Road Safety Guidelines
for the Asian and Pacific Region

4.3

ROAD SAFETY FUNDING AND THE ROLE OF THE INSURANCE INDUSTRY

Asian Development Bank

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Funding of road safety is primarily the responsibility of the central government, supported as necessary by regional or provincial governments. However, the private sector and especially the insurance industry can and should play an important role in tackling road safety. But with a few notable exceptions, it does not yet do so in developing countries.

The insurance industry role is too often limited to the postaccident stage and, while vast sums are spent on accident claim compensation, little thought or financing is directed at road accident prevention. Increased motorization and the associated rise in accident claims require the active involvement of the insurance industry as it bears the majority of the costs of road accidents, and should assume greater responsibility for financing and directly promoting road safety.

The insurance industry can participate both via funding and by sharing its business and marketing skills to assist government in tackling a country's road safety problems.

Insurance companies in many countries, such as Australia, Canada, Finland, and other European countries, have found that there are significant advantages from investing in road safety, as the benefit in terms of reduced claims (because of reduced numbers of accidents) often outweighs the amount invested. The industry also benefits from an improved public perception of being seen as a socially responsible industry.

Other private sector organizations, especially fuel companies and organizations with large vehicle fleets and many drivers, can also help and profit by investing in road safety. Their involvement should be actively sought and encouraged by government.

PRIORITY ACTIONS NEEDED

1. Government should actively seek and encourage the private sector (e.g., fuel companies, transport operators, and especially the motor insurance industry) involvement in funding relevant road safety activities.

2. Legislate a mandatory requirement of third party motor insurance on all drivers, with, say, 5-10 percent of premium as a levy for road safety activities.

3. Motor vehicle insurance regulations should be enforced in order to achieve a high rate of coverage and maximize insurance contribution to road safety.

Opportunities do exist for governments to draw the insurance industry and other private sector interests into the battle to improve road safety by establishing voluntary or compulsory levies. Investment in road accident prevention can reduce outlays in accident insurance claim compensation and is seen as a good business decision by those already active in this area.

1 INTRODUCTION

These sector guidelines on "Road Safety Funding and the Role of the Insurance Industry" are from a set of *Road Safety Guidelines for the Asian and Pacific Region* policymakers, developed as part of a regional technical assistance project (RETA 5620: Regional Initiatives in Road Safety) funded by the Asian Development Bank (ADB).

The role of the motor insurance industry is interwoven into the road safety process and in many countries its influence has been beneficial and significant. While many private sector companies have contributed financially to the direct provision of road safety measures, this section focuses on the key road safety agent in the private sector, the insurance industry.

2 WHY IS FUNDING FROM THE INSURANCE INDUSTRY NEEDED?

While the central government is responsible for developing and implementing a coordinated road safety program, much of the economic costs of road accidents are borne by the private sector. Funding for road safety improvements should be shared with those who stand to gain from accident prevention measures[1].

In most countries, the insurance industry has traditionally limited its involvement to postaccident compensation payments. A no-claims discount was most probably the only incentive or attention that motor vehicle insurance companies gave to accident prevention. This situation has proven unsustainable with many insurance companies (in developing countries), incurring excessively high claims loss ratios; i.e., the amount of money paid in accident claims compared to that collected in policy premium payments, as accident claims increase rapidly in the countries undergoing rapid motorization.

For several decades, motor insurance companies in many industrialized countries have been involved in supporting road safety efforts through the provision of money, either voluntarily or through legislation, and through other means, including research, lobbying for change, and campaigns. While the government will be faced with multiple serious economic and social needs, the insurance industry has a vested interest in seeing road safety receives adequate attention, and that efforts are made to reduce accidents.

The large amounts of regular income that can be raised for road safety via a small levy on third party insurance premiums (TPIP) can be illustrated by some examples. The State of Victoria in Australia, by imposing a levy of 10 percent of TPIP (equivalent to US$21 per vehicle per year), raises US$56.65 million a year for investment in road safety. Finland, which imposes a levy of only 1 percent of TPIP (US$3.67 per vehicle per year), raises US$8 million per year. East European countries, with encouragement from the World Bank, are imposing levies of about 8 percent of TPIP and these will raise annual amounts of US$28 million (Poland), US$20 million (Hungary), US$12 million (the Czech Republic) and US$7 million (Slovakia).

Adoption of similar approaches in the Asian and Pacific region and adoption of a levy on TPIP (accompanied by a requirement for and enforcement of third party insurance for all motorized vehicles) could raise millions of dollars in each country. A levy of only US$10 per registered motor vehicle per year would raise more than US$1.5 billion annually in the developing countries of the Asian and Pacific region.

