

Loss Prevention measures in Motor Insurance

by

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As was so aptly said in a recent UNCTAD study, "prevention is better than cure". This motto, which applies to all facets of life, applies particularly to risks covered by insurance. Everyone agrees that loss of, or damage to property - for instance, due to fire - in most cases entails wastage and unnecessary depletion of wealth and resources, which can seriously affect the economy and hamper its growth. It is of course true that insurance makes good the economic loss sustained by the insured. Yet, even when each specific individual loss is eliminated for the policy holder through the insurance technique of spreading risks and paying claims, the overall burden of loss still falls on the community as a whole, which finances, by paying premiums, all the indemnities paid out. Furthermore, when a loss occurs, it is not only property which may be lost or damaged, but there can be also a number of consequential losses which insurance does not compensate adequately, such as loss of work for people, loss of production and markets for an industrial concern, etc. But, above all, in many cases loss of property is combined with loss of life and other human suffering which cannot be cured by insurance.

The latter is particularly applicable to most types of road accidents. Even the most generous insurance compensation cannot undo death or grave personal injuries. How far third party motor insurance can compensate fully all economic consequences of a grave road accident is also questionable. In principle, liability insurance grants to a victim - who is not the policy holder, and therefore not a client of the insurer - only what the courts decide, and not what the victim would consider as a full compensation for his economic loss. Loss prevention, namely measures aimed at reducing the number and the gravity of road accidents, becomes therefore imperative in the case of motor insurance, in the interest of both the public exposed to the danger of road accidents, and the insurers who have to provide compensation under heavy pressure from courts, consumer groups and the political world in general.

Several factors contribute to road accidents. They can be divided as follows: current road and circulation conditions; state of the vehicles involved; state and capacity and attitude of drivers and other persons affected; some totally external factors such as heavy rain, fog, snow, wind, etc.. In each of these groups of factors concrete loss prevention measures may be taken - and are in fact being taken in most countries. An effort will be made to describe the most common among these measures and to enumerate some of their results. However, before I do so, I wish to remind you that in all classes of insurance, including motor insurance, total loss prevention, that is elimination of all losses is neither feasible, nor economically bearable. An economic approach to loss prevention is that the cost of loss prevention measures should be less than the cost of repair and making good the damage. After all, there is an optimum level beyond which any additional measures only marginally reduce the risk whilst increasing very substantially the expenditure.

Measures in the field of road and traffic conditions

Let us return to the main factors which contribute to road accidents and examine first the road conditions and the traffic rules. It is notorious that good roads, which are wide enough, with good visibility, adequate stable surface, well planned crossings, etc. contribute very substantially to reducing road accidents, provided that the good quality of roads does not invite careless driving, excessive speed, etc. Here comes the need for a strict and logical code of the road, regulating the traffic, establishing priorities, limiting speed, warning against exceptional situations and dangers. You may have remarked that for the code of the road I used two adjectives: "strict" and "logical". There is no need to go to great lengths on the subject of strict implementation of the code, because a code, any code, is of no value whatsoever if it is not strictly adhered to. But let me explain why I say that a code must be logical.

Many, many years ago (I think it was in the early fifties) I was travelling by car in Northern Greece when on a straight open road out of town, with no traffic at all and whilst driving at a speed of about 60 miles an hour, I came across a speed limit sign prescribing maximum speed of 9 miles an hour for the next 500 yards. A military camp along side of the road was the reason. Of course, by the time I managed to bring my speed down from 60 to 9 I was way past the zone of the limited speed. However, on my way back on the same road I remembered the sign and slowed down in time to 9 miles. Result: the sentinel almost shot at me, thinking that I was spying on their camp by creeping along so slowly...

What I am trying to tell you is that the traffic rules should not be arbitrary but logical. In fact, they should do nothing else but codify and render compulsory what a skilled and prudent driver would do any way in a given situation. Unfortunately, in many countries the rules for the road traffic are drawn up by people who have very little personal experience in the matter and cannot be called skilled and prudent drivers. As a remedy I propose that in each country road traffic rules should be established and revised by a "Standing Committee" comprising real experts from the Government, the Automobile Clubs and the motor insurance. I would not be loyal to UNCTAD if I did not add, at this occasion, that a certain regional co-operation in the field of road traffic rules seems imperative, especially in areas where there is a substantial inter-country road traffic across the borders.

