



# The Insurance Imperative

How Conformance Evidence Enables Autonomous System Coverage

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**Insurers cannot price autonomous system risk because no independent mechanism exists to verify that these systems operate within their declared boundaries. Without standardized conformance data, the insurance industry faces a choice between pricing blind and refusing to underwrite—neither of which serves the market.**

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The global AI insurance market is projected to grow from \$14.99 billion in 2025 to \$246.3 billion by 2035, with underwriting representing the single largest AI use-case segment. Yet insurers face a structural paradox: the systems they are being asked to underwrite are the same systems whose performance data they cannot independently verify. Every autonomous system underwriting decision made today relies on manufacturer-disclosed data with no standardized format, no independent verification, and no mechanism to detect omissions.

# 1. The Underwriting Blind Spot

Insurance underwriting depends on a fundamental capability: the ability to independently assess the risk being transferred. For over a century, insurers have built sophisticated methodologies for evaluating property risk (building inspections, fire ratings), health risk (medical examinations, actuarial tables), and driver risk (driving records, telematics). Each of these methodologies shares a common feature: the data used to price risk comes from sources independent of the party seeking coverage.

Autonomous systems break this model. When an insurer underwrites a fleet of autonomous vehicles, an industrial robot installation, or an AI-powered medical device, the performance data available to the underwriter comes almost entirely from the manufacturer or operator. There is no independent inspection mechanism. There is no standardized reporting format. There is no third-party verification of the operational boundaries the system claims to respect.

## 1.1 The Scale of the Liability Shift

The Tesla Autopilot verdict (Florida, 2025) awarded \$243 million to the family of a man killed when his Tesla failed to avoid a truck. The jury found Tesla 33% liable. The Cruise robotaxi shutdown (San Francisco, 2023) demonstrated that a single autonomous system failure can trigger fleet-wide operational shutdown—a correlation risk that traditional auto insurance does not model. The Waymo school bus recalls (2025) documented 20 separate incidents of vehicles illegally passing stopped school buses. These recalls illustrate a critical underwriting challenge: autonomous system failures are systematic software defects that affect entire fleets simultaneously.

## 1.2 The Data Gap in Numbers

NHTSA reported nearly 400 crashes involving automated driving systems in one reporting year. Tesla ADAS vehicles accounted for 53.9% of all reported incidents. The Swiss Re study analyzed 25.3 million fully autonomous miles and found an 88% reduction in property damage claims and 92% reduction in bodily injury claims for Waymo vehicles. But this study was produced through a bilateral partnership between one manufacturer and one reinsurer. The data is not standardized. The methodology is not replicable across manufacturers. There is no independent verification that the miles reported are complete or that incident classification is consistent.

## 2. The Actuarial Challenge

### 2.1 Why Traditional Models Break

Pricing Pillar	Traditional Model	Autonomous System Reality
Historical loss data	Millions of claims over decades, reported through standardized state systems	Manufacturer-specific data, proprietary formats, no cross-manufacturer comparability
Risk factor validation	Age, gender, driving record, vehicle type—validated across populations	Software version, ODD definition, sensor configuration—no standardized taxonomy
Standardized reporting	State-mandated accident reports, police records, claims databases	NHTSA SGO self-reporting, manufacturer-classified incidents, no independent audit
Risk independence	Individual driver risk largely independent	Fleet-wide correlated risk from shared software—one bug affects thousands
Inspection capability	Vehicle inspections, driver examinations, telematics	No standardized mechanism to verify operational boundaries

### 2.2 The Correlated Risk Problem

In traditional auto insurance, individual vehicle risk is largely independent. Autonomous systems invert this assumption. Every vehicle in a fleet runs the same software. A defect that causes one vehicle to fail to stop for a school bus causes every vehicle to fail to stop for a school bus. The Waymo December 2025 recall affected 3,067 vehicles simultaneously for the same software defect. This transforms autonomous fleet coverage from a frequency-based risk to an accumulation risk—structurally similar to catastrophe risk in property insurance.

**A single software defect in an autonomous fleet is the actuarial equivalent of a hurricane hitting every policyholder simultaneously. Without independent conformance data, insurers cannot distinguish between a Category 5 fleet and a fortified one.**

### 2.3 The Reinsurance Implications

Swiss Re's sigma insights report (early 2026) focused on how AI adoption is reshaping the risk landscape. Motor insurance represents approximately 40% of the total \$2.2 trillion global P&C; market. A systemic autonomous vehicle software failure could trigger losses across multiple lines simultaneously—auto liability, product liability, cyber liability, and D&O;—creating a cascading reinsurance event that current models do not anticipate.

