

**U.S. SHARED-USE VEHICLE SURVEY FINDINGS: OPPORTUNITIES AND
OBSTACLES FOR CARSHARING & STATION CAR GROWTH**

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ABSTRACT

Shared-use vehicle services provide members access to a vehicle fleet for use on an as-needed basis, without the hassles and costs of individual auto ownership. From June 2001 to July 2002, the authors surveyed 18 U.S. shared-use vehicle organizations on a range of topics, including organizational size, partnerships, pricing, costs, and technology. While survey findings demonstrate a decline in the number of organizational starts in the last year, operational launches into new cities, membership, and fleet size continue to increase. Several growth-oriented organizations are responsible for most of this expansion. The authors explore several factors that challenge shared-use vehicle growth, such as high capital investment (or start-up costs), dramatic insurance rate hikes, and scarcity of cost-effective technologies.

The authors conclude that while early niche market findings are encouraging, the ability of this emerging sector to actualize its total environmental, economic, and social goals may be limited without the collective support of private industry (e.g., automakers, insurance providers, technology producers); public agents (e.g., transit and governmental agencies); and shared-use vehicle programs. Indeed, public-private partnerships and cooperation among shared-use vehicle providers may play a key role in addressing insurance and technology costs and assuring the long-term viability of this market.

Key Words: Shared-Use Vehicles, Carsharing, Station Cars, Market Developments, Insurance, and Technology

INTRODUCTION

Travel choices are often limited by lack of connectivity among travel modes, such as transit and highways. Shared-use vehicles (linked to key activity locations and transit) can help to expand the mobility options of individuals who use transit, walk, or cycle, but still require access to a personal vehicle for a trip segment. The principle of shared-use vehicles is simple: Individuals gain the benefits of private car use without the costs and responsibilities of ownership. Instead of owning one or more cars, a household or business accesses a fleet of shared-use vehicles on an as-needed basis. Members typically provide a deposit or monthly fee for access to a vehicle fleet distributed throughout a region or concentrated at a transit station, activity center, or worksite. Members also typically pay an hourly and per mileage fee that reflects their vehicle use. Insurance, maintenance, and reservations are included in the fixed costs of the service (1, 2).

Many U.S. programs operate similarly to the majority of European carsharing organizations: Individuals access cars from nearby neighborhood lots and return them to the same lot (not typically linked to transit). This European approach, which started as a grassroots, cooperative effort in Switzerland, represents “classical” carsharing (1). In contrast, “station cars” are rooted in the U.S. and serve transit/rail commuters primarily, often employing electric vehicles. Station cars typically provide a demand-responsive extension to fixed-route rail services and may not be shared by multiple individuals (1, 2,

3). Increasingly, the carsharing and station car concepts are “merging” to include both elements: transit linkages that serve commuters and distributed lots for spontaneous users (4, 5). One can envision a shared-use vehicle continuum, ranging from carsharing to station cars, in which several new models fall in between these classifications. (For an in-depth discussion of this classification system, see (4).)

Common goals among shared-use vehicle organizations (as reported in the authors’ 2001-2002 survey) include:

- Facilitating more efficient land use (e.g., reducing number of parking spaces needed);
- Providing cost savings since customers pay per use, sharing vehicle leasing costs, maintenance, and insurance;
- Increasing mobility options and connectivity among transportation modes; and
- Reducing pollution, if vehicle links to alternative travel modes—e.g., commuters using transit augment travel with a shared car—or fleet consists of “clean fuel” vehicles.

This paper provides an overview of shared-use vehicle system growth and market developments in the U.S. from 1998 to present. From June 2001 to July 2002, the authors conducted a longitudinal survey of 13 operational carsharing and five station car programs to monitor trends and developments. Organizations were surveyed through a combination of e-mail questionnaires and telephone interviews three times throughout the year. Researchers also updated data from each organization’s web site, if available, and from press releases and articles. Researchers designed the initial questionnaire to collect data on a range of issues—organizational size, business costs and financing, operational models, technology, and marketing. A database was created to monitor reported changes. The second questionnaire was implemented as a phone interview in March 2002, and focused on new developments and membership. During this phase, several organizations were added and eliminated, resulting in 18 total programs. The predominant reason for termination was insurance rate increases following 9/11. The final survey, conducted from June to July 2002, focused on membership and cost concerns, primarily insurance and technology. In addition, researchers interviewed insurance providers and technology companies to gain a better understanding of key issues and possible solutions. While a dozen planned shared-use vehicle efforts were identified throughout this study, seven had developed detailed business plans. Of these organizations, three were unavailable for comment, and four were interviewed as part of the final survey.

This paper includes two main sections. The first is an overview of market growth for shared-use vehicle programs since 1998, in which the authors discuss the emergence of more growth-oriented organizations, total membership, and vehicle trends. In the second section, the authors examine several challenges facing organizations and explore opportunities to overcome them. Finally, the authors provide a summary of key observations and conclusions.