Individual Asian and Pacific countries could raise substantial income from such sources and Table 1 provides examples of income possible from a US$10 levy in the selected countries shown.

Table 1: Potential Annual Income from a US$10 Levy on Motorized Vehicles

Country	Annual income (US$ million)
People's Republic of China	273.0
India	252.0
Indonesia	111.0
Republic of Korea	80.0
Lao PDR	1.3
Malaysia	66.6
Philippines	21.2
Sri Lanka	8.6
Taipei,China	148.0
Thailand	110.6
Viet Nam	33.9

Motor insurance involvement is also beginning to occur in some developing countries (e.g., in Fiji a voluntary levy on insurance is financing the recently inaugurated National Road Safety Council [NRSC]). Consequently, those insurance companies involved must see benefits for their industry in being involved in such activity.

3 KEY COMPONENTS

3.1 Legislation

If support from the motor insurance industry is to be significant, then the industry itself must be well established and of a sufficient size to have funds that can have an impact on road safety. Such an industry results from legislation that requires **all** drivers to have at least third party insurance and then grows as the vehicle fleet expands and the population increasingly invests in insurance in other fields apart from vehicles, such as home contents or structure.

In recent years, many countries have introduced third party motor vehicle insurance requirements for all motor vehicles. Two exceptions are Bangladesh, where government vehicles are exempt, and Nepal where vague wording of legislation leaves the requirement of motor vehicle insurance on private vehicles unclear.

Legislation should also stipulate, or at a minimum, allow for a levy to be imposed on the total insurance premiums collected and dedicated to road safety. In Fiji the legislation establishing the NRSC stipulates 10 percent of third party premiums are to be dedicated to road safety while the 1996 Motor Vehicle Insurance Act in Kazakstan allows for a special reserve fund to be established for road safety preventive measures, but does not specify a minimum or maximum amount.

3.2 Enforcement

A road safety fund based on insurance premiums will require the enforcement of motor vehicle insurance regulations in order to realize its full potential earnings. Enforcement of insurance regulations has not always followed the enactment of motor vehicle insurance legislation and many vehicles are driven without insurance cover in the Asian and Pacific region.

One way of ensuring motor vehicle insurance regulation compliance is to have proof of insurance as a requirement of the periodic roadworthiness vehicle inspection. Vehicle fitness certificates should not be given without proof of insurance and, while this is a common legal requirement in many Asian countries, the extent to which the inspection authorities enforce this stipulation varies widely. This approach works best if there is also a legal requirement that a valid roadworthiness sticker or certificate must be displayed and clearly visible on the windscreen of the vehicle. In Kazakstan, in order to promote compliance with the new insurance regulations, motor vehicle insurance can be purchased at the vehicle inspection centers.

Proof of insurance coverage can also be confirmed at the stationary checkpoints where traffic police inspect other required documentation, such as ownership, fitness certificates, and route permits. Proof of insurance can also be checked on the same basis as driver licenses when traffic warnings and citations are being issued. Overdue fines for insurance coverage should be set at several times the insurance policy premium value.

3.3 Road Safety Promotion

The role of the insurance industry should not be limited to a passive funding source for road safety. A more active partnership should be sought between the insurance industry and the government. The insurance industry's support and commitment to road safety will be greater if it is involved in the organization of road safety and is able to help determine the use of their funds. Accordingly, the insurance industry should be represented on the finance subcommittee, if not the main body of the NRSC.

The insurance industry can do much to promote road safety in its insurance policies, as well as by sharing data and through the direct organization of road safety campaigns. Most insurance policies in the Asian and Pacific region are still vehicle based; i.e., the premium rate is determined by the type of vehicle and its previous accident record regardless of the experience or age of the driver. A driver-based insurance policy would limit the insurance coverage to only those drivers registered for the vehicle and the premium rate would be higher for any younger drivers or inexperienced drivers, as such groups of drivers have a higher accident risk.

In an attempt to improve the accident risk of novice drivers, insurance companies in the United Kingdom (UK) have recently introduced a scheme where additional training (e.g., motorway driving, advanced driver training, and defensive driving) results in a reduction of the insurance premium cost.

The insurance industry is also a good source for accident data and costs. The total cost of the economic consequences of road accidents often needs to be calculated before governments will begin to invest in road safety. Insurance companies can provide much needed data for accident costing. In a few countries, insurance claim data have been found to be more comprehensive than police data.