## 3. The Regulatory Patchwork

### 3.1 United States

The NAIC's AI Model Bulletin has been adopted by 23 states and Washington, D.C. It is principle-based, requiring governance but not prescribing verification standards. At the state level, the patchwork is severe: Kentucky SB 241 raised minimum insurance for autonomous trucks to \$5 million and extended human-on-board requirements to 2031. Florida requires \$1 million minimum for fully autonomous vehicles. Texas designates the ADS owner as the citeable operator. The bipartisan Autonomous Vehicle Acceleration Act of 2025 (S. 1798) contains no independent conformance requirements. Insurance is addressed only through minimum coverage mandates, not through data quality standards for underwriting.

### 3.2 European Union

The EU AI Act requires conformity assessments for high-risk AI systems with obligations becoming applicable August 2, 2026. However, harmonized standards are not ready. For insurers operating in the EU market, this creates a specific challenge: the regulation will require conformity evidence that the standards infrastructure cannot yet produce. Insurers who develop underwriting requirements ahead of harmonized standards gain first-mover advantage.

### 3.3 What This Means for Insurers

The regulatory environment is converging toward mandatory conformance requirements for autonomous systems. Insurers who wait for regulatory mandates will be reactive. Insurers who establish independent conformance requirements now will define the standard that regulators eventually adopt—exactly as fire insurance created UL, and marine insurance created classification societies.

## 4. What ODDC Provides

### 4.1 The Three-Part Verification

Formally Specified Operational Design Domain: Every certified system has a machine-readable ODD specification defining exactly where, when, and how the system is designed to operate. This gives underwriters a precise, auditable description of the risk being transferred.

ENVELO Interlock (Non-Bypassable Runtime Enforcement): The ENVELO Interlock is a runtime enforcement mechanism that prevents the autonomous system from operating outside its declared ODD. It cannot be disabled by the system it governs. This provides underwriters with an enforcement mechanism equivalent to physical safety systems in property insurance.

CAT-72 Conformance Assurance Test: 72 cumulative hours of system operation verifying that the system maintains conformance under sustained operation. Test results are cryptographically signed, tamper-evident, and independently stored. This provides underwriters with time-series behavioral data that is independent of the manufacturer’s self-reporting.

## 4.2 Mapping ODDC to Actuarial Needs

Actuarial Requirement	Current Gap	ODDC Solution
Operational boundary definition	Self-declared in marketing materials; not machine-readable	Formal ODD specification—verifiable, auditable, standardized
Runtime boundary enforcement	Unverified internal controls; no independent audit trail	ENVELO Interlock—non-bypassable, tamper-evident
Continuous performance data	Manufacturer self-reported; proprietary formats; no audit	CAT-72 results: cryptographically signed, independently stored
Cross-fleet comparability	No standardized format; incomparable across manufacturers	Standardized conformance status: CONFORMANT / NON-CONFORMANT / EXPIRED
Correlated risk assessment	No mechanism to assess fleet-wide software vulnerability	ODD + Interlock version tracking; conformance status per-vehicle

## 5. The Commercial Opportunity

### 5.1 The First-Mover Flywheel

The insurer who first integrates independent conformance data into autonomous system underwriting gains a structural competitive advantage through a self-reinforcing cycle: requiring ODDC conformance data allows risk-differentiated pricing; this drives demand for ODDC certification among operators; increased certification volume generates more conformance data for precise actuarial models; better models enable tighter pricing, attracting more policyholders. The insurer who establishes this cycle first captures the market because competitors cannot replicate the actuarial advantage without access to the same conformance data infrastructure.

### 5.2 Product Innovation Opportunities

Conformance-linked coverage: Policies that automatically adjust coverage limits based on real-time conformance status. If a system's ODDC certification lapses, coverage narrows. If conformance is maintained, coverage remains broad.

Multi-party conformance policies: Policies covering the entire autonomous system supply chain—developer, integrator, deployer—with liability allocation determined by which parties hold current ODDC certification.

Reinsurance conformance treaties: Reinsurance contracts referencing ODDC conformance status as a condition of coverage, enabling reinsurers to manage correlated risk across their portfolio.

## 6. Conclusion

**The insurance industry has always been the first to require independent verification before extending coverage. Fire insurance created Underwriters Laboratories. Marine insurance created Lloyd's classification societies. Product liability insurance drove the adoption of UL, TÜV, and CSA certification. The autonomous systems era requires its own independent certification infrastructure. ODDC is that infrastructure.**

ODDC provides the formally specified operational boundaries, non-bypassable enforcement mechanisms, and independently verified behavioral data that actuarial models require. It resolves the correlated risk problem by providing per-vehicle conformance status. It provides courtroom-ready evidence for claims resolution. And it creates a natural market incentive for safety investment without requiring regulatory mandates.

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