

## **MOTOR THIRD PARTY LIABILITY INSURANCE – POLISH MARKET IN CONNECTIONS TO EUROPEAN TRENDS**

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### **—Abstract—**

Motor insurance, despite continuous product development, are still in most European countries, the predominant group of products sold by non-life Insurers. In the countries of Central and Eastern Europe is about 2/3 of the insurance written premiums. In the article authors analyze the areas and factors affecting the development of this class of insurance and current market changes in Poland in comparison to the European trends. The main attention has been devoted to number of accidents and road safety, frequency and amount of claims, other macroeconomics and legal factors. Also the financial issues, such as premium and profitability, were discussed.

**Key Words:** Liability insurance, motor insurance, Polish insurance market, compulsory insurance

**JEL Classification:** G22

### **1. INTRODUCTION**

Motor insurance constitute the largest group of non-life insurance in Poland. Despite of the changes that have occurred in this area with the development of the insurance market, they still generate almost 60% of premium written on property insurance. More than half of this amount comes from the Motor Third Party Liability insurance (MTPL). This large proportion of the portfolio (according to premium written but also value of claims) makes this product extremely important from the viewpoint of insurance companies. Motor third party insurance is

mandatory in most countries around the world, which is an expression of contemporary trends in securing compensation of victims of traffic accidents. For this reason the functioning of this product is relevant to many subjects: vehicle holders who pay premium, drivers covered, injuries and damaged parties seeking for compensation as well as the state which impose the obligation and decides about shape of system and its rules.

The changes in this area are dependent on rising number of cars, the trends of accidents and road safety. In addition, important issues are associated with changes in legislation and an awareness of victims and – in consequence – claims structure. Many of these changes are connected with Poland joining the EU and global trends. The purpose of the article is to present these changes and possible consequences. Due to limited framework of the article only selected - most important in the opinion of the authors – items are presented, and some issues are only sketched.

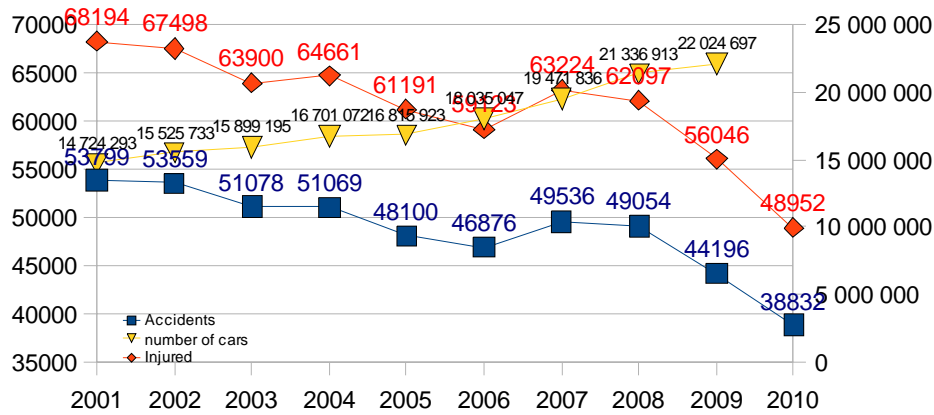
## **2. AREAS AND FACTORS OF CHANGES IN COMPARISON WITH THE EUROPEAN TRENDS**

### **2.1 Number of accidents and road safety in Poland**

In recent years on the Polish market we have seen many changes in the functioning of MTPL insurance, which lead to many discussions on the shape of the system, legislative changes and expected, possible market trends. It seems that at the forefront is the increase in the number and value of claims, which on the one hand is the result of specific changes in the market, on the other hand, produces certain consequences.

As for claims frequency, the main factor that should be analyzed is number of accidents and number of and injured person compared with number of cars. Since 2001 to 2009 number of vehicles increased by nearly 50%, while in the same time number of accidents fell down by 18% (since 2001 to 2010 by 28%). The analysis of the above data may lead to the conclusion that the level of safety is growing, but on the other hand it should be compared with similar ration in EU countries.

