

Road Accident Benefit Scheme (South Africa)

Assessing financial viability

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Global context: Road Accidents

Global Status Report on Road Safety 2015

World Health Organization

- 1.25 million people die each year as a result of road accidents
- Leading cause of death globally among people aged 15 -29
- 90% of road fatalities occur in low-middle income countries
 - **Despite having only 54% of the world's vehicles**
- Predicted to become the 7th leading cause of death by 2030
- Road accidents cost most countries +-3% of GDP

(WHO 2015)

South African context: Road Acc...

Global Status Report on Road Safety 2015

World Health Organization

- Population of 56 million
- 10 million registered vehicles
- 40 road fatalities a day
- Annual road accident death rate per 100 000 lives: 25.1
- 58% of road fatalities due to alcohol (USA: 31%; CAN: 34%)
- 8% of GDP lost to road accidents (global average is 3%)

(WHO 2015)

South African context: Road Acc...

Road Accident Fund (RAF)

Parastatal motor-vehicle insurer in South Africa

- Compulsory motor-vehicle insurance
- Financed by levy raised on sale of fuel
- Operates on a pay-as-you-go (PAYG) basis
- Covers costs related to death and injury (no property damage)
- Indemnifies responsible party
- Fault-based system with contested benefits

South African context: Road Acc...

Road Accident Fund (RAF)

Parastatal motor-vehicle insurer in South Africa

- 2017 Annual Report

Negative NAV = USD 13.4 billion (CAD 17.9 billion)

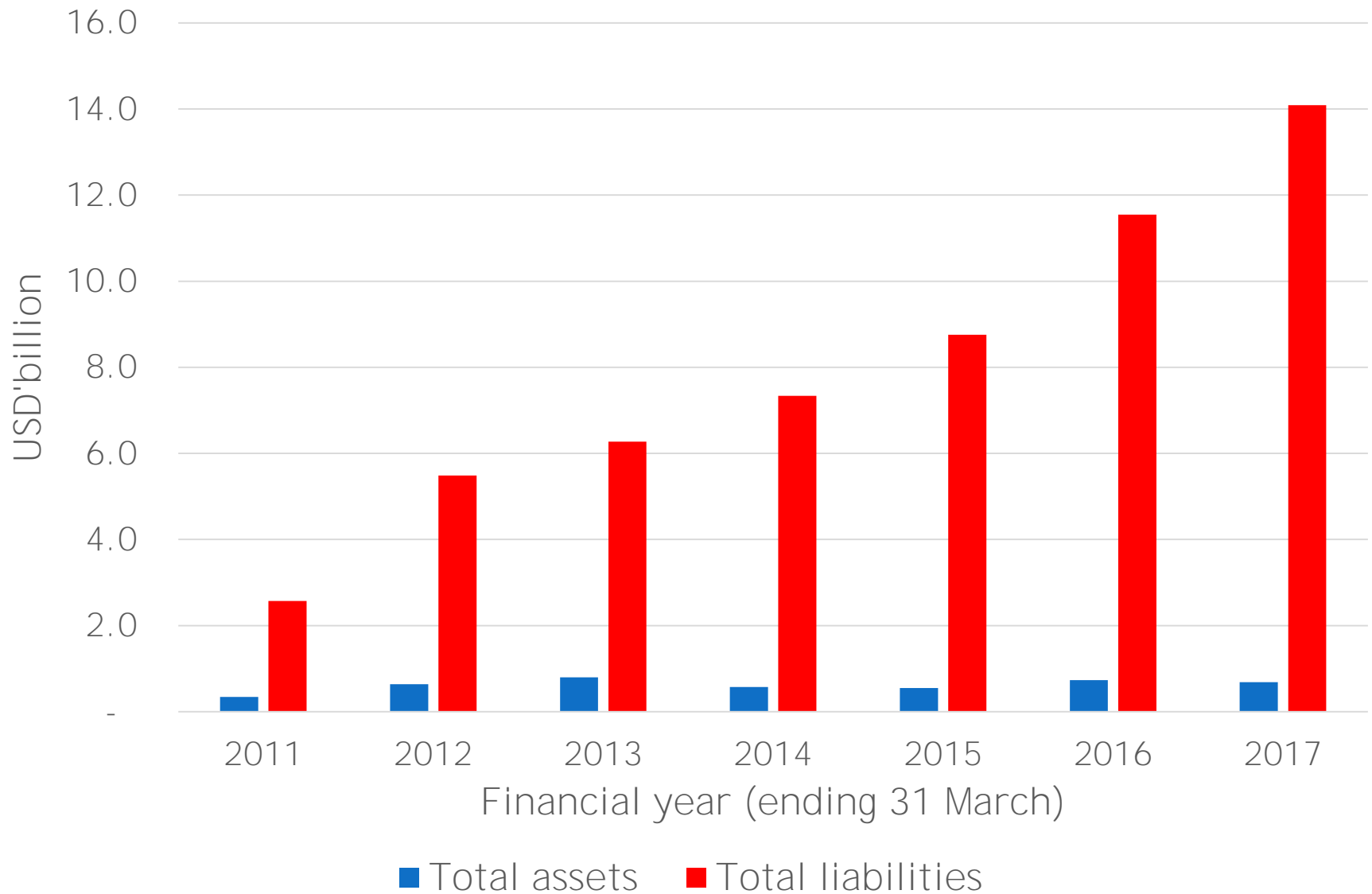
(Road Accident Fund 2017)

