

Economic

Goliadze Natia

The University of Georgia, Georgia

International Practice Related to Compulsory MTPL Insurance

Compulsory MTPL insurance has several public goals, including fairness, road safety, consumer savings, solving road problems and feelings of safety. Studies have shown that an increased number of motor vehicles increases the number of road accidents and road conditions are getting worse. At the same time, the social responsibility for road accidents is shifting from society to government. That is where the compulsory form enters the field.

Compulsory MTPL insurance is a relatively new product for developing countries and its advantages are vague for society. In most cases, compulsory insurance is perceived as an additional charge that burdens the vehicle. This term is less common and not properly understood in developing countries.

In order to have a better understanding of compulsory MTPL insurance, this article discusses compulsory forms and stages of development of MTPL insurance in different countries. It also focuses on the recommendations for developing countries to properly implement the compulsory form in their own society.

Keywords: insurance, motor third party liability, compulsory insurance, compulsory MTPL insurance, auto insurance, road accident, international practice.

There are voluntary and obligatory forms of insurance. Under voluntary insurance, the user optionally insures his liability, property, or personal interest. But under obligatory insurance the object of insurance, the types and the procedure of implementation is determined by legislation. In such cases, the insurer can only offer insurance that is better than the conditions set by the law for the insurer (Parliament, 1997, Article 5).

The most common type of obligatory insurance in the world is the Motor Third Party Liability Insurance (MTPL). The purpose is to insure the civic responsibility of the owners of the vehicle towards the health or property damage inflicted on the third person (Rejda & McNamara, 2008, pp. 522-523).

Cars began being regularly used after the First World War. By that time motor vehicles were perceived as relatively fast and dangerous to the public, although obligatory insurance had not yet been a security mechanism. In most cases when the car accident occurred, the damage was so high for the vehicle owner itself that s/he was not able to compensate third party affected by the accident. The obligatory form of insurance was first introduced in England on the basis of the 1930 Road Act. However, this act covered only a third party's injury and death and not property damage. In 1939, there were already legislative requirements for such compulsory insurance in Germany.

Usually auto insurance includes four coverages. It includes the insurer's personal car and compensation is given to insurer for own damaged car; Another is medical expenses which covers expenses of the insured, his family members and other persons who are passengers of insured vehicles (insurer's own vehicle); Also liability coverage and insurance for the uninsured driver. The liability insurance covers medical expenses not for the passengers of insured vehicle, but for the third party injuries and death. Also property damage that is not caused by the damage of its own vehicle (insured vehicle) but the damage caused by the property of third parties - "victims".

The MTPL insurance solves the following types of problems: When an accident occurs and the victim has to use their own auto insurance for bodily or property damages of its own car/passengers (the insurance company reimburses the loss by the first and second payments/coverage), this expense will have an impact on the next insurance period. Also if the victim himself is not insured (as driver) or is only a pedestrian, s/he could perhaps will not be able to get reimbursement from the offender due to insufficient funds or because the offender can run away. In the case of MTPL insurance the "offender" has no motivation to flee the accident area because s/he knows that the insurance company will pay the money not s/he. Also, the victim's insurance company is not obliged to reimburse the amount, which will not increase their premiums over

the next insurance period. If the pedestrian is injured, the “offender” will not reimburse the loss, but its insurance company. And because the insurance company is an institutional unit, it is more likely to have financial stability and possibility to completely reimburse the losses.

Social problems and frequent motor incidents have become a cause for third party insurance in the compulsory form. The second biggest problem that has contributed to the formation of compulsory insurance are traffic jams and related problems. When the price of autos became publicly affordable, the number of motor vehicles quickly and significantly increased on roads, causing traffic jams and many other social problems. Immediately after the introduction of compulsory insurance, a guarantee fund was created, in which each insurer had to pay the percentage of the insurance premiums. Such funds were served and still serve to cover uninsured drivers. Such drivers are considered to be uninsured and runaway drivers and those whose insurance contract cannot fully compensate for the damage. Accordingly, the third party knows that the damage will be reimbursed by the insurance company or the guarantee fund. (Organization for Economic Cooperation and Development, 2004, p.192)

According to Todd Litmann, (executive director of the independent research agency for solving transport problems at the Victoria Transport Policy Institute of the Canadian Transport Policy Institute) compulsory MTPL insurance has several public goals: including fairness, availability, road safety, consumer savings, choice and solving road problems (Rejikumar, 2013, p.19). Studies have shown that as the use of motor vehicles is increasing, the risk of road accidents increases, and road conditions are getting worse. At the same time, social responsibility for road accidents is shifting from society to government. That is where compulsory form enters the field.