U.S. MARKET DEVELOPMENTS OF SHARED-USE VEHICLE SERVICES

Shared-use vehicle services were largely popularized in Europe in the late-1980s. In its nascent stages, U.S. shared-use vehicle organizations have sought European guidance. Prior to the 1980s, European carsharing was experimental and limited to small, localized organizations. Two influential carsharing organizations were formed in the late-1980s—

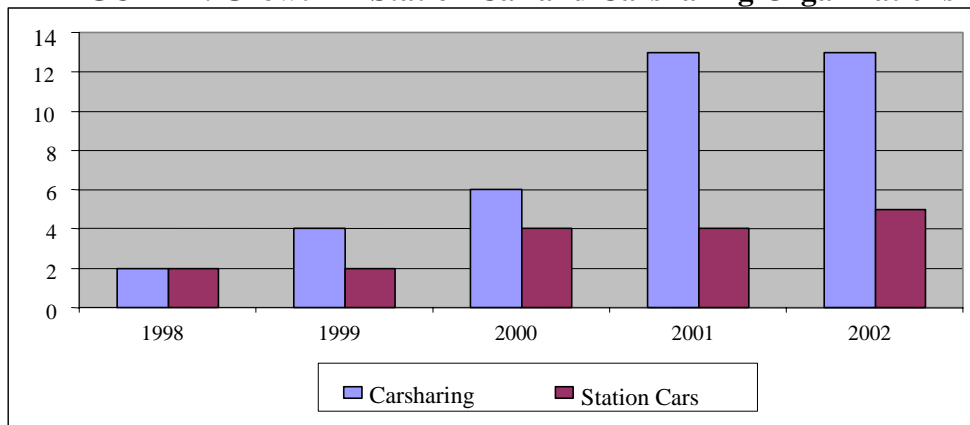
StattAuto in Berlin and Mobility CarSharing Switzerland. Mobility CarSharing Switzerland has continued to grow—now claiming 50,000 members—while StattAuto’s growth began to stagnate in the mid- to late 1990s (1). Switzerland’s success has been credited to a more business-oriented approach, which has been emulated by many organizations. In North America, carsharing was first successfully established in Canada in 1994 by a cooperative, which later adopted a commercial model (CommunAuto). By 1998, four non-profit organizations had emerged in the U.S. In the mid-1990s, U.S. rail transit operators, seeking to relieve parking shortages at stations, also launched several electric station car programs (1).

Since early U.S. developments, there are now 18 shared-use vehicle organizations: eleven carsharing organizations; five station car programs (two are located in California; the others are in New York and New Jersey); and two carsharing research pilots (both in California) (See Figure 1 below). At present, there are at least 11 U.S. shared-use vehicle deployments planned. As of July 2002, station car programs claimed 163 members and 121 vehicles, while carsharing programs collectively claimed 12,098 members and operated 455 vehicles. The majority of shared-use vehicle members (80 percent) live in the 25 most densely populated cities in the nation.

While survey findings demonstrate a decline in the number of organizational starts between June 2001 to July 2002, the rate of operational launches into new cities (i.e., existing organizations replicate and enter new regions), total membership, and fleet size continue to increase (Figure 2 below). This indicates several possible trends:

- 1) An unmet demand for short-term vehicles that supplement existing transportation networks;
- 2) Emergence of more growth-oriented organizations that can quickly enter new cities; and
- 3) A change in market forces (e.g., fixed costs, such as vehicle leasing, and insurance expenses have increased or start-up grant funding has declined or both).

FIGURE 1: Growth in Station Car and Carsharing Organizations

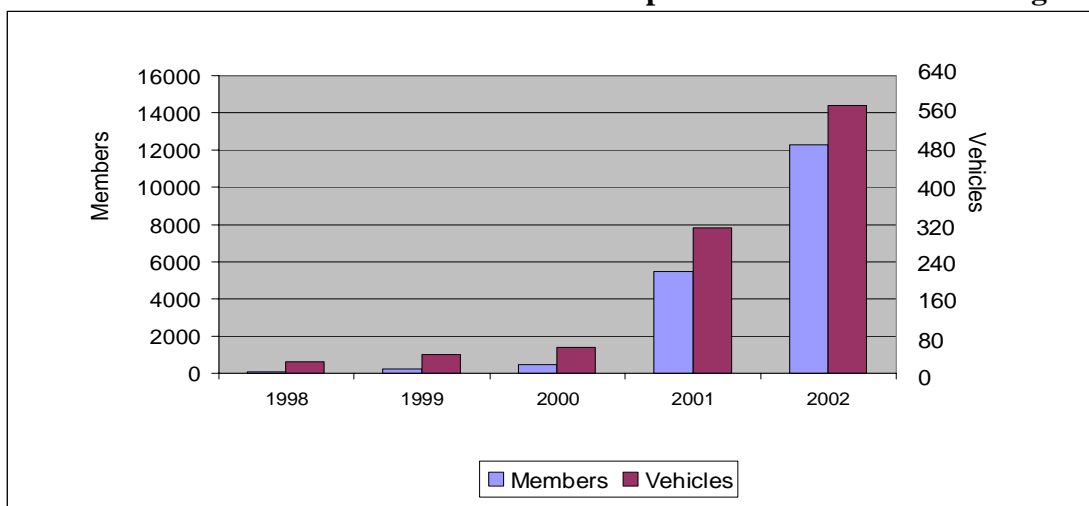


As mentioned earlier, a few organizations serve the majority of U.S. shared-use vehicle program members in multiple regions. For instance, City CarShare, Flexcar, and

Zipcar each operate in several cities. Collectively these organizations serve 92 percent of all U.S. members and deploy 64 percent of the vehicle fleet.