- South African Auditor-General

“Significant doubt on the entity’s ability to operate as a going concern”

(Road Accident Fund **2010**:144)

Financial position of the Road Accident Fund



South African context: Road Acc...

Road Accident Fund (RAF)

Parastatal motor-vehicle insurer in South Africa

- *“The Fund cannot calculate its risk and then determine the premium to be paid”*

(Olivier et al. 2000:465)

- *“Only a complete overhaul of the system, **as proposed through the RABS**, can address the fault-based, unfair and unsustainable system defined by the RAF Act.”*

(Road Accident Fund 2017:15)

South African context: Road Acc...

Road Accident Benefit Scheme (RABS)

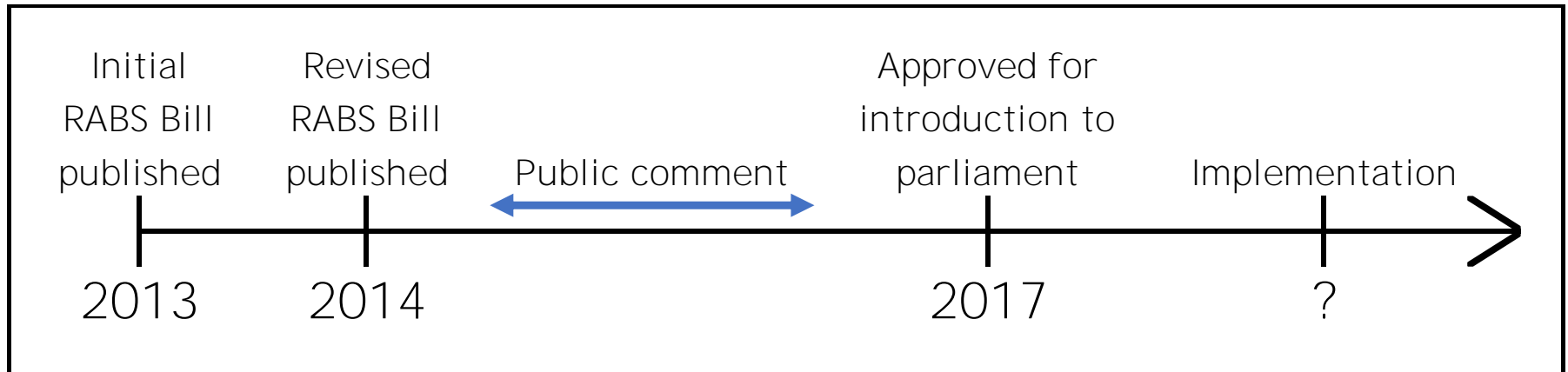
NEW proposed parastatal motor-vehicle insurer for South Africa

RAF (EXISTING INSURER)	RABS (NEW PROPOSAL)
Fault-based compensation	No-fault basis
Contested benefits	Defined benefits
Claims legally disputed	Internal appeal procedure
PAYG (no reserves)	Fully-funded
Lawyers distribute benefits	Direct payments

South African context: Road Acc...