Measures concerning the roadworthiness of vehicles

The roadworthiness of vehicles is of the greatest importance in reducing the number and the gravity of road accidents. There are four main factors which cause road accidents: brakes, tyres, the steering and the lights. The gravity of accidents often depends on various exterior elements such as sharp-edged ornaments, easily inflammable materials, bad positioning of fuel tank, lack of safety glass, etc. I shall not enter here into the controversy about safety belts, air cushions, collapsable fronts, etc., because I believe that all these measures are still very experimental and not entirely convincing. What is certain and convincing is that a car without adequate brakes, with worn out tyres, with a unreliable steering system, and with inadequate lights should not be allowed to be on the road and to mingle in the traffic.

The roadworthiness of vehicles requires very strict measures, comprising a regular central workshop inspection of all vehicles (for instance, once every two years) supplemented by frequent ad hoc inspections on the road - the latter mainly as regards tyres and lights. Insurers should encourage these measures, both by inviting the authorities to implement them and by using their own influence on the policy holders - for instance through rating, and by means of recourses against owners of unroadworthy vehicles which caused the accidents. The fact that heavy vehicles, in particular busses, may cause very big accidents, justifies doubling or tripling the safety requirements as far as they are concerned.

Measures concerning the human factor

In most countries there is a gap between the training of how to drive and that of how to walk. A driving licence is generally required for driving a vehicle, obtainable after tough examinations which cover both the practical skill of the driver and his correct understanding of the code of the road. To my knowledge there is no such thing as a "walking licence" and every pedestrian has the right to walk the streets independently of whether he is fit to do so safely, or not. Training the pedestrians - in particular children - in how to behave on the road is therefore a very important loss prevention measure. It completes the strict requirement of a driving licence from each driver who, in addition, is instructed not to drive when not fit to do so, for instance when sick or... drunk.

More often than not, bad driving which results in road accidents is not due to lack of skill or to external circumstances but... to carelessness or even recklessness of the driver. The reckless drivers should be severely punished not only by the courts, but also by their insurers. In spite of the considerable additional work that keeping of such records may cause, it is important that the insurance companies classify as sub-standard risks all drivers who are constantly involved in, and guilty of road accidents. It goes against the principle of equity that prudent drivers are made to pay constantly exorbitant premiums in order to compensate for frequent road accidents caused by their reckless colleagues. Concrete financial measures against reckless drivers are excellent measures for loss prevention in motor insurance.

Exceptional situations like heavy rain, fog, etc.

Coming as I do from Switzerland, I could be tempted to speak first about snow, avalanches, etc., but I know that in your sunny Asia and the Pacific this is definitely not your problem! Much more frequent in this part of the world are the heavy rains which flood the roads, destroy bridges, etc. What loss prevention measures against road accidents could be taken for such circumstances? I believe that early warning systems, adequate signalization and blocking of the roads and bridges as soon as the dangers arise are worthwhile methods for minimizing losses. Regarding signalization, I know of some roads in Southern France where signs warn against using these roads in case of heavy rain and propose alternate itineraries. In general, I take this opportunity to emphasize the great importance of frequent, clear and easily understandable road signalization warning against all kinds of possible dangers.

The interest insurers should have in loss prevention

It is obvious that the insured (policy holders and third parties victims of road accidents) are the first beneficiaries of loss prevention, but such action also bestows a collateral benefit upon the community as a whole, since losses impose a burden on society, irrespective of who pays the bill. Loss prevention measures also tend to be profit-making for the insurers, since they result in reducing the number and amount of claims. Some insurers disagree and argue that loss prevention tends to reduce premium rates, whilst their interests lie in higher premium income. However, these insurers should not forget two important facts: first, in insurance lower premium rates attract larger portfolios, which produce better results; second, in motor insurance it is not always easy to compensate adverse results by raising the premium rates. The only way to redress deteriorating business results in motor insurance may be in many cases a drastic loss prevention action, to which motor insurers should give their fullest support, including participation in the expenses whenever required.

Improving the state of roads, getting involved in the process of licensing drivers, controlling vehicles, and fining those who do not comply with the traffic rules, are of course activities totally outside the sphere of influence of most insurers. What the insurers can do to prevent losses in motor insurance is to use pressure on their policy holders by applying deductibles and premiums incentives, namely lower premiums for prudent drivers and higher premiums for the reckless ones. In most developed countries such premium incentives exist under the name of "bonus-malus" systems. You must have heard about such systems during the seminar and I am ready to discuss them with you again, if you wish. I shall close my paper by pleading very strongly in favour of a generalized implementation of adequate "bonus-malus" systems in Asia and the Pacific, as the most effective contribution of motor insurers in the field of loss prevention.