Almost exponential growth in U.S. shared-use vehicle membership further demonstrates that existing organizations are developing effective strategies to attract a growing membership base. High growth rates between 2000-2001 are due to two organizational launches characterized by large start-up funding, capital investments (i.e., advanced technologies), and rapid growth rates. Total carsharing fleet size reveals a similar trend (see Figure 2). Total station car program membership grew from 25 in 1998 to 163 in July 2002, and the number of vehicles increased from 16 to 121. A significant increase in membership and vehicles between 2001-2002 resulted from the launch of the New York Power Authority (NYPA) Ford Station Car Program in December 2001.

FIGURE 2: Growth in Vehicles and Membership of Shared-Use Vehicle Programs



Shared-use vehicle programs continue to grow. However, only a few are responsible for most of this expansion. Several growth-oriented organizations have emerged that are pioneering new market segments and diversified rate structures, partnerships with the public and private sectors, and advanced technology applications (6). However, such developments may be hindered due to increased insurance costs and scarcity of cost-effective shared-use vehicle technologies, as reported by respondents. In the next section, the authors describe market obstacles and explore possible solutions.

SHARED-USE VEHICLE MARKET GROWTH: OBSTACLES AND OPPORTUNITIES

The reduced number of organizational launches amidst continuing market, membership, and fleet expansion indicates that entry barriers likely exist and could be increasing. The high fixed costs of vehicle lease/purchase, technology development, and insurance are significant deterrents to a new organization's market entry. Indeed, in a survey of four planned organizations, all respondents ranked insurance costs as their greatest concern. The second most frequently cited challenge was vehicle leasing/purchase costs (according to 75 percent of the respondents). Seventy-five percent also reported technology as a key success factor for growth, although 50 percent considered current technology costs as prohibitively expensive. Furthermore, management costs ranked

among the top three concerns reported by 50 percent of respondents. While insurance was not listed as a major cost or concern in the 2001 survey, by July 2002 researchers found it a major challenge to expansion and sustainability among the majority of respondents. This section includes a discussion of the two main challenges identified (and opportunities for addressing them): access to affordable insurance and technology.

Insurance Coverage: A Brief History, Current Issues, and Potential Solutions

Since late-2001, U.S. shared-use vehicle services have found it more challenging to obtain affordable insurance coverage. The authors interviewed existing and planned carsharing organizations to assess the severity of sharp increases on business development. Not surprisingly, station car and carsharing research programs are more insulated from these difficulties; their policies are typically supported by agency relationships or partnerships with automakers and rental car companies. Furthermore, the station car business model resembles that of a lease or a company fleet, which is more familiar to insurers. Nevertheless, the recommendations provided below are applicable to all shared-use vehicle models.

Researchers conducted expert interviews with several brokers and underwriters with shared-use vehicle experience, as well as a literature review of insurance trends, underwriting methods, and basic definitions. This discussion focuses largely on the roles of brokers and underwriters. Underwriters determine insurance classifications and corresponding premium prices. Brokers act as intermediaries between shared-use vehicle organizations and underwriters. Four disclosed past and present shared-use vehicle insurers were contacted; another six were referenced but not identified. Research was partially hindered by the complexities of the insurance industry (e.g., a diverse range of approaches) and confidentiality of insurer-client relationships. Based on expert interviews, researchers identified several strategies that could lead to lower insurance rates and attract additional providers. This section includes a discussion of shared-use vehicle insurance history, recent changes, and possible strategies.

Past Challenges to Recent Market Shifts

Early on, organizations experienced difficulty procuring shared-use vehicle insurance. Most firms were only willing to provide minimum insurance and required members to provide additional coverage—a scheme modeled after rental car insurance policies. Eventually, interest in carsharing by VPSI (a vanpool fleet provider) led to a contact at “Insurance One” (now called the Hilb Rogal and Hamilton (HRH) Company of Metropolitan Washington), a brokerage primarily serving vanpool fleets (Dave Brook, unpublished data). Via HRH, many U.S. organizations have acquired coverage. In addition, several smaller organizations have obtained insurance through relationships with local providers, who do not have an interest in writing new policies for shared-use vehicle services (according to policyholders). In July 2002, two non-profit insurers began to provide auto insurance for non-profit carsharing organizations. The Alliance of Nonprofits for Insurance, Risk-Retention Group (ANI-RRG) and the Nonprofits’ Insurance Alliance of California (NIAC) currently insure one carsharing program each. The policies feature premiums comparable to the costs of a regular commercial fleet policy and include auto liability and physical damage coverage. Both insurers only cover non-profit organizations classified as 501(c)(3) institutions and evaluate potential

insureds on a case-specific basis. ANI-RRG currently offers services in 12 states (Steve Moody, unpublished data).