Plate 1: Damaged vehicles are a cost to the insurance industry.

3.4 Noninsurance-related Private Sector Support

While all private sector companies would benefit from an improved corporate image by investing in road safety, many private sector organizations outside the insurance industry have a direct incentive in promoting road safety. Businesses with large fleets or expensive vehicles are already interested in reducing road accidents among their own vehicles and adopt safety-conscious policies that include strict testing of potential drivers as well as medical and alcohol testing of current drivers. Advanced driver training may be offered and driver hours controlled. Safety bonuses and awards are also standard policy whereby employers try to offer drivers added incentives for safe driving. In order to be effective, company commitment to road safety must be visible and continual. For example, the Shell Petroleum Company has sponsored defensive driving courses for its personnel in a number of countries (e.g., Brunei and Fiji). In Malaysia, Shell requires its new drivers to undergo a three-day defensive driving course and refresher courses are given every two to three years. Close monitoring is kept of driving records and accidents may be classified as preventable and nonpreventable.

Private sector companies have also begun to promote road safety outside their own immediate interests. One of the major commercial banks in Fiji sponsored the first national road safety conference and elsewhere road safety publications and materials have been published, sometimes in return for the company's logo being included on the documents as a sponsor. The private sector has also sponsored research into driver selection systems in India where psycho-physical tests are being developed.

In the UK many private sector industries have acknowledged the devastating impact of road accidents and have become directly involved in promoting road safety. Some fuel companies have adopted road safety, and Texaco has invested both financial support and employee effort, e.g., in campaigning for the reduction of road accident risks to children. In addition to vehicle design, the automobile industry has contributed to campaigns and Volvo, apart from its prestigious international safety award each year to encourage innovation in road safety, has been active in some countries (e.g., Brazil) in raising awareness of safety issues. The “don’t drink and drive” campaigns during the holiday periods and even the provision of some taxi services and late-night buses in the UK have been cofinanced by the major breweries.

Nongovernment organizations and service groups can also play a significant role in raising road safety awareness among the general public.

They are arguably in the best position to reach the local community and road safety can be easily incorporated into a basic life skills and education program. While private sector work can be organized and provided externally, the initiative should be coordinated with government activity to maximize impact.

Apart from the insurance companies, there is considerable scope for drawing in support and funding for road safety from other private sector organizations.

Many large oil companies, motor manufacturers, and transport operators are often willing to support road safety by sponsoring initiatives such as defensive driving courses and publicity campaigns. Large commercial organizations such as banks and trading companies are often willing to support road safety activity as part of their social obligation, for the public goodwill and good publicity it brings for the sponsoring organization.

4 STAGES OF DEVELOPMENT

Stage 1: Government passes legislation making third party motor insurance compulsory but enforcement is lacking. Few motorists are insured and most accident damages are settled privately.

Stage 2: Motor vehicle insurance begins to receive more priority from the government. The insurance industry is represented on the NRSC and insurance companies and other private sector organizations begin sponsoring one-off events, such as conferences or safety publications.

Stage 3: A closer association between insurance and road safety is developed with new legislation requiring that a levy be imposed on insurance premiums. Insurance requirements begin to be enforced by the police and inspection authorities. At this time, policy issues such as premium rates, policy restrictions, maximum coverage limits, hit and run drivers, and processing times are reviewed. Third party insurance premiums may often be increased slightly at this stage and some of the additional premiums received are invested back into road safety.

Stage 4: In addition to the financing role, the insurance industry assumes a more active role in supporting road safety. Government creates a policy of encouraging private involvement in road safety and sponsorship of road safety campaigns. Insurance companies’ databases are developed to be of use in analyzing road safety problems and are made accessible to researchers.

Joint campaigns between the government and the insurance companies become more ambitious as they realize the benefits that are accruing from their initial efforts and investments. Other companies with links to the motor industry, particularly the fuel industry and motor dealers, become more involved in road safety.

5 BENEFITS AND EFFECTS

The potential benefits resulting from the insurance industry contributing to road safety funding include:

1) new funding source (nongovernmental);
2) marketing and business skills; and
3) improved perception of insurance industry.

The most obvious benefits accrue from the large amounts of money that can become available to help a country start its road safety efforts or continue with its priority program.

Other benefits involve the synergy developed when different disciplines work together in a coordinated way. In particular, the involvement of insurance industry firms enables them to add their professional expertise to road safety matters in such areas as data analysis, marketing, and publicity.