**Figure – 1: Number of accidents and injured (left axis) and number of vehicles (right axis) in Poland in 2001-2009**



Source: Polish Police data available at [www.policja.pl](http://www.policja.pl)

Should be noted here that in Poland is still seeing a high rate of deaths caused in traffic road (10 per 100 accidents in 2009), compared with 5 in Czech Republic, 6 in Hungary and only 2-3 in countries like Great Britain, Sweden, or Germany<sup>1</sup>. Although it should be pointed that in some countries as a traffic accident are classified all events with the participation of vehicle (car, motorbike, coach, tractor, etc. with the exception of trains and trams)<sup>2</sup>. This difference significantly affects the comparability of data on mortality rates or the number of injured in the incidents.

The number of accidents is obviously influenced by macroeconomic and social factors such as road infrastructure, the structure of vehicles, drivers (sex and age – man caused around 77% of accidents in Poland in 2010, young people 18-24 years old caused 23% of accidents in 2010) and their behaviors<sup>3</sup>.

Social changes, professional activation of women, enrichment and growth of the number of vehicles in the family<sup>4</sup> that makes seeing a larger share in the structure of the drivers of women who rarely are the perpetrators of accidents, though, as

<sup>1</sup> according to the data available on [www.krbrd.gov.pl](http://www.krbrd.gov.pl)

<sup>2</sup> for example in France under the Law 85-677 of 5 July 1985 (the recent changes introduced by Law no 2003-706 of 1 August 2003);

<sup>3</sup> according to police statistics I Poland drivers are the perpetrators of about 78% of accidents (in 2007, 2008, and 79% in 2009.);

<sup>4</sup> In 2009 in Poland 50.7% of households had a car, including as many as 70.7% of farm workers and 90.8% engaged in business; and, for comparison, in 2005 - 63% of farm workers, 84% engaged in economic activity and 49% of the total; on the basis of the statistical office regarding living conditions, [www.gus.pl](http://www.gus.pl)

the data share is growing slowly but steadily (increase from 15,9% to 18,3 % between 2006 and 2009). On the other hand more often young people sit behind the wheel, and they constitute a high risk group, due to lack of skills, experience, and a propensity to recklessness.

Poland takes many actions to improve security, including improving the quality of road infrastructure, the promotion of vehicle safety systems (the economic development of the country also improves the structure of vehicles owned, newer models have head restraints, seat belts with tensors, and getting better features and equipment in the fields of driving safety) and promotion of preventive behaviors (wearing seat belt, use of child seats, taking care of the technical condition of the vehicle, including tires and maintain sobriety behind the wheel)<sup>5</sup> and traffic control. Improving road safety is one of the key elements affecting the lower number of traffic accidents (see comments regarding the UK market in: Lowe 2002, 5.2)<sup>6</sup>. Preventive measures are carried out in Poland in many dimensions, including since 2005 the project of the European Road Safety Charter, financed and organized by both the state and insurers alike<sup>7</sup>.

## **2.2. Claim frequency and amount of claim in MTPL insurance**

Despite these changes a clear upward trend in the period can be observed especially in personal injury claims. The number of personal injury claims paid in 2009 is 156% the number of 2006 and the value of payments from raised almost 185%. The growth rate of the number of reported personal injury claims is significantly higher than damage to property, where the ratio is 123% 2009:2006 (Monkiewicz, 2011: 112 ).

As in the period 2006-2009 the number of people killed and injured road accidents has decreased, it should be considered that the increase in the number of reported

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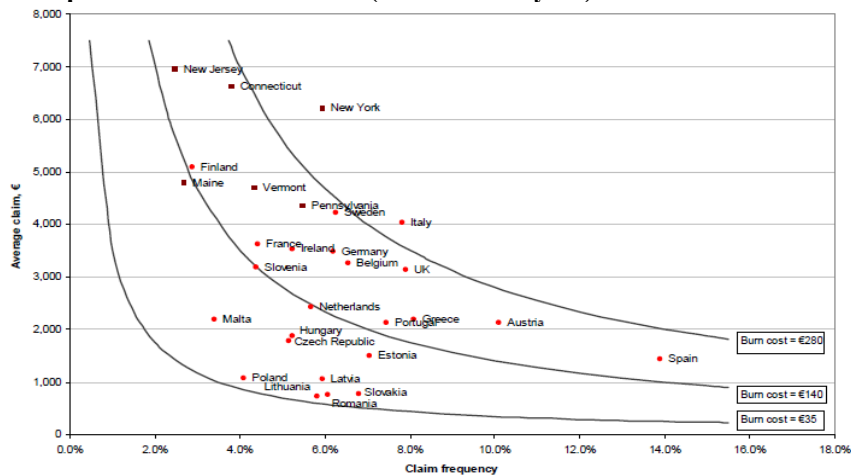
<sup>5</sup> Based on various studies it could be concluded that wearing seatbelts reduces risk of death by 42-47 %, and airbag with seat belts around 47 to 53% (without seat belts only 5-13%); data presented in (Jamroz, 2006: 3)