At present, there are approximately eight insurance companies actively carrying carsharing policies. Since many station car programs are comparable to company fleets or rental cars—serving commuting employees of one employer or a single household—just one of five U.S. station car programs is currently insured by an insurance carrier; the remaining programs are either self-insured or covered by members' personal or commercial insurance policies.

Between 1998 and 2001, shared-use vehicle insurance premiums were within a range of \$1,200 to \$2,100 per vehicle/year. However, rates increased dramatically in 2001 across the entire insurance industry, resulting in significant changes for the shared-use vehicle market. One reason for increased insurance costs is the economic situation of the insurance industry. In 2001, the industry reported a negative 2.7 percent rate of return—the worst in the insurance sector's history. The following factors have contributed to the insurance industry's tremendous losses: 1) September 11, 2001 terrorist attacks; 2) high catastrophe losses; 3) rising medical costs; 4) high litigation expenses; 5) the Enron debacle; 6) underpricing of insurance services during a soft market in the late-1990s; 7) economic recession; and 8) falling financial markets (7, 8).

Furthermore, several factors in particular contributed to rising automobile insurance costs. These factors include: 1) medical cost inflation; 2) higher jury awards in auto liability cases; 3) increased vehicle repair costs; and, 4) severe fraud problems in several states, such as New York, Florida, and Massachusetts. Furthermore, a recent Georgia Supreme Court decision mandated that insurance companies must compensate car owners for the diminished value of automobiles involved in accidents. This applies even if the vehicle is repaired and fully functional (9). In light of these market forces, insurance companies have become more conservative in selecting markets to insure. Insurers are less likely to take on newer, undefined risks. Of the total U.S. shared-use vehicle insurers, three terminated coverage. At present, many insurers are unwilling to insure carsharing. Indeed, one broker reported rejections by 250 companies in the last four years (Michael Boylan, unpublished data); another contacted nearly 20 insurance companies before terminating a recent search.

Current Status and Market Barriers

During 2001-2002, several shared-use vehicle organizations experienced increases in renewal rates of 50 percentage points or more. One organization even terminated operations due to a 500-percentage point increase in premiums. As of July 2002, shared-use vehicle organizations reported premiums ranging between \$1,200 and \$6,000 per vehicle/year, reflecting a one to two million-dollar liability limit and \$500 to \$1,000 deductibles. (Four of the five station car programs are not included in these figures since vehicles are insured as company fleets or through private insurance policies. Also, a few carsharing organizations reported spectrum unique arrangements that are not available to others.) The majority of shared-use vehicle organizations pay between \$4,800 and \$6,000 per vehicle/year; this accounts for 20 to 48 percent of an organization's total costs. On the high end, shared-use vehicle organizations reported approximately 1.7 collision claims per 10 vehicles/year—resulting in costs of \$600 to \$900 per claim. No medical liability or bodily injury claims have been reported to date. Costs are also reflected in total staff

hours dedicated to obtaining affordable insurance coverage. A few organizations are committing up to 25 percent of high-level staff time to this problem.

At present, shared-use vehicle services have not yet been assigned a risk class within the insurance industry. Classification is the process of assigning a proposed party to a group or class of “insureds,” with approximately the same expected loss probabilities (10). To develop a premium for a new class of insureds, an underwriter relies on credible historical data to characterize risks across time and factors. Credible data require a large sample size over at least three years. Significant data are generated from 10 years of experience and several millions in premiums (Michael Boylan, unpublished data). When historical data do not exist, the underwriter can use expert judgment to aggregate similar risks and infer applicable ones for a new class (11).

There are several disadvantages associated with an unclassified insurance status. First, policies will vary widely among carriers, who interpret shared-use vehicle risks differently, making it difficult for carsharing providers to predict premium costs (i.e., there is no standard). Second, in the current economic climate, insurers are less likely to explore new markets, so shared-use vehicle organizations have fewer options (and less consumer power due to decreased competition). Finally, premiums are raised to cover unknown risks and the expense of developing a new classification category.

Possible Strategies: Lowering Insurance Premiums for Shared-Use Vehicles

Based on the authors’ examination, four strategies are recommended for addressing recent insurance hikes experienced throughout the shared-use industry during the past year. They include: 1) developing risk rating factors and actuarial tables for U.S. shared-use vehicles, 2) applying advanced technology applications, 3) pursuing a captive self-insurance strategy, and 4) investigating usage-based insurance approaches. Each is discussed below.

Risk-Rating Factors and Actuarial Tables: Risk-rating factors provide a means for appropriating and measuring driver and vehicle risk. Thus, they are important to carsharing providers in calculating risks and corresponding premiums. Actuarial tables summarize risk-rating factors and assign pricing structures for each. Determining accurate rating factors requires the expertise of an actuarial analyst, who applies vehicle and driver statistics in assessing risks. Developing a new class can be time consuming and costly for insurers.

