INSURANCE: A KEY DECISION TO MAKE

Choosing the right insurance policy is one of the most important decisions a new car-sharing company will ever make. Insurance provides the necessary protection for its users, the company and the public while also being one of the largest operating expenses. Thus, there’s a lot at stake.

For any new carshare operator, it is important to know what questions to ask insurance brokers/carriers, when to start approaching insurance carriers and assess if the insurer aligns with your business goals and objectives. While there is no “one size fits all” insurance policy, movmi has gathered research studies and interviewed insurance experts to outline a framework for companies who are looking to enter the car sharing for the first time.
**TYPES OF INSURANCE POLICIES**

New carshare operators should begin considering insurance policies at least six months before launch date; ideally, twelve months in advance. This process can be lengthy since car-sharing is still a relatively new industry that lacks actuarial data, making it difficult for insurance assessments. New car share operators should also use this lead time to consider the various insurance policies (depending on your geographic location you can have as many as 10 different kinds). In general, carshare companies will layer their insurance in the following ways:

1. **Third party (property) damage liability**: covers damages to the other involved vehicle. Each jurisdiction will have a regulatory minimum that you must meet.
2. **Collision insurance**: pays for damage to your vehicle when users collide with another vehicle, pole, or another nonliving object. Optional coverage.
3. **Comprehensive insurance**: covers damage to your vehicle caused by an event other than a collision (e.g. fire, theft, vandalism, floods). Optional coverage.
4. **Umbrella coverage**: An extra liability insurance coverage. Optional coverage.

**UNDERSTAND CONTRACTUAL WORDING**

Naturally, new car share operators should know what they are paying for. Invest time reviewing the wording of the rental contract - understand what is covered and what is not covered. Julie Davis from RiskProPartners recommends working with an experienced lawyer for this task, in addition to the car share company’s membership agreements. Before signing on the dotted line, ask insurers what their response time to claim handling is advises William Law from HUB International.

**GO IN WITH THE RIGHT MINDSET**
When you approach insurance brokers and carriers, it is important to do your homework and to go in with the right mindset. Julie Davis, Vice President of Risk Management for RiskProPartners, advises that “car share operators to not see this as ‘buying insurance’ but rather an aspect of the business that focuses on managing ‘all organizational risks’, where risk is defined as anything that could prevent your firm from meeting your goals and objectives”. William Law, VP of Business Development for HUB International Insurance Brokers, highlights that it is important for new car share operators to develop well-thought out risks and mitigation programs. A well-thought out risks and mitigation program comprises of the following components: best practices, processes and procedures, experience level, risk advisor and/or system backups, and an understanding of privacy laws. It is a good idea to work with your insurance carrier to produce these programs.

“Car-sharing firms should recognize that it is not about ‘buying insurance’, it is about managing all organizational risks”

— Julie Davis, RiskProPartners
INSURANCE COSTS

One of the most influential costs for car share operators when deciding which policy is right for the company will be costs. Finding the right balance of coverage for your stakeholders, while not entirely eroding margins, will be challenging. A study conducted by Susan Shaeen, Diwen Shen and Elliot Martin (2016), found that insurance costs make up 20 to 48% of operators’ total costs. For car share operators in the United States, this equates to an annual cost of approximately $780 per insured vehicle (Shaeen, 2016). While these costs may be intimidating, car share operators can take comfort in knowing that of the 328,726 valid trips in the United States from 2008 to 2015, only 125 accidents occurred during this period (Shaeen, 2016). Furthermore, a study that evaluated GoGet, a carsharing operator in Australia, found that 80% of all car accidents cost less than $1,000 (Dixit & Rashidi, 2014). The study adds that bodily injury liability claim rates were on average 0.91 per 100 insured vehicles (averaging $11,088 per claim and $101 per insured vehicle).

Exhibit 1: Average Cost per Car Accident*

*Data taken from Dixit and Rashidi ‘Modelling Crash Propensity of Carshare Members’ study. 2014.

DEFINING ELIGIBILITY CRITERIA WILL INFLUENCE INSURANCE COSTS
To determine your insurance policy costs, you will first need to define your eligibility criteria for your members. Since all carshare organizations need to check its’ membership base, applicants need to be benchmarked against eligibility criteria at the time of application. This includes a driving record check that outlines which driving infractions are accepted and which are not, the minimum age requirement for drivers, verification of driver’s license, and ID check. Depending on how your company’s standards, this will influence the insurance policy price. For example, if you decide to accept young drivers (e.g. drivers 18-20 years old) this will increase insurance policy premiums as opposed to accepting only drivers 30 years old and above.

**OTHER FACTORS INFLUENCING INSURANCE COSTS**

There are a variety of factors that will influence the price per policy for each company. Factors can include: the type of vehicles, the number of vehicles in the fleet, which geographic locations the vehicles are being used, the local laws that govern car sharing in that area and number of years of experience in this industry. It is best practice to gather a couple of quotes from different insurers as each carrier will prioritize and weigh certain criteria and factors differently.
WHAT TO LOOK FOR IN AN INSURANCE PARTNER

While understanding the wording of the policies is essential, it should be recognized that who you are partnering with is equally important. Car share operators should understand their insurer’s goals, investigate their response time to claim handling, and geographic reach. The 2017 Shared Economy Report interviewed 100 shared economy firms, asking them what decision criteria they used when deciding an insurance broker/carrier. The exhibit below shows respondents top answers:

Exhibit 2: Key Findings on Top Priorities in Choice of Insurance Broker and Carriers as Partners*

*Infographic taken from America’s Smartest Companies 2017 Annual Insurance and Risk Management Survey for Shared Economy Firms.
This study highlights that shared economy firms want the insurance brokers and carriers who appreciate firms who are innovative. This is an important factor for new car share companies to look for because insurance brokers and carriers are typically risk-adverse to new and unfamiliar industries; of which, the carsharing industry falls under this category. This could mean that some insurers may not partner at all with carsharing companies or they could make it very difficult for carshare companies to work with them. Thus, it is a good idea to find out how much experience the insurer has with innovation firms to prevent any unnecessary headaches in the future.

**CLOSING THOUGHTS**

There are many pieces that a new car sharing company needs to weave together when deciding the right insurance policy. It is important to start the process well in advance and to go in with the right mindset that the company is building a risk & mitigation program, not just buying insurance. The price of the insurance policy will depend on a variety of factors – including the types of members accepted into your carsharing program. Each insurance policy terms will greatly vary, making it is important to know what you’re paying for. Perhaps most importantly, as the carsharing industry continues to grow and innovate, select an insurance partner who is looking to take that journey with you.
REFERENCES

America’s Smartest Companies. (2017). Highlights from the 2017 Annual Insurance and Risk Management Survey for Shared Economy Firms. Contact jdavis@americassmartest.com for more details.


http://trrjournalonline.trb.org/doi/abs/10.3141/2542-10

**Insurance Expert Panelists:**

Julie Davis  
Vice President, Risk Management  
RiskProPartners  
www.riskpropartners.com

William Law  
Associate Vice President, Business Development  
HUB International Insurance Brokers  
www.hubinternational.com
ABOUT MOVMI

movmi was founded in 2014 and is a boutique agency specialised in Shared Mobility Design: the planning, implementation and launch of new mobility services.

We are uniquely positioned to make a big impact on how shared mobility services are rolled out across many of the world’s urban centres. Spearheading the launch of companies like Evo, or BMW’s ReachNow our team has deep expertise in building shared mobility service architecture in cities all over the world. We support operators in setting up shared services, host advisory workshops, and conduct ongoing research on trends and best practices.