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Motor vehicle insurers and road safety

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Purpose of vehicle insurance

The primary purpose of motor vehicle insurance is to provide compensation for theft, certain types of loss and damage to the vehicle, and loss and personal injury due to road crashes. This leaflet focuses solely on loss due to road crashes. Such losses include damage to vehicles, injury and death of vehicle occupants and third parties, collateral damage to property and the costs incurred by the health services and the police.

Insurance relies on many small contributions providing sufficient revenue to compensate the minority who suffer loss. Most countries require those responsible for death or injury to compensate the victim, or the victim's family. Since few people can afford to do this from their own resources, they either choose - or are required by legislation - to insure against the risk of a claim. Most countries require at least compulsory third party insurance, although there are wide variations in compliance. In developing countries vulnerable road users and public transport passengers account for most road casualties and are the people who should benefit most from third party insurance.

Insurers in many countries offer comprehensive cover against loss or damage even when the driver is at fault. Insurance may be provided through a private company, or through a state-operated fund.

Paying for vehicle insurance

Insurance premiums can either be paid directly by the insured person, or indirectly through a charge related to road use, e.g., by way of a levy added to the price of fuel. Premiums are typically based on the type of vehicle, type of use, where the vehicle is used and claims history. Some countries base insurance premiums solely on the type of vehicle. Others take account of the characteristics of the driver, particularly age and history of motoring offences. This can result in high premiums for young drivers and those with poor driving records.

Private insurers are the main providers of third party insurance in high-income countries.
In low-income countries, the state plays a more dominant role and, in many countries, the state is the sole provider of third party insurance. Private insurers dominate the comprehensive and voluntary insurance market which can provide additional cover, for example, for all property damage regardless of who was at fault.

Many countries report that income from vehicle insurance does not cover costs. This often happens when government sets third party premiums and keeps them artificially low for political reasons. The same applies to insurance levies added to the price of fuel, since governments often find it politically difficult to raise the levy. For example, the Road Accident Fund in South Africa is reported to be in severe financial difficulties, because costs far exceed the income generated by the fuel levy.

Problems of compliance

Insurance compliance is a major problem in low-income countries (see box below). It typically varies from 5 to 80 percent. This means that many road crashes are not insured and the victims and their families rarely receive compensation for injury and loss. In industrialised countries, compliance is generally well over 90 percent. This high level is achieved by: (i) requiring evidence of insurance before a vehicle can be licensed and/or requiring all vehicles to carry a windscreen decal which shows that they are insured; (ii) collecting the premiums as part of the annual vehicle licence fees (as in Victoria, Australia); or (iii) combining the administration of licensing and insurance within one agency (as in British Columbia, Canada). In South Africa, the Road Accident Fund, which provides third party insurance, collects its fees by adding a levy to the price of fuel. Five other African countries have adopted this same payments system. This effectively makes payment compulsory.

New Zealand finances its Accident Compensation Commission through a surcharge on annual vehicle licence fees, combined with a fuel levy.

Reported levels of compliance with mandatory third party vehicle insurance

Industrialised Countries:	Compliance (%)
British Columbia	98-99
New Zealand	90
Sweden	98
UK	90-95
Low Income Countries:	
Costa Rica	84
Ghana	70
Peru	22
Pakistan	3-5
Zambia	15

Source: Aeron-Thomas (2002).

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What can insurers do to improve road safety?

Since insurance premiums are generally related to road crash costs, motor vehicle insurers have an incentive to reduce road crashes to help reduce the premiums charged. In a number of countries, insurers try to promote better driving habits by using a 'bonus malus' system that offers discounts for claim-free driving and imposes penalties when claims are made. Typically, these apply to next year's premium that may be reduced by a 'no claims discount,' or increased in response to a poor claims record or prosecutions for motoring offences. There is little evidence to show that no claims discounts encourage safer driving. They simply discourage claims, rather than changing driving behaviour. They do not therefore reduce the risk to others.

However, there are other ways in which insurers can improve road safety and the following sections will concentrate on their role in:
(i) shaping road safety policy;
(ii) financing road safety interventions;
(iii) providing better information on road crashes; and
(iv) promoting more research on road safety.

Shaping road safety policy

Countries with National Road Safety Councils nearly always have representatives of the insurance industry sitting on their boards. In this capacity, the insurers play an active role in promoting road safety and shaping overall road safety policy. In countries with State-owned road accident compensation funds, the insurer is often a powerful voice at the policy table. For example, the Transport Accident Commission in Victoria (Australia) was one of three key organisations on the Road Safety Council that helped to implement a coordinated and intensive programme of traffic law enforcement and engineering measures that halved road deaths in Victoria. Most countries also have insurance company associations and these organisations are frequently active in promoting road safety and raising awareness of its importance. Individual insurance companies likewise also work with others to improve road safety.