As a first step in lowering premiums, risk-rating factors and actuarial tables must be developed to help shared-use vehicle organizations minimize and manage risk exposure. To accomplish this, the authors recommend that:

- 1) Shared-use vehicle organizations collaborate in helping underwriters establish standard risk-rating factors through documentation of accident history, vehicle and driver profiles, fleet usage patterns, and preventive actions (e.g., theft prevention devices); and
- 2) Public assistance opportunities should be explored to establish shared-use vehicle risk-rating standards.

Based on the authors’ review of the literature and interviews with brokers and underwriters with shared-use vehicle experience, the following rating factors emerged as the most significant in affecting premiums. See Table 1 below.

TABLE 1: Rating Factors for Shared-Use Vehicles

FACTOR	DESCRIPTION & RESEARCH FINDINGS
Unauthorized Drivers	This category was the most common concern among brokers and underwriters. Advanced technologies present a strategy for addressing this concern and minimizing risk exposure.
High Member/Vehicle Ratio	The insurance company takes on the risk of covering multiple drivers on one vehicle policy. Underwriters suggested that screening and continuous monitoring of drivers would slightly lower risk.
Geographical Location of Fleet/Vehicle	Underwriters perceive that shared-use vehicle services are offered in metropolitan areas primarily, where risk exposure is generally higher. Underwriters were unclear regarding geographical driving restrictions. One broker recommended that shared-use vehicles be limited to an 80 km (50 mile) radius of respective lots to reduce risks.
Fleet Scale	The “Law of Large Numbers” means that the scale of the insured contributes to policy profitability, data credibility, and price competition among insurers. All insurers interviewed suggested that carsharing fleet scale and potential market growth are key factors in a decision to offer carsharing insurance. Approximations of ideal fleet size were not provided; however, analogies were drawn to large car rental companies, with fleets ranging between 148,000 to 486,138 vehicles (12).
Driving Records and Personal Driver Profiles	Underwriters were supportive of shared-use vehicle efforts to screen drivers and did not want to be responsible for this duty.
Claims History	There was a difference in opinion among insurers regarding how much claims data are needed to provide credible evidence for a risk-rating factor (e.g., between three to ten years). Underwriters for a majority of carsharing organizations were unaware of any significant claims in 2001-2002.
Vehicle, Make, Model, and Age	All of these vehicle attributes influence premiums. Car rental risk rates are reduced when cars are between one to two years old, as opposed to three to five years or older.
Usage Statistics	The assumption that shared-use vehicles are driven more than average vehicles contributes to higher premium prices. An underwriter for a U.S. carsharing insurance provider (as of July 2002) estimated that the average carsharing vehicle is driven approximately 28,800 km/year (18,000 miles). According to the shared-use vehicle survey, the majority of vehicles are driven between 19,200 and 23,040 km/year (12,000 and 14,400 miles). In comparison, the average operator of a personal vehicle drives nearly 19,920 km/year (12,388 miles) and pays \$700 in total premiums per car/year (13). Average mileage was not reported by three U.S. station car programs; however, two programs reported an annual mileage between 5,760 and 8000 km/year (3,600 to 5,000 miles). Accurate usage statistics would assist insurers in determining appropriate premiums.

At present, the small scale of the shared-use vehicle market deters insurers from investing time and resources into analyzing appropriate rating factors for a classification. Data should be aggregated across the shared-use vehicle industry to make the model as transparent as possible for insurers in developing risk-rating factors and actuarial tables. Automated vehicle tracking technologies could also be used to accurately track and report actual vehicle usage for risk assessment.

Advanced Technologies: A number of vehicle security technologies can also be employed to lower insurance costs. First, premiums for bodily injury and medical

insurance can be decreased by incorporating automated seatbelts into shared-use vehicles. Discounts can account for up to 25 percent of total medical liability premiums (14). Medical liability coverage accounts for up to 60 percent of total insurance premiums (University of California's Partners for Advanced Transit and Highways (UC PATH) shared-use vehicle survey, unpublished data). Second, several anti-theft devices can earn discounts of up to 35 percent off comprehensive coverage, including vehicle immobilizers that prohibit unauthorized users, smart keys that facilitate vehicle access to specified keyholders only, and vehicle tracking devices that increase stolen vehicle recovery rates. While anti-theft devices impose a one-time initial cost, they can provide increased security and insurance benefits over several years (14, 15). Comprehensive coverage premiums constitute between 10 to 15 percent of total insurance costs in shared-use vehicle programs (UC PATH survey, unpublished data). Nevertheless, a cost-benefit analysis should be conducted before investing in anti-theft technologies. Since vehicle type and geographical location are the two major factors used to set comprehensive premiums, comprehensive insurance costs and the feasibility of anti-theft devices can differ based on these factors.