MTPL insurance should be especially relevant for developing countries, as the financial security of the community, economic stability and social environment should be improved daily. Because of this, this type of insurance is presented in compulsory form. The World Bank’s analysis across Africa, Central Asia and Europe clearly demonstrates that 30% of non-life insurance premiums come from auto insurance. This phenomenon can be explained by the growing industrialization in developing countries. The compulsory MTPL insurance is a relatively new product for planned economy systems and its advantages are vague for the developing countries. In most cases, compulsory insurance is perceived as an additional charge that burdens the vehicle owner and not personal liability insurance that improves the social environment. This term is less common and not properly understood by the developing countries (The World Bank, 2009, pp. 1-5).

In order to have a better understanding of compulsory insurance, this article discusses the compulsory forms of insurance and the stages of development of compulsory MTPL insurance in the Baltic States, Asia and South Africa. It also focuses on recommendations for developing countries from the examples of Brazil and India on improving this sphere of insurance. The examples of Russia, Poland and Azerbaijan are also considered. Insurance limits and premiums are discussed in the example of Estonia, Poland, Italy, Greece, Germany, France, Estonia and other countries of Europe.

The article reflects examples of insurance markets in different countries in relation to the compulsory MTPL insurance to be able to properly implement this field of insurance in their own society.

Georgia has the obligation to introduce MTPL insurance in compulsory form from the EU in accordance with the Directive 2009/103/EC of the European Parliament and of the Council of 16 September 2009 relating to insurance against civil liability in respect of the use of motor vehicles, and the enforcement of the obligation to insure against such liability. In the frame of this directive, the practice would become more important to Georgia to launch socially responsible and liberal insurance.

The compulsory insurance practice in the world

Compulsory forms of insurance mostly can be found in motor third party liability insurance and in insurance from the accidents at work. The frequency of the risk and the severity of the consequences are so high in these two cases that the obligation of insurance is uncertain.

Any type of insurance is not subject to an obligatory form. It is important that the frequency and the severity of the risk should be important and a heavy burden for the public. Another factor implies that the severity of risk may not be widely distributed across an entire society, but it may be so important for entities that there is a need to be insured. The third factor is the expansion of the sphere of responsibility. It is implied that the introduction of insurance in the compulsory form should increase responsibility towards third parties. For example, MTPL insurance uses a fine-premium system that increases responsibility, because the insured person knows that if they are in an accident they will be guilty, the insurer will use fine-premium system and for the next insurance period the premium may increase. So insured feels the need to be careful even if they are not paying for the damages. This reduces the negligence factor for

subsequent insurance periods. (Organization for Economic Cooperation and Development, 2004, pp. 192-197)

Compulsory insurance is introduced at the level of legislation. With the recommendation of the Organization for Economic Cooperation and Development, there are several points that are most important in terms of legislation. The first is what compulsory insurance covers. Information about coverage cannot be general (for example, all medical practitioners should have professional liability coverage) because very often, in exceptional and additional terms, insurance companies can maximize the limits of compulsory insurance and minimize the payments. The second paragraph, which is also important, denotes the risks covered by the legislation. It should be clearly indicated that MTPL insurance covers body damage, death and other additional expenses including court expenses, or also covers property damages (Organization for Economic Cooperation and Development, 2004, pp. 205). It is also important to disclose information about insured persons. Will compensation be given if the driver is the only insured person and its family members, or any third party? It is important that the exceptions are allowed in the policy are written by the legislation. Because the goal of compulsory insurance is to reimburse the damage to the members of society and thus reduce the sense of fear, threat and the uncertainty of future, the insurer and the victim must know that the insurance company is restricted from refusing to pay the damages. If compulsory insurance is different according to territorial units, it should be controlled at the level of legislation and not by local self-governments or insurance companies. Changes at the regional level in terms of setting premiums and insurance limits also should be centralized and done by changes within the framework of the legislation. (Organization for Economic Cooperation and Development, 2004, pp. 207)

The law shall include a list of necessary actions and obligations to the victim, the insurer and the insurance company, as well as the deadlines for reimbursement, or the terms of declaring an insurance case and other obligatory conditions that may be the basis for reimbursement of compensation. The law shall also include information about the insurance company, regulator body, fines, as well as the guarantee fund and its rational use. (Organization for Economic Cooperation and Development, 2004, pp. 207-212)

In almost all Asian countries, the insurance of MTPL is mandatory. For instance, compulsory insurance only concerns responsibility for death or bodily damage in 9 Asian countries (Brunei, Cambodia, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, China, and Thailand). Contrary to that, in India, Sri Lanka, and Vietnam the responsibility also lends to property damage (Organization for Economic Cooperation

and Development, 2001, p. 41). Asian countries are generally characterized by a variety of compulsory insurance. One type of compulsory insurance is only in Sri Lanka and Thailand (compulsory MTPL insurance). In other countries their number is up to five. (Organization for Economic Cooperation and Development, 2001, p. 18)

A very interesting form of compulsory insurance is found in the Philippines. In return for MTPL, the insured person may carry out a monetary deposit to ensure coverage during the accidents caused by him/her. It is also possible to purchase a specific volume bond.