<sup>6</sup> Initiatives to improve road safety appear to be as old as the movement of motor vehicles. Many of the inventions to improve safety on the road - stop sign, roundabout, one-way streets, pedestrian islands - is attributed to William Phelps Eno, who lives in the years 1858-1945; ENO Transportation Foundation; [www.enotrans.com](http://www.enotrans.com)

<sup>7</sup> The European Commission presented in July 2010 Action Plan for Safety on the Road for 2011-2020, supported by, among others, the CEA; also plans to work with the medical sector to develop the general definition of serious injury, because its absence makes difficult to analyze the problem of personal injuries, and thus to assess the effectiveness of road safety measures.

damage is determined by two basic factors: the increased awareness and changing attitudes of society in the investigation of claims and support consultants.

**Figure-2: Claims frequency and average amount of claim from MTPL insurance in Europe and selected U.S. states (last available year)**



Source: Retail Insurance Market Study, MARKT/2008/18/H, Final Report by Europe Economics, www.europe-economics.com, 2009

In addition to the number of accidents, which generate claims, the potential size of these claims and their actual amount is very important. Average value of claims differ significantly in different countries. In central and eastern European countries average value of claim starts from 800 in Romania to around 1900 EUR in Hungary (in Poland average claim does not exceed 1100 EUR, the average value of personal claims was 3 times higher than from property claims) while in western European countries is about 4 times higher (the highest in Finland – more than 5000 EUR). In insurance premiums calculation, burn cost (product of the average claim and claims frequency) is also important. In Poland is around 40 EUR, because of low claim frequency (4%) and average claim. In western European countries the highest value is in Italy because of high claim frequency (8%) and average claim – 4000.

### 2.3 Macroeconomics and legal factors

Both the number of claims made in practice, as well as their size (including components such claim, and amount) are strongly conditioned by legal and social factors, as well as economic. On the Polish market, the scope of insurance cover

in MTPL was formed very broadly<sup>8</sup>, primarily in the interests of victims. Polish compulsory MTPL insurance system is based on the civil liability of the perpetrator and *no-fault* principle (as a primary, with the exception of claims among vehicle owners in case of a collision and claims of the passengers of politeness). No-fault liability in various forms is a base in Europe for personal injuries (in 17 out of 27 countries, the fault liability forms dominate in Bulgaria, Belgium, Cyprus, Malta, Ireland, Lithuania, Portugal, Romania, Slovakia, United Kingdom) as beneficial for injured (Retail Insurance, 2009: 80).

Among the factors which significantly influence the level of claims should be considered the changes that have taken place in recent years on the Polish market, including:

- changing national laws also followed the EU directives - in particular:
  - extending the territorial scope of insurance cover and at the same time increasing trips abroad of Polish drivers from May 1, 2004
  - extending the limitation period for claims of victims to the perpetrators and, consequently, to the insurers in respect
  - increase the guaranteed sum (policy limit) in the compulsory insurance liability - in accordance with EU directives (in 2004 set as 350.000 euro for bodily injuries per person and 200.000 euro for property damages per accident; currently 2,5 mln euro for BI and 500.000 euro property damages both per accident, ultimately in June 2012 respectively 5 mln euro and 1 mln euro per accident<sup>9</sup>).
  - introducing the right of claiming compensation for pain and suffering by the deceased victim's relatives<sup>10</sup>; the construction is similar i.a. to Italian, the decision about level of monetary compensation is free (no limits or tables) on the basis of the criteria worked out by judicature assessing the size of harm
- changing trends in case law (jurisdiction), increase public awareness of insurance and, consequently, the propensity and effectiveness of the claims which are clearly in recent years on the Polish market translates into an increase in claims asserted in court and increase the amounts awarded; this is largely also the result of development of institutions providing advisory services for injured, offering services in the formula rewarded success fee and

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<sup>8</sup> regulated in Act on Compulsory Insurance, IGF and PMIB, since 22.05.2003r. and Civil Code.