Finally, a vehicle tracking system also allows for automated vehicle usage information and can recognize misuses. Accordingly, insurers could receive automated vehicle-usage data for risk assessment and quoting purposes. Indirectly, vehicle tracking can also positively influence user treatment of vehicles. Despite these benefits, most insurers interviewed were unaware of vehicle tracking benefits for shared-use vehicle programs and were unable to provide corresponding premium discounts.

In addition to immediate security benefits, advanced technologies present another opportunity for shared-use vehicle organizations to provide accurate risk-factor data to insurers, which could ultimately lower insurance rates.

Captive Self-Insurance Strategy: Self-insurance is another strategy to reduce high carsharing insurance premiums. This strategy can be advantageous for many small-scale organizations that could not otherwise self-insure and offers an alternative to commercial policies. With self-insurance, the individual/organization assumes financial risk directly, instead of paying an insurance company to cover risks (16). Another form of self-insurance is a high deductible. Recently, one shared-use vehicle organization began insuring their fleet through a high deductible. In this case, the insurance company insures their liability only. The low comprehensive and collisions claims history of U.S. shared-use vehicle programs also suggests that they may be good candidates for self-insurance.

Another strategy is to create a "captive" self-insurance pool. This approach would entail four steps. First, shared-use vehicle organizations would agree to participate in and identify a number of operational standards, e.g. the necessary degree of driver screening. Second, in addition to premium payments, organizations would attract private or public (or both) investments proportionally to their fleet size for creating a "risk retention pool" to cover risks. Based on the current national fleet size, the pool would require approximately \$4 to \$6 million. Investors would be compensated from the profit pool in a manner negotiated. Third, an "association captive" (a non-insurer or an existing insurer, or a non-insurer or insurer created/owned by the group to underwrite collective risks) would be established. The association captive would administer claims, primarily those covered by premiums. Fourth, a "reinsurer" would be identified to cover part of the risk

retention pool fund costs and any possible costs exceeding the fund. In exchange for this role, the reinsurer would receive a portion of premiums and residuals.

Based on estimates from the principal U.S. shared-use vehicle broker and correspondence with underwriters, the following price structures seem reasonable under this scheme:

- Premiums of \$2,500 per car/year. This figure is based on four years of experience in brokering for shared-use vehicle organizations and inference to vanpools and other fleet applications.
- Approximately 42 percent of premiums collected in this model would cover the following expenses: specific claim losses, claim settlement costs, payments to agents or brokers, taxes, administrative costs, and initial acquisition expenses to establish the association captive.
- Expected losses per year of approximately \$750/vehicle.
- Seven years is the anticipated timeframe before the premium surplus would sufficiently support the risk pool (and investors are no longer needed) (Michael Boylan, unpublished data).

There are several potential benefits of the captive self-insurance approach. First, shared-use vehicle service providers would have more influence over their risk-rating structure. The formation of this shared-use vehicle pool would facilitate collection of significant historical data after a period of three to ten years. Pooling would also leverage the scale of respective fleets, so that underwriting is streamlined and more profitable for insurers, resulting in lower premiums. Furthermore, premiums could be lowered if organizations shared insurance overhead, agent commissions, and tax costs. Finally, investment income would be generated from premiums paid to insurance companies on reserves. Also, this approach could empower shared-use vehicle providers in determining the nature of their own risk exposure and refining business models to minimize risk (Michael Boylan, unpublished data).

Overall, many surveyed organizations reported an interest in self-insurance. However, they expressed concern about generating a risk fund pool and maintaining a competitive edge, while cooperating. Furthermore, the formation of a captive self-insurance scheme would require some level of standardization in business practices. Clearly, such a scheme would benefit from the guidance of an advisory board comprised of shared-use vehicle practitioners and experts, insurers, and other public interest representatives.

Usage-Based Insurance: Usage-based insurance is a concept that was piloted and copyrighted by Progressive Casualty Insurance Company in July 2000. In addition, Norwich Union, an U.K. auto insurer, offers usage-based insurance through an agreement with Progressive (Progressive Public Relations, unpublished data). This system bases auto insurance rates largely on when, where, and how much a vehicle is driven (17). While driving record, vehicle, and location are still taken into consideration in this model, the customer's rate varies largely due to mileage. Progressive's system, named "Autograph," employs a combination of Global Positioning Systems (GPS) and cellular technology to track vehicle usage. This concept is one that resonates well with the shared-use vehicle model: Carsharing typically aims to assess fees for variable vehicle

use, and several large-scale operations have employed automatic vehicle tracking systems to monitor usage.

A number of obstacles hinder the implementation of usage-based insurance; some of these obstacles parallel those faced by shared-use vehicle organizations trying to obtain more affordable coverage. From the insurer's perspective, a shift to a new rating structure is risky without a guaranteed large consumer demand. Also, this new rating system requires deployment of affordable in-vehicle technologies to monitor use. Additionally, there are numerous political sensitivities (e.g., privacy) associated with the use of on-board monitoring equipment and mileage as a principal risk-rating factor. If a viable business case is developed for usage-based insurance, the shared-use vehicle market should be considered for piloting and marketing this concept.