Financing road safety interventions

A few countries help to finance road safety interventions by adding a levy to insurance premiums (e.g., Finland, Switzerland, Slovakia and South Korea).

Private Insurers Financing Road Safety

For over 40 years State Farm Insurance Company has initiated or supported numerous measures designed to reduce the damage to people and cars that result from road crashes. This includes eliminating roadside hazards, encouraging use of seat belts, getting air bags into cars, improving car head restraints, and looking at ways to reduce deaths and injuries to children involved in crashes. In 2001, State Farm's contribution to road safety was acknowledged by the Association for Safe International Travel (ASIRT) - a Washington-based NGO working to reduce road safety hazards in low income countries. ASIRT gave State Farm an award for their work.

Source: State Farm website (2001).

The levy is typically less than 2 percent. More common are voluntary donations by insurers. This happens in Fiji (where the donation is equivalent to 10 percent of premium income) and in Austria. The levies and donations are typically channelled to the National Road Safety Council and are usually used to finance road safety publicity campaigns. Since the levy applies to all insurers, it does not compromise their financial viability in a competitive market.

There are numerous examples of one-off and ongoing sponsorship of road safety interventions by independent insurance companies (see box). Road safety publicity campaigns tend to be the most popular intervention financed in this way. However sponsorship is not a reliable source of finance, since it relies on the insurers' ability to earn sufficient 'spare' cash which depends on the competitive environment in which they operate.

Some state-owned insurers, who often enjoy some monopoly power, actively invest in road safety. The Transport Accident Commission in Victoria is required by law to invest in crash reduction and rehabilitation programmes. Although the law does not specify the amount, the Commission spent US$11.5 million in 2001. Likewise, ICBC (British Columbia Canada) invested US$ 40 million in 2000. In South Africa, the Road Accident Fund allocates 2.5 percent of its income to finance road safety interventions.

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Only the large, state-owned funds tend rigorously to evaluate the impact of their road safety interventions. ICBC invests 80 percent of available funds in engineering and enforcement measures where tangible results are expected. It achieves a 4.7:1 return on these interventions. The remaining 20 percent is spent on publicity and education programmes where benefits are more difficult to quantify. However, ICBC believes that these programmes help to win public support for their engineering and enforcement programmes.

Providing better information on road crashes

Insurance companies keep records and other road crash data that can be of value to other organisations involved in road safety. Although they are often dependent on police data they can have records on crashes that are not reported to the police and thus provide an indication of under reporting. For example, in Indonesia, the number of road deaths reported to insurers was 50 percent higher than that reported to the police. Insurance records can also provide useful additional information on the costs of road crashes. As with all crash and injury data sources, the information needs to be interpretated with care and the limitations of the collection processes understood.

Promoting research on road safety

Numerous national and international insurance industry associations finance research on road safety. Individual insurers, particularly the State-owned ones, often do the same. Some focus on research which drives down the costs of vehicle repair, while others take a more holistic approach and produce policy statements, design guides, position papers and other information to guide those responsible for designing, constructing, repairing and insuring motor vehicles. The Research Council for Automobile Repairs (RCAR) is a leader in this field and plays a vital role in sharing experience and expertise between national research centres. Individual insurance organisations like Folksam (a Swedish company) and State Farm (a US company) have shown how much a research based approach, which makes use of their claims data, can help to improve road safety.

Emerging good practice

The level of compliance with mandatory insurance cover can be increased by linking the annual vehicle licensing to evidence of insurance and by requiring evidence of insurance to be displayed by way of a windscreen decal. Non-compliance ceases to be an issue when third-party insurance is provided through a levy on fuel.

There is little evidence that 'no claims bonuses' improve road safety. They reduce claims, but do not improve driving behaviour. It might be better to abolish no claims bonuses to simplify administration and invest any savings in other road safety interventions.

Insurance companies should be encouraged to invest directly in road safety interventions. They should also be encouraged to promote and disseminate research on road safety. If properly targeted, such spending will reduce their direct costs and offer indirect social benefits through reduced injury and death. In high-income countries, state-owned compensation funds appear best able to do this. This model may not suit low-income countries, since governments in these countries show a greater reluctance to set premiums at realistic levels.

Road safety spending will only produce value for money if it is well targeted and the impacts are properly evaluated. Much past expenditure by insurers has focussed unduly on road safety publicity campaigns. Spending by insurers is likely to have greater impact if it is planned and implemented in collaboration with other organisations in line with national road safety strategies.

Acknowledgement

Most of the material included in this leaflet was sourced from the Final Report: 'The Role of the Motor Insurance Industry in Preventing and Compensating Road Casualties'. Scoping Study by A. Aeron-Thomas, TRL, Crowthorne, UK prepared for DFID UK. (2002)

Find out more

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