The insurance industry itself will benefit from an improved self-image as the public acknowledges the companies’ social responsibility. Name recognition and corporate image have been found to have been raised from campaigns.

6 EXAMPLES OF GOOD PRACTICE

6.1 Examples from Outside the Region

The situation of insurance premiums funding road safety was well summarized by Lowe[2] at a recent World Bank seminar. The following portion is extracted from that paper and supplemented with other information. Some of the non-Asian countries that have been active include:

1) In 1977, the Province of Quebec in **Canada** adopted a nationalized, compulsory, civil liability insurance scheme using "no fault" principles. The insurer is required to provide driver training and public information campaigns on accident prevention. There has been an improvement in driver behavior, with higher seat belt rates and a fall in accident deaths, which are attributed to the insurers' road safety work

2) In **Finland**, a road safety tax has been levied on compulsory vehicle insurance for about 40 years. At about 1 percent of premiums, the tax raises US$8 million per year. The fund is used to finance the main government organization working in the field of public education, road user information, and road safety promotion.

3) In the **United States** (US), the Insurance Institute for Highway Safety (IIHS) is an independent, nonprofit, scientific, and educational organization. It is supported by the insurance associations as well as by the individual insurance companies and is aimed at reducing the losses — human and financial — caused by road accidents. It produces a monthly publication on road safety entitled *Status Report*.

6.2 Examples from Within the Region

a) *State of Victoria, Australia*

In the early 1980s, compulsory third party injury insurance was provided by a number of commercial companies in Victoria. All of the insurers were losing money, premiums were rising constantly, and no attention was being given to accident reduction and rehabilitation of victims.

In 1985 Government legislated to create Transport Accident Corporation (TAC). In 1987 the TAC came into being with broadly the following functions:

1) to take over all outstanding road accident personal injury claims;
2) to contain the spiralling costs;
3) to provide a "no fault" scheme;
4) to invest in road safety to reduce trauma; and
5) to actively rehabilitate the injured.

TAC is required by law to invest in accident reduction programs as well as injury rehabilitation programs. In 1992/93 it invested US$56.65 million into road safety programs, which was about 10 percent of premiums, and has stated, in its annual report for that year, that the investment made a significant contribution to its profitability by the accident reductions achieved, leading to reduced claims. The TAC management saw investment in road safety as a good business decision to reduce overheads and hence improve profits.

The TAC *1992/93 Annual Report* stated that since 1989, its savings in reduced accident claims amount to US$210 million, which is in excess of the amount it had invested in road accident programs over the same period. It is estimated that TAC's investment in road safety programs for those years was about US$10.7 million a year on television, radio, and newspaper promotions, and up to US$7.7 million a year on road accident medical emergency services.

In 1992/93 it invested in the following programs:

Program	***Amount*** *(US$ million)*
Media promotion and community awareness	*10.7*
Police breath test and speed camera	*5.6*
School traffic safety education	*5.8*
Research	*0.5*
Accident black spot programs (approx.)	*27.0*
Road trauma center	*7.0*
TOTAL	***56.6***

In 1992/93, TAC operations were reviewed by international management specialists, who reported that TAC compared favorably with private insurers in the major elements of business[2]. The cost of insurance cover provided by TAC is US$200 a year for a passenger car, which compares favorably with costs in other states of Australia.

b) *Fiji*

In Fiji, motor insurance is provided by only five or six insurance companies. Amounts that can be charged for third party insurance are controlled and have to be approved by the Commissioner of Insurance. Companies engaging in motor insurance business have to present information annually to the Commissioner on premiums received, policies issued, and claims paid. Whenever any requests are made for third party insurance premiums to be increased, discussions are held between the insurance underwriters and the Commissioner to agree any changes. The Commissioner's role is to regulate the industry and to look after the public interest.

In 1992, as part of efforts to establish an NRSC, discussions were held with the insurance industry and Commissioner of Insurance. Agreement was reached that as part of the next review of premiums, a "voluntary" levy of about 10 percent of third party motor insurance premiums would be passed over to the proposed NRSC.

The Fiji NRSC, once established, therefore had a steady stream of income (paid quarterly into the NRSC account by each insurance company depending upon the number of third party motor insurance premiums received). The insurance companies have been permitted to have a representative on the NRSC and in this case, that person actually is chairman of the NRSC finance subcommittee.

The income from the insurance companies provides about 60 percent of NRSC annual income, with a further 10 percent being received from government (via services and facilities provided to NRSC headquarters). A further 30 percent is raised by the NRSC from commercial sponsorship (vehicle dealers, oil companies, and banks) and from fund raising.