In the next section, the authors focus on another challenge in shared-use vehicle services—advanced technology—and opportunities for lowering access and cost barriers.

Advanced Technology: Accessing Cost-Effective Systems

Rapid growth in shared-use vehicle membership and fleet size creates a challenge to efficiently managing expansion and more complex operations (6). Advanced technologies are key to decreasing administration costs. Interoperability, supported by some degree of standardization among technologies, can further improve customer services (e.g., use of smartcards among shared-use vehicle programs and transit). Existing technologies already provide solutions for some shared-use vehicle challenges. However, technological systems tailored to the needs of shared-use vehicle providers (e.g., data collection to support insurance approaches, such as usage-based fees) could further enhance overall market growth and operations.

Several organizations have taken an active approach in researching and developing new technologies. Each system has been developed independently, limiting opportunities for interoperability among systems, organizations, and transit services. Since development expenses can easily exceed the budget of a single organization, partnerships among shared-use vehicle programs could leverage resources to attain necessary funding and attract technology manufacturers. In addition, technology providers could become potential stakeholders in the shared-use vehicle industry. This section explores challenges to accessing customized technologies, current applications and benefits, and cooperative strategies for enabling the development and distribution of tailor-made, cost-effective technologies.

The Challenges to Accessing Customized Technologies

The majority of shared-use vehicle providers surveyed—especially those with aggressive growth objectives—agreed that advanced technologies are a driving force behind successful operations. Organizations that did not recognize technology as essential typically had more limited growth objectives. The majority of shared-use vehicle service providers reported that advanced technologies could greatly enhance operations, serving larger and more diverse populations. For example, smart technologies can facilitate one-way rentals (i.e., members are not required to return vehicles to the same location), increasing market penetration. Furthermore, several providers also noted the advantages of smart chip technologies in linking their services to other shared-use vehicle operators and transit systems.

Throughout the survey, many respondents expressed a need for more affordable technologies but lacked sufficient scale to justify system acquisition. Not surprisingly, high technology development costs have deterred most U.S. organizations from developing systems, with just a few exceptions. Such developments have occurred independently through large start-up grants or university-sponsored pilot programs in conjunction with the private sector. Additionally, these efforts are continuously burdened to upgrade their technologies. In the next section, the authors describe current technology applications and realized benefits.

Current Technology Applications and Realized Benefits

ITS technologies are currently used to improve three main areas of operations: 1) vehicle access (smartcards), 2) reservations, and 3) data collection.

Smartcards and key fobs communicate user information to a centralized database that employs member IDs to track driver activities for billing and security purposes. Smartcard technologies have the potential to streamline administration and fleet management and link to a variety of transportation services (e.g., carsharing, smart parking, and transit).

Automated reservations via online, voice recognition or touch-tone telephone systems enable quick and convenient customer scheduling in addition to decreased labor and administration costs.

Finally, automated vehicle location technologies are used to track shared-use vehicle fleets over a cellular communications, radio frequency, or satellite-tracking network. Improved member tracking can be used for automated billing and increased security (e.g., vehicle immobilization), hence streamlining management and customer services.

FIGURE 3: U.S. Shared-Use Vehicle System Technology Approaches

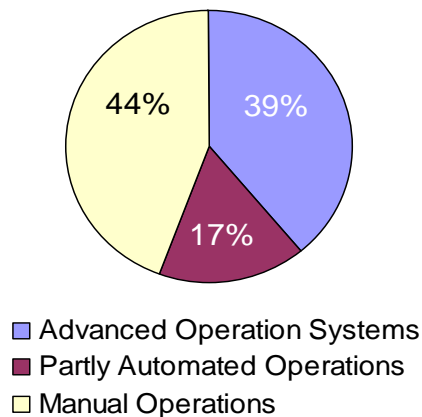


Figure 3 (above) illustrates the distribution of carsharing providers employing ITS technologies, ranging from manual operations (e.g., operator phone services, in-vehicle trip logs), to partially automated (e.g., automated reservations via touch-tone telephone or Internet or both), to advanced operations (e.g., smartcard access, automated reservations

and billing, automated vehicle location, and cellular/radio frequency communications). As illustrated, 39 percent of U.S. shared-use vehicle organizations have advanced operations; 17 percent provide partially automated services; and 44 percent offer manual services. At present, all five station car programs employ manual operations. All organizations employing advanced systems comprise 76 percent of the total shared-use vehicle fleet.

Although existing technologies can address many challenges of shared-use vehicle services, technological systems tailored to the needs of shared-use vehicle programs could further enhance market growth and operations (e.g., insurance data collection requirements). City CarShare, for example, is currently developing software that will be licensed at no cost to other non-profit organizations. This open source system will allow license-holders to modify and customize software to their specific needs. Similar to the Linux concept—a free computer operating system available to download and modify—this approach is based on the idea that collective input will accelerate innovations at a lower cost. Furthermore, start-up organizations have recently begun leasing customized technologies and services (e.g., billing) from larger organizations. Both strategies mentioned here support cooperation. In the final section, the authors explore benefits of a cooperative approach to technology development.

