explains.

“Insurers need to decide whether policies should follow the traditional fault-based model or incorporate terms from product liability contracts of insurance to reflect that software failings can cause accidents as well as human error. The relative scarcity of EVs compared to their conventional counterparts and the lack of specialist cover also contributes to the higher cost of insurance.

Insurance framework

Last year, lawmakers approved the *Automated and EVs Act*, which outlines the charging requirements of electric and hydrogen-powered vehicles. Aside from this, there is no difference between EVs and other road vehicles – compulsory cover is required as laid out in the *Road Traffic Act*.

Fairbotham says: “From a regulatory standpoint, insurance for EVs doesn’t have a framework that is separate to that of a normal vehicle. From a policy wording standpoint the changes will need to be made to include EV scenarios as standard wording but most insurers need to understand these scenarios and the market in more detail.

“EVs are provided with the Association of British Insurers codes so this isn’t different either. The key thing for insurers is increasing their knowledge and exposure to a market growing significantly and building their database to leverage the opportunity.”

Williams agrees that the insurance framework for EVs is exactly the same as for non-EVs: “It is exactly the same as for non-EVs, the *Road Traffic Act* applies and a fully RTA compliant insurance policy is required to be in force.”

While there is no insurance framework for EVs, Moss says that insurers use standard policies for EVs while incorporating special provisions more tailored to the needs of EVs.

For example, the use of power cables to charge the car can give rise to potential negligence/personal injury claims so in some policies, extra protection is added so that these claims can be within cover.

He adds: "Often insurers stipulate that those cables need to be purchased with the car and if they aren't replaced directly from the manufacturer, incidents involving power cables will fall outside the scope of cover. Car batteries can pose specific questions for insurers. Some EV owners choose to lease their battery from the manufacturer or another company instead of purchasing it with the car."

Moss says that this can create potential problems and poses a number of questions including: will the insurance for the EV cover the leased battery too? Will a separate insurance policy be required for the battery alone?

He adds: "Some insurers extend cover to the battery even though the battery is leased separately from the car. The industry does not seem at the moment able to distinguish between the insurance requirements for EVs, hybrids and plug-in hybrids. In the future, there are likely to be different policy wordings for each of these vehicles."

Lack of understanding

Fairbotham highlights that data is the key element. He says that there is a lot less data out there about EVs and "there are fewer miles driven which is what insurers rely on to build their models and understanding".

However, he adds that the data bank is increasing all the time with more vehicles on the road, "so while there is currently a challenge to insurers of an element of the unknown, the EV market now for insurers represents a fantastic opportunity on a number of different levels".

"Insurers have the opportunity to identify themselves as futurists and brands associating themselves with future mobility. This is incredibly important because mobility is changing at such a rapid rate across a variety of different areas, meaning that the challenge for insurers isn't just EV, it's actually multi-faceted including usage-based insurance and the systems required to facilitate this," says Fairbotham.

According to Emerson Wallwork, partner at Weightmans, the insurance industry is more focused on driverless vehicles.

He says: “The insurance industry is looking at the issue of driverless cars to the principal reason that motor insurance in the UK insures the individual and that’s not appropriate when you have a driverless car. So it’s a significant change.

He adds: “The government has looked to address that, and that’s an important issue to the industry. That’s why the insurance industry has taken this on board and identified the need to plan for the future.

“Whereas EVs are a change that they can deal with within their own existing structures. And, they can look at how it affects the supply chains and how it affects the risks,” Wallwork concludes.

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