Road Accident Benefit Scheme (RABS)

NEW proposed parastatal motor-vehicle insurer for South Africa



“Should RABS be enacted with the abolition of common law rights, the LSSA will consider challenging the {exclusion of driver liability} as unconstitutional.”

(Law Society of South Africa 2014:4)

Research question

Is the Road Accident Benefit Scheme,
as proposed in the RABS Bill (2014),
financially viable?

Road Accident Benefit Scheme

Assessing financial viability

Assumptions

- The RABS replaced the RAF on 1 April 2014
 - Estimate relative NAV as at 31 March 2017
- No change in revenue
 - None proposed by the RABS Bill (2014)
- No change in number of automobile accidents
 - Change in benefit eligibility (claim frequency)
 - Defined benefit amounts (claims severity)

Road Accident Benefit Scheme

Assessing financial viability

Segmentation of claims

Claim type (RAF)	% paid in 2017
Healthcare costs	7%
Income & family support	43%
Funeral costs	0.4%
Legal fees	25%
General damages	24%

Source: Road Accident Fund 2017

Road Accident Benefit Scheme

Assessing financial viability

Claims for healthcare costs

Greater emphasis on rehabilitative care

- More claimants submit additional health claims
- More medical appointments per claimant
- More specialized practitioners consulted

Anderson, Heaton and Carroll (2010)

Road Accident Benefit Scheme

Assessing financial viability

Claims for income support

- Include the unemployed
 - 28% of population
- Apply limits to deemed pre-accident income
 - National annual average income (USD 3 900)
- Improve return-to-work (RTW) outcomes
 - Increase focus on vocational rehabilitation

Road Accident Benefit Scheme

Assessing financial viability

Claims for family support

- Include 28% unemployed population
- Allow for spousal income
 - Reduce benefit amounts
- Introduce of age limits
 - Payment period = $\min(15 \text{ years}; \text{ up to age } 60)$

Road Accident Benefit Scheme

Assessing financial viability

Claims for funeral costs

- Fault-based exclusion had negligible effect
 - Few claims previously repudiated
- Upper limit per funeral claim of USD 890
 - Reduces average funeral claim value
 - from USD 1140 under RAF
 - to USD 660 under RABS

Road Accident Benefit Scheme

Assessing financial viability

Summary of changes (Best-estimate basis)

RABS claim type	Frequency	Severity
Healthcare costs	+40%	+45%
Income support	+38%	-33%
Family support	+38%	-35%
Funeral costs	+1%	-40%

Road Accident Benefit Scheme

Estimated financial position as at 31 March 2017

Financial basis	NAV (USD billion)	<i>Relative to RAF</i>
Road Accident Fund	-13.4	100%
<u>Road Accident Benefit Scheme (estimates)</u>		
Optimistic basis	-10.5	79%
Best-estimate basis	-11.3	84%
Prudent basis	-14.3	107%

Road Accident Benefit Scheme

Discussion: Financial viability of RABS

- Financially healthier, but still not viable.
- Continued underfunding of insurance system.
 - Building-up reserves.
 - Running-off of existing liability.
- Liquidity concerns.

Road Accident Benefit Scheme

Discussion: Impact on individuals

- Faster claims processing.
- Fairer compensation of economic losses.
 - Requirement to be ordinarily resident in RSA.
- Potential windfall for unemployed claimants.
- Change in application of limits.
- No longer benefits for pain and suffering.

Road Accident Benefit Scheme

Discussion: Impact on commercial insurance industry

- Demand for gap cover likely to increase.
 - Covering gap between healthcare benefits provided and healthcare services needed
- Design of income protection products to change.

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