<sup>9</sup> path leading to this target in accordance with the provisions of the so-called Fifth Motor Insurance Directive of the European Parliament and the Council of 11 May 2005 (2005/14/EC).

<sup>10</sup> further change in jurisdiction and recognition of the right to compensation for infringement of personal rights (family relationship) in such cases before the change of law

sometimes even financing the process of redress and rehabilitation. Similar bodies are present in many EU countries, including Great Britain, Netherlands, France, and on US market. Trends in this area are the basis for discussions about the creation of a social phenomenon compensation culture (i.a. Lowe: 2002 and Tackling the “Compensation Culture”: 2004). Certainly the change of social attitudes is the tendency of more propensity and determination in the investigation of the claim.

- increase of individual costs generated as a consequence of road accidents, which is affected by the increase in prices in the market, including medical costs, increased use of private medical services, especially in the field of rehabilitation<sup>11</sup>. Changing economic conditions and living standards will extend the catalogue of expenditures treated - both by victims and the jurisdiction - as within the adequate causation. Increased costs also cause an increased tendency to investigation through the courts. Economic factors also affect the level of benefits in respect of harm. According to the case law it should allow the victim to increased consumption, and its reference to the average standard of living should not obscure the compensatory function. The analysis of case law in recent years in respect of compensation for permanent total disability demonstrate a significant increase in amounts to be awarded.

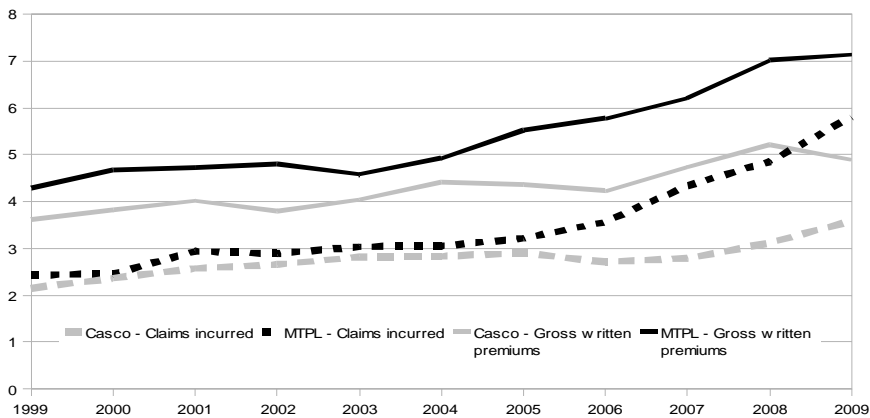
#### **2.4 Premiums, compensations, profitability, costs**

Influence of all of the factors can be noticed in the data from Polish insurance market. Both the amount of premiums and compensations paid were growing steadily in 1999-2009, but it can be observed that the rate of this increase has grown in 2005-2006 in MTPL insurance (data of Casco insurance just for comparison). The level of compensation are 2,4 times higher than in 1999 and 1,9 than in 2003 (before joining EU). In the same time gross written premiums are only 1,67 times higher than in 1999 (1,56 than in 2003). But it should be mentioned, that insurance prices in Poland are still at much lower level than in other EU countries – around 120 EUR, comparing to EU average at the level of around 240 EUR and is 3-4 times lower than in Italy and Switzerland.

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<sup>11</sup> increase in medical costs, according to data presented by Swiss Re (2009) is taking place in all markets; this probably results from the use of modern methods, higher prices (i.a. long term care prices), but also the failure of public health and increase the scope of private services, as well as greater attention (awareness) of patients