This solution thus provides a guaranteed and growing (because funds increase in line with the increase in numbers of vehicles) source of funds for NRSC activity while still requiring the NRSC to actively seek further funding or sponsorship from the commercial sector. This reduces reliance on government grants or funding, which can, in some countries, be erratic and unreliable.

All parties involved benefit from the arrangement and it becomes in everyone's interest to ensure all motorists have at least third party insurance. The NRSC is able to carry out effective safety initiatives and interventions, which in association with other activities undertaken as part of the ADB/World Bank-funded Road Safety Action Plan, had by mid-April resulted in a reduction in road accidents deaths of more than 23 percent against deaths in 1991, the year immediately before the Road Safety Action Plan commenced.

c) *India*

While the insurance industry in India does not yet contribute funds to the national road safety program, the insurance companies have founded the Loss Prevention Association, a nonprofit organization dedicated to the promotion of road safety. In addition to publishing monthly and quarterly safety journals, it has organized training programs, workshops, and conferences, and is active in the education and engineering aspects of road safety.

d) *Kazakstan*

Motor vehicle insurance was introduced for private sector vehicles only in 1997. The legislation also provides for a percentage of premiums collected to be allocated to a road safety preventive measures fund. No decision has yet been made on what percentage of premiums will be donated, or on how or who will receive the contribution, as the priority so far has been on enforcing the motor vehicle insurance requirement.

The introduction of third party motor vehicle insurance also has other road safety impacts as drivers involved in road accidents are now required to bring a certificate from the hospital stating they were not under the influence of alcohol at the time of the accident. Without this certificate, no claims will be considered. Accident underreporting is also expected to be affected as claim compensation represents a new incentive to report accidents to the police.

e) *Republic of Korea*

In the Republic of Korea, the primary organization responsible for coordinating road safety activity is the RTSA, which has more than 200 staff in its headquarters in Seoul and branch offices located in major cities and provinces.

RTSA funds are raised from a number of sources, including individual fees on persons holding driving licences or owning vehicles, corporation fees, a small levy (0.3 percent) on Automobile Insurance Company annual premiums received, Expressway Authority (0.05 percent of total income received), and tire manufacturers (0.1 percent of value added tax). Whereas these sources were bringing in about US$6 million a year in 1983, it is believed they now result in annual incomes of about US$100 million a year due to the increase in vehicle numbers since then.

The organization has wide-ranging authority to undertake (after approval of the Ministry of Home Affairs) virtually any activity it feels necessary to improve road safety. It now has its own road safety research institute where a number of safety research projects are underway. It has a highly experienced teams of accident black spot investigators located in its branch offices who provide technical assistance to develop black spot improvements for national, provincial, and municipal roads authorities. It also is active in road safety publicity and education.

f) *Viet Nam*

Before privatization in 1994, the national insurance company in Viet Nam, Baoviet, used to donate 5 percent of its premiums to road safety measures. On average, 2 percent would be allocated to the national level and 3 percent to the provincial level. At the national level, the donation was shared between the traffic police and the Ministry of Transport and Communication. At the provincial level, the donation went to specific road safety measures and Baoviet helped finance the construction of escape lanes on mountain passes.

6.3 Scope for Action in the Region

The above case studies from around the region indicate that it is both possible and highly desirable to harness the potential for funding from the insurance industry and other such sources. Whether third party motor insurance is provided via a state-owned monopoly as in Victoria, Australia, or whether it is provided via agreement with a number of commercial insurance firms as in Fiji need not matter. Efforts should be made to persuade the providers of motor insurance that it is in their financial interest as well as in the public interest for some of the premiums to be used for road safety.

If the insurance industry cannot be persuaded to participate voluntarily, then the necessary action should be taken to impose a levy of about 10 percent on at least third party motor insurance and, where possible, a smaller levy (perhaps 5 percent), on all other motor insurance policies. This provides a steady stream of funds for an NRSC for promoting road safety and initiatives.

Each of the countries discussed developed its own unique way of funding road safety activity but all recognized that the motor insurance industry has an important role to play in investing in safety. Each country in the region will need to develop appropriate funding mechanisms that are appropriate for its particular social, political, and economic circumstances. However, the above case studies demonstrate that it can be done successfully.

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Road Safety Guidelines for the Asian and Pacific Region

The guidelines cover 14 individual sectors affecting road safety, with four introductory chapters and four appendices. Information is presented in a series of freestanding documents that can be extracted for distribution and discussion.

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