France has the most variety of compulsory insurance. There are about 100 compulsory insurances in this country. The most important is MTPL insurance which has been in force since 1958. As in every country, there is also a guarantee fund in France to cover uninsured drivers. Since 1985, insurance companies pay damages, regardless of whether the offender will prove to be indifferent or not. So, if the insured person could cause damage due to negligence, they could avoid risk by asking an insurance company for the payment and the injured party would still receive damages within the insurer's policy.

In France driving schools also have MTPL insurance. At this time, insurance limits should be unlimited. Public transport has become within the limits of compulsory insurance coverage since 1935 and liability is extended to property damages (Organization for Economic Cooperation and Development, 2004, pp. 149-154).

According to the number of compulsory insurances in Europe, After France comes Belgium, where by 2003 year there were 100 types of compulsory insurance, while in 1994 years only 50 was. The transportation arena was the first in compulsory insurance. MTPL insurance for property damage has been in force since 1989 and for the bodily damages since 1947. As in France, here also driving schools must have the insurance towards to the third party property (1998) and body damage (1988) (Organization for Economic Cooperation and Development, 2004, pp. 154-157).

Compulsory MTPL insurance in Portugal has operated since 1985 and for driving schools since 1982. In Italy, compulsory insurance forms are about 70 types and are divided according to regional units. Compulsory MTPL insurance has been in force since 1969. Such insurance for driving schools was put into force ten years before (Organization for Economic Cooperation and Development, 2004, pp. 158-162). In Denmark, rented motor transport also is under compulsory insurance.

Only 6 types of insurance are available in Turkey. Among them is the compulsory MTPL insurance; As well as bus passengers' insurance; Aviation insurance; Liability insurance to third parties which is related to dangerous cargo and materials (in terms of environmental pollution) and eventually earthquake insurance. In Ireland compulsory insurance is only in the form of MTPL. In Canada the insurance limits are different according to provinces. In the United States, MTPL insurance is compulsory, but not in every state.

The history of compulsory insurance development of the Baltic States (Estonia, Latvia and Lithuania) is very important because these countries are close in terms of economic development to Georgia's situation. In the Baltic countries we see compulsory insurance for professional liability, motor vehicles, air traffic, tourism operators and other types of compulsory insurance. In terms of health care, compulsory insurance concerns certain social classes. For example, in Latvia judges and prosecutors should have health and life insurance. Auditors, diplomats living abroad, specific operators of the National Opera should have health and accident insurance. (Organization for Economic Cooperation and Development, 2004, pp. 218)

The report of the Organization for Economic Cooperation and Development reviews the legislative basis of the Baltic countries's insurance (Insurance in the Baltic countries: Policy issues in Insurance, 2004, pp. 217). This report shows that MTPL insurance is compulsory for almost all Baltic countries, although legislation requires development and refinement. For example, the law adopted on July 10, 1996, in Lithuania states that compulsory insurance is regulated by legislation while voluntary insurance is based on a contract. As international experience shows, compulsory insurance cannot be carried out only by law. Contracts signed between the insurance company and the insurers are important and necessary. Since the law only contains a minimum number of requirements and reflects general terms of insurance, it is still not enough to ensure that each member of the society is insured. For this purpose, the insurer agrees to the insurance terms by signing an insurance contract and the insurance is in force from the first premium paid by the insurer. Lithuania's legislation requires the development of an approach towards compulsory insurance by improving this formulation. This is not a problem in Estonia. As a result of amendments to the 1995 insurance law, in 2002 it was clearly defined that compulsory insurance is a form of insurance that is mandatory under the legislation and entry into force means signing an insurance contract. The 1998 law in Latvia correctly reflected this condition of compulsory insurance. The second article includes information that "in the case of compulsory insurance,

insurance contract should cover the requirements for the relevant class, which is determined by the regulatory body defined by the country, in which country the insurance is compulsory” (Organization for Economic Cooperation and Development, 2004, pp. 217).

In Azerbaijan compulsory insurance is provided for real estate, MTPL, third party liability, against the use of real estate, for the disability arising from accidents at workspace, and for the passengers’ insurance against accident (Republic of Azerbaijan, 2014). The compulsory insurance bureau describes the essence of each type of insurance in detail on its website. There is also information about legislation; standard forms of insurance policies. Here is the inspection page of the insurance policy which has already been signed and a sign in can be done very easily: by entering the registration number. The site includes comprehensive information as well as the terms of payment, documentation and duties of the insurance companies. Azerbaijan’s population can easily get information that simplifies the duties for insurance companies to manage operations related to compulsory insurance.

Under the 2009 motor insurance directive, anyone who holds a compulsory motor insurance policy in an EU country is covered to drive throughout the entire EU. (Organisation for economic co-operation and development, 2001, p. 176). According to the “Green Card”, compulsory insurance contributes to the harmonization of legislation between the member states and the easy movement of the means of transport. Also, it provides for the social protection of victims (Business and Economics Center, I-002, pp. 4-5)

Compulsory insurance terms in Russia are causing some misunderstandings because of the unification of