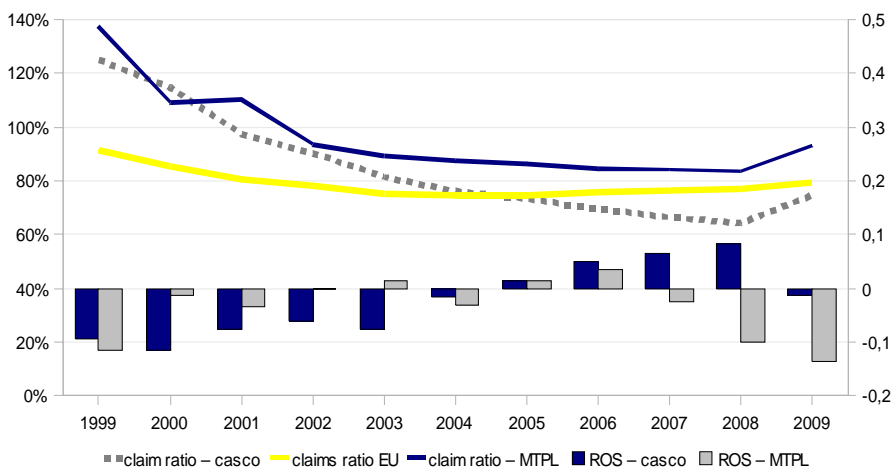
**Figure-3: Gross written premium and claims incurred from MTPL and Casco insurance in Poland in 1999-2009**



Source: own studies according to Polish Supervisory Authority data available at [www.knf.gov.pl](http://www.knf.gov.pl)

All of the changes affects of course the technical and financial results of the insurers. In this context it is worth look closely at value of: claims ratio, ROS, and ratios of the level of acquisition costs and administrative costs. Claims ratios in Poland were constantly decreasing until 2008 both in MTPL and Casco insurance. Similar trend can be observed in EU countries, but before access to EU in Poland both claims ratio were at higher levels.

**Figure-4: Claim ratio (left axis) and ROS ratio (right axis) for MPTL and Casco insurance in Poland and claims ratio in motor insurance in EU in 1999-2009**

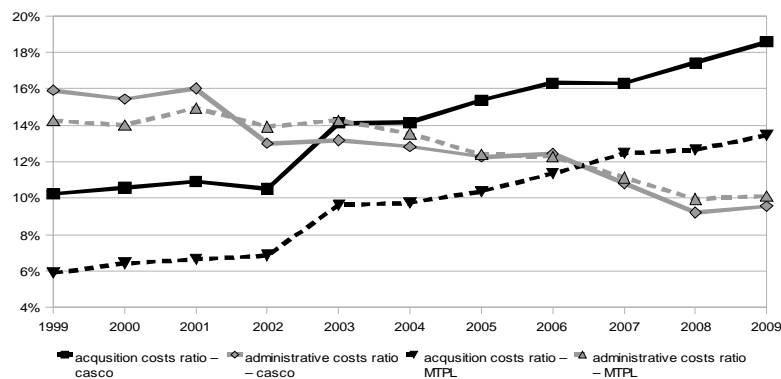


Source: CEA data, own studies according to Polish Supervisory Authority; [www.knf.gov.pl](http://www.knf.gov.pl)



Strong competition on the market force insurers to spend more and more funds on acquisition – cost ratios were rising steadily since 1999 for MPTL and Casco insurance (from 6% to 14% in MPTL and from 10% to 19% for Casco insurance) – figure 5. Every year grows number of insurers operating in the direct channel, also significantly increases the premium income from direct channel - 350 million PLN in 2007, while in 2006 - 185 mln PLN. The premium mainly comes from motor insurance, but in this system are also sold residential and tourist insurance. It is estimated that over 4 years of direct channel should generate approximately 10-15% of premiums written, compared to the UK market more than two thirds of motor insurance is sold direct channels, but in Germany less than a fifth (Wiłkomirska, 2008: 7).

**Figure 5. Acquisition and administrative costs ratio in motor insurance in Poland 1999-2009**



Source: own studies according to Polish Supervisory Authority data available at [www.knf.gov.pl](http://www.knf.gov.pl)

In the same time due to IT systems development and using direct channels of distribution administrative cost has been reduced from 14% to 10% of written premiums (see figure 5).

### 3. CONCLUSION

Trends in the majority of the factors or are very similar in most European countries. Some of the processes occurring in the insurance markets of Western Europe, occur on the Polish market with a delay, so the analysis of these elements may be important in the analysis of the directions of future developments. The discussions on the Polish market are currently focused on the problem of increasing the amount and value of claims, especially in the area of bodily injuries and insurance premium trends as well as the issue of compensation system design,

taking into account the experience of other markets in the third party insurance and direct claims (to own insurer) and first party insurance schemes.

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