Cooperation: Leveraging Expertise and Scale to Develop Cost-Effective Technologies

Cooperation among shared-use vehicle organizations could be an effective means to decrease technology development costs. There are essentially two possible approaches to furthering cost-effective, technological advances in shared-use vehicle systems. First, large, business-oriented shared-use vehicle providers invest in researching new technologies and applications. When applicable and feasible technologies are developed, they can be marketed to other shared-use vehicle organizations. Second, several shared-use vehicle organizations combine their research investments to implement and develop technology for industry-wide operations.

The first approach partly resembles the current state of the industry. Due to high technology development costs, however, sales to other operations only cover a small portion of initial expenses. As a result, a developed system must prove extremely viable for a particular organization. To date, development has been largely dependent on grant availability. Innovations, even if determined essential, are dependent on subsequent grants or unique opportunities (e.g., private sector grants). To evaluate the second, cooperative approach, a more detailed analysis of customized technology systems is discussed below.

Customized technologies that address the specific needs of shared-use vehicle programs can provide a powerful tool in improving customer services and streamlining administration. Comprehensive systems with on-board computers and vehicle tracking can process and transmit data on vehicle usage and location for administrative and security purposes. Simultaneously, these systems can offer customer-friendly features including phone access; directions and parking information (e.g., through GPS); reminders on low-fuel levels and rental-time limits; and customer-specific features, such as preferred radio station, seating adjustments, and mapping information. Furthermore, advanced on-board computers can be adapted to new customer demands by adding or

changing software or hardware. This is crucial when vehicle services target new market segments and a more diverse customer base.

According to industry expert interviews, costs of a customized system, including on-board computers and tracking devices, can range between \$500 (when several existing components are incorporated) to \$4,000 per vehicle for a state-of-the-art system, with highly specified software and hardware components and a high degree of upgrade flexibility. Installation typically does not exceed two labor hours. Due to costs and long development times (i.e., typically over six to twelve months), technology providers are unlikely to design customized systems for small fleets. When interviewed, technology developers reported that fleets of several hundred to one thousand vehicles would be economically viable from a manufacturer's perspective.

As the combined fleet of U.S. shared-use vehicle operators currently totals 576 vehicles, cooperative efforts would appear beneficial in attracting the technology sector. Large-scale partnerships among shared-use vehicle providers could lead to necessary funding and a larger aggregate fleet size could attract technology manufacturers. This would also encourage continuous development efforts due to larger, more sustainable industry relationships.

Finally, technology partnerships could lead to a greater degree of technology standardization and facilitate interoperability among different shared-use vehicle organizations. Improved interoperability can enhance customer service. For example, four carsharing organizations located in four different cities in Ontario agreed that the members of a particular organization should have the option to conveniently access the services of another when traveling. To facilitate this partnership, the four organizations share the same insurance carrier, which helped them overcome challenges related to insurance coverage. In the U.S., non-profit organizations may have the opportunity to create such synergies with the recent emergence of a non-profit insurer and City Carshare's technology-sharing program. To summarize, these partnerships positively affect the market since overall carsharing vehicle use and customer satisfaction increase.

CONCLUSION

Despite promising U.S. shared-use vehicle operation and membership growth rates, the relative small scale of shared-use vehicle organizations presents a challenge to: 1) obtaining affordable insurance and, 2) covering other high capital costs, including technology, vehicles, and labor. While advanced shared-use vehicle technologies can help organizations to reduce administrative costs and potentially lower insurance premiums, technology deployment has typically required large private investments or public development grants.

Strategic cooperation among shared-use vehicle organizations could address these challenges on several levels. First, limited cooperation could help organizations collectively address some insurance issues (e.g., development of risk-rating factors). Furthermore, involved cooperative efforts could support more aggressive strategies, such as captive self-insurance.

Second, cooperation among shared-use vehicle organizations could also accelerate the development of interoperable, customized technologies and continued innovation by creating the scale necessary to attract technology providers. Additionally, a combined insurance-technology cooperative strategy may be even more

beneficial—lowering insurance premiums, enhancing customer services and capabilities, and lowering capital costs.

Third, cooperation could also manifest highly desirable social and environmental benefits. The potential of new and existing shared-use vehicle service organizations to continue expanding and serving new markets could be greatly enhanced through supportive public-private partnerships. Policymakers and transit operators, for instance, should continue to explore the social and environmental benefits of shared-use vehicle services through grant making, preferential parking, supportive policies (e.g., high occupancy vehicle (HOV) lane access), and outreach/marketing. Strong public-private partnerships are needed to facilitate the on-going development and sustainability of viable U.S. shared-use vehicle programs. Thus, it will be important for the public and private sectors to continue working together to monitor system designs and impacts and to facilitate and encourage collective partnerships among shared-use vehicle organizations particularly where tremendous synergies could be realized, such as insurance policies and customized technologies.

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