Financing Road Safety Through Levies on Insurance and License Fees

Several countries have attempted to finance some road safety interventions by adding a surcharge to insurance premiums, or to vehicle license and registration fees. Experience has been mixed, particularly in developing and transition countries where evasion is frequently a major problem. Furthermore, the inclusion of a surcharge – which makes insurance and vehicle license/registration fees even more expensive – is likely to encourage further evasion. The following review provides some interesting country experience. It has been taken from TRL Ltd. with Ross Silcock, Babtie Group Ltd. (2001), Review of Road Safety Management Practice, Report Prepared for GRSP.

Insurance Levy

Finland, the State of Victoria in Australia and the Province of Quebec in Canada all levy a fee on vehicle insurance premiums with the generated revenue earmarked for investment in road safety. Vehicle owners are required by law to have insurance for their vehicles and, in addition, have to pay a further tax. This surcharge can therefore be considered as a road user safety fee. Insurance and premiums are related to accident costs and the use of part of the premium to provide road safety measures to reduce accidents and their severity (and hence insurance costs) is justifiable. As with many insurance operations, the cost of the premium, and hence any additional tax, will reflect driving behaviour, thus creating a financial incentive for driving safely. As noted by Wetteland and Lundebye, an additional surcharge on safety requires public acceptability. The potential for this can be enhanced by ensuring that no exception to this rule exists, as happens for instance with the exemption of government vehicles from insurance requirements in some countries, such as Bangladesh.

The Example of Finland

Dating back over 40 years, Finland is believed to have been the first country which used insurance premiums to finance road safety. Set at a nominal amount (1% of premiums), it has been reported to raise $8 million per year for education and publicity campaigns (Ross Silcock and TRL, 1998). The Finnish insurance system has premiums set by the Ministry of Social Affairs, unlike in the UK where the insurance companies adjust premiums to reflect liability cost. The Finnish system, by setting premiums centrally, puts an onus upon the insurers to hold premiums down and to do this, the insurers make a considerable effort to reduce crash rates by providing research and safety information to their customers. Without such incentives, insurance companies may show less concern about increasing crash rates, and may fail to make any significant investment to improve road safety. Increased crash rates and the consequent increased payouts are offset by increased premiums. The motorist therefore pays for the higher risk; as a result, no effort is made by the insurers to improve the environment for the motorist.

A road safety levy was originally set at 3% of third party insurance premium in the State of Victoria, Australia, but has been since increased to its current level of 10% (approximately US$20 per motor vehicle). A trust fund has been established which has invested more than AUS $12 million over its first 6 years of operation on the support of community road safety, accident prevention, use of safety equipment, care of the injured, bereaved and traumatised as well as research and evaluation (Motoring Directions, Summer 1998/99).

The National Road Safety Commission Act of 1999 in Ghana provides for a levy on mandatory third party insurance. In Zambia, there is a proposal to apply a 10% levy on (compulsory) third party insurance, which would raise about US$1 million per annum, but this is not yet passed into law. An insurance levy has also been recommended for adoption in Ethiopia, one of the few remaining countries without mandatory third party motor insurance. In Fiji, as part of the Fiji Road Safety Action Plan, funding mechanisms were included in the legislation so that a levy of 10% is applied to all third party insurance policies and these funds are handed over to the Safety Council for its activities. The government agreed to extend this requirement to all government vehicles, although in some developing and transition countries, including Bangladesh, government vehicles are exempt from insurance requirements.

Insurance premiums are also used to fund education and publicity programmes in the Province of Quebec, Canada, whilst Hawaii imposes a $2 surcharge to finance driver education programmes. Insurance premiums are also used to support the Korea Traffic Safety Association. In Poland a special fund, derived from 1% of insurance revenue, has been set up to finance road safety projects.

Care must be taken when adding any surcharges to insurance premiums, since this may simply increase the level of avoidance. It is not uncommon in developing and transition countries to find that as many as half the vehicles are uninsured.

Levies on Vehicle License Fees

The use of surcharges applied to vehicle licensing and registration fees appear popular in the US as a source of road safety funding, where they are used to help finance emergency medical services and/or the costs of the licensing agencies and training programmes. For instance, Virginia collects an additional fee of US$2 on all motor vehicles for a special fund for emergency medical services. It also imposes a US$3 fee on the motorcycle registration fee for the Motorcycle Rider Safety Training Programme. Charging drivers/riders for training programmes was reported in over 15 States (Froning, 1992).

Botswana’s main source of funding for its NRSC is believed to be its safety surcharge on motor vehicle registration. This surcharge was increased by a factor of five (currently 5 pula - approx $1) some years ago. Papua New Guinea is also known to collect road safety funding through a surcharge on the vehicle inspection sticker. Tanzania has reported considering a surcharge on motor vehicles to fund road safety. Whilst this approach appears attractive, license fees, inspection fees and suchlike are frequently subject to evasion and abuse (as with insurance premiums). Hence increasing the charge may simply lead to even greater levels of avoidance. Surcharges on vehicle license fees are therefore not necessarily an effective way to finance road safety.

References

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