

SYSTEM OF COMPULSORY CONTRACTUAL INSURANCE IN THE CZECH REPUBLIC SINCE 2000

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The Czech Republic as one of the candidates for accession into the European Union is trying to unify its legislation in the insurance industry. One of the fields receiving significant attention has been also liability insurance for damage caused by the operation of a motor vehicle. After almost 50 years the Czech Republic has again returned to private insurance, and this by way of demonopolising statutory liability insurance for damage caused by the operation of a motor vehicle. Concurrently the legal norm is being harmonised with EU law and approximated to the practice of EU countries. One of the most significant effects of the new legal amendment is the meeting of entitled claims of each person, who has suffered harm in consequence of the operation of a motor vehicle. The Act on liability insurance for damage caused by the operation of a motor vehicle is sets for each person operating a vehicle, the obligation to conclude this insurance. The new system enables the insured or policyholder to select an insurer on the basis of whichever best suits their needs. It similarly enables the emergence of a competitive environment between individual insurers. A significant increase in the quality of services is expected for both the insured as well as also for other harmed. It is forecast that entitled claims for damages caused by the operation of motor vehicles will be processed more quickly. There is also introduced a direct claim for damages against the insurer, or possibly the Czech Office of Insurers, thereby removing the problem with the forced need for interaction between the harmed person and the insured. Harmed person are given the certainty that they will in every case be compensated for damage to health and property regardless of whether the guilty party of the accident was or was not insured. A claim for damages arises even in cases where harm to health was caused, but the identity of the guilty party was not known. In this article we discuss the most important characteristics of this system of compulsory contractual insurance for the period of its application.

Registration of motor vehicles

One of the advantages of the new system is that there shall be updated the database of motor vehicles and thereby the possibility of excluding vehicles which no longer exist. The data reined can positively influence police statistics, as well as to the calculations for the prescribed premium and the possibility for easier recourse against owners of motor vehicles that do not pay insurance premiums. The Act governs the obligation of the owner to conclude a new insurance policy within seven days from the lapsing of this insurance. If the new insurance policy is not concluded concerning the same vehicle, the owner is obliged within the same term to submit a state recognition stamp and a certificate on the technical identification of the vehicle to the respective district transport inspectorate. The non-fulfilment of these obligations can according to the Act be considered as a violation and a fine for this can be imposed up to the amount of 10 000 CZK. An important obligation of the person who turns to the vehicle registration authority, is the obligation to submit for review a document on the existence of insurance. The register of data on this insurance shall enable a check to be made on the fulfilment of obligations of vehicle owners and to take action in time in the case of their non-fulfilment.

Through the new system there is changed the duty upon Insurers to notify the Czech Office of Insurers (COI) and to provide at least once a month data on the arising, changes and lapsing of this insurance and on newly concluded insurance contracts. The data that is administered by the COI is then compared with data in the central register of vehicles. Where the COI finds a breaching of the duty of vehicle owners, be it notify the district office of this fact, and which is competent to commence in an investigation of the matter.

Provision of discounts and surcharges

Through the provision of discounts and surcharges (bonus and malus) to the insurance premium to those persons who drive without accident are advantaged in road transport. The insurance company can influence the insurance premium rate mainly through such a system of bonuses.

A bonus represents the option of lowering the premium by up to 5 per cent of the basic rate. A motorist who drives without accident, can gain a five per cent reduction on the annual insurance premium for each year without damage during the course of the insurance.

The malus represents the maximum possibility for raising the insurance premium by up to 2.5 times the basic rate. An insurance company can in the case of a motorist



who caused damage in the operation of a motor vehicle, raise the insurance premium for the following year by up to 25 per cent of the basic insurance premium.

Czech Office of Insurers

The Czech Office of Insurers was established on the basis of Act no. 168/1999 on insurance for damage caused by the operation of the motor vehicle (hereinafter simply the Act).

The COI performs those activities in the system of liability insurance for damage from the operation of the motor vehicle, which it is not possible in a competitive environment to entrust to commercial insurance companies. The Office takes care of and administers a database of insured vehicles; it administers the guarantee fund, carries out border insurance and the green card system. The COI declares the rates of the minimum insurance premium, which is binding for all commercial insurance companies. Another significant point is its role in the field of preventive activities in road transport. It administers also a register on liability insurance for damage in the case of the operation of vehicles.

As regards the register, its primary role is to create a database of insurance policies according to the source documents from insurance companies and their submission as summarised data to the Central Register of Vehicles. In the register this list is compared to the register of motor vehicles, thereby creating a relatively integrated system of information exchange, the result of which is primarily the minimising of the number uninsured vehicles in road transport.

The Office communicates also with registration authorities and with district offices. It is a member of the Council of Offices in London, where it co-operates with the offices of individual countries, thereby creating the conditions for a simplification of dealing with accidents and damages, which a Czech citizen has suffered abroad and on the other hand concluding more effectively insured events and damages occurring to a citizen of a different state in the Czech Republic.

Insurance market structure

In the market for liability insurance for damage from the operation of vehicles including compulsory guarantee there operate at present in the Czech insurance market 12 commercial insurance companies. In the year 2000 an insurance policy for the stated compulsory guarantee was concluded by 5 210 900 motorists, with Česká pojišťovna a.s. holding the largest market share. Market share data are shown in Table 1.

The general insurance conditions for liability insurance for damage caused by the operation of the vehicle are based on the valid wording of Act and are almost identical between all its the stated commercial insurance companies.

Table 1 Liability insurance for damage in the Czech Republic

Commercial insurance company	Number of policies concluded	Market share
1. Česká pojišťovna, a. s.	2 250 000	43,2 %
2. Kooperativa, pojišťovna, a. s.	1 075 000	20,6 %
3. Allianz pojišťovna, a. s.	618 000	11,9 %
4. Komerční pojišťovna, a. s.	503 000	9,7 %
5. IPB Pojišťovna, a. s.	225 000	4,3 %
6. Česká podnikatelská pojišťovna, a. s.	204 000	3,9 %
7. ČS-Živnostenská pojišťovna, a. s.	135 500	2,6 %
8. Generali Pojišťovna, a. s.	130 000	2,5 %
9. Česko-rakouská pojišťovna, a. s.	32 000	0,6 %
10. ČSOB Pojišťovna, a. s.	23 000	0,4 %
11. Union pojišťovna, a. s.	8 400	0,2 %
12. Zürich Pojišťovna, a. s.	7 000	0,1 %
Total	5 210 900	100 %

Source: see literature (6), pg. 24

Differences arise in the specific insurance conditions, primarily in the level of bonuses and this benefits, of premium rates, limits to insurance fulfilment and in the scope of the assistance services.

The amount of the bonus or malus: all insurance companies have a similar approach in granting a bonus or malus. Differences arise primarily in the percentage of their specific amount.

Method of evaluating the history of an accident insurance policy for individual vehicles

In the Czech Republic there is not for the time being used a system of evaluating the history of an accident insurance policy such as has become common in developed European countries. The methodology used for this evaluation categorises vehicles according to the damage index of automobiles. There are three essential criteria for this categorisation: the accident criterion, theft criterion and the criterion of total damages. These criteria take into account the large number of actual figures and the prices including the evaluation of the history of the damage insurance of a specific model of vehicle. Since the stated methodology depends on the most precise information input and source documents used in their processing it is not at present possible in the Czech Republic to implement a similar system of evaluating the history of the damage insurance of vehicles.

Guarantee fund of the Czech Office of Insurers

The Guarantee Fund (hereinafter simply the fund) is a non-state fund created from contributions of insurers and from the premium for foreign insurance. This fund serves exclusively for the settlement of damages. From this fund insurance benefit is provided to the harmed party for:

- Damage to health or for death caused by the operation of an unascertained vehicle, where the person responsible for the damage is not ascertained,

- Damage caused by the operation of a vehicle for which the person responsible is known and this person does not have an insurance policy concluded for the compulsory guarantee,

- Damage caused by the operation of a vehicle for which the person responsible is known, though liability for the damage is insured through an insurer who cannot settle the damages due to its bankruptcy,

- Damage caused by the operation of a foreign vehicle, where the liability of the person responsible for the damage is insured by border insurance,

- Damage caused by the operation of the foreign vehicle whose driver of which does not have border insurance for operating a vehicle in the territory of the Czech Republic.

Through the settlement of damages arisen, the COI ensures the complete protection of harmed party. In several cases the Czech regulation goes even further than the requirements of the European Union, for example in situations where the liabilities of a bankrupt insurer are transferred to the Office and the fund then pays these liabilities out of the guarantee fund.

Minimum insurance premium rates

The level of the insurance premium is set by the act. Statutory support in the case of determining the amount of the insurance premium is given by the risks that may arise. Otherwise there exists the danger and risk commercial insurance companies may offer levels of premiums below the limit of the requisite amount, which could threaten the whole system, or in the opposite case insurance companies could accelerate to the other extreme and conclude a cartel agreement, excessively raising insurance costs. With regard to eliminating such behaviour by insurance companies in the Czech Republic it will be a statutory duty of the COI to stipulate minimum insurance premium rates up to the year 2003. At present, while regulation of minimum insurance rates by the COI is still in effect the level of insurance rates has almost not differed it all. Neither are substantial differences apparent in the case of rates with a bonus granted, because following the first year of accident-free insurance history the COI has set in the case of most insurance companies only a 5% discount on the insurance premium. Even in the year 2000 insurers offered insurance premium rates 15 per cent higher than that declared by the COI, despite this these rates were left unchanged in 2001, too. Even despite the fact that the insurance rates declared in 2002 have seemed to low to insurance companies for it to be possible even to cover at least expenses, they were governed by the rates declared by the COI so as to maintain competitiveness. In setting the amount of the insurance premium there is taken into account both the amount of the insurance benefit in a given period of the calendar year and also the creation of technical reserves. It is necessary to emphasise that the

calculation of insurance rates takes into consideration also liabilities remaining from compulsory insurance in Česká pojišťovňa. The end result is that also motorists who in 2001 gained a bonus, paid a higher amount for their insurance policy than in the year 2000. The authors of this article, working from the outcomes of the previous period in the given field point to a certain unsystematic approach in declaring the minimum insurance premium rate by the COI. According to the Act on liability insurance for the operation of a vehicle, minimum insurance premium rates may be raised in the years 2001 and 2002 at maximum by the level of inflation. Of course, if in the preceding calendar year the damage history of a certain group of vehicles exceeds the average rate of inflation it is possible to increase the insurance premium by the percentage increase of this damage history. It is necessary to emphasise that the process of determining rates is based not only on the amount of damages paid in the given period of the calendar year but also takes into account the creation of technical reserves, which the insurance company must create for future insurance benefit for damage arisen in the year 2000. It also takes into account the fact that as far as this concerns damage to health, the insurance premium is often provided for many years. A time delay occurs also in the case of many accidents without damage to health, because for a damage arisen in one calendar year, objective responsibility is often ascertained only later and that damage is then paid in the following year.

Already even the 30% increase in minimum insurance premium rates has stirred up a large response among insurance companies and research even initiated along with further investigations by the Office for Economic Competition and the Ministry of Finance. Despite this, no correction to the declared minimum rates has been made. In the framework of the investigation performed by the COI it stated they had following analysis come to the conclusion that member insurance companies that the volume of damages of all groups of vehicles had risen.

Conclusion

In Europe the compulsory insurance guarantee is a significant loss-making insurance product. Despite this it is a favourite among insurers because thanks to it insurance companies can offer their clients also other insurance products. Liability insurance for damage from the operation of a motor vehicle in the Czech Republic is still in a transitional development stage. It is counting on the fact that from the beginning of 2003 conditions will be created so that insurance companies can freely set insurance premium rates and fully exploit the positive effects of competition. In this period the majority of insurance companies are planning to introduce on to the insurance market in the Czech Republic a completely different system of discounts and surcharges regarding this insurance.



Compulsory contractual insurance in the Czech Republic has in this form existed only for a short time, it is therefore not possible to derive statistical data of a sufficient quality.

Despite these limitations this system of compulsory insurance guarantee is in many aspects comparable with the system functioning in developed European countries. If we compare Act no. 168/1999 on liability insurance for damage caused by the operation of a vehicle with EU directives, there still exists numerous unresolved obligations, as for example:

- In 2002 it is necessary to stipulate that every insurance company in the Czech Republic which offers the compulsory insurance guarantee has a representative in EU countries for dealing with insurance claims,
- If the 5th EU directive is approved in the proposed form, it will be necessary for insurance companies to raise the limits of the insurance benefit,
- There should on a yearly basis be issued a confirmation to the insured on the damage history of the insurance for the past five years, according to which it would be possible to determine the level of insurance premium rates and in a qualified way estimate the risks that it is necessary to insure against,
- It will be necessary to set a three-month term for the new registration of vehicles purchased in a different state and so have foreign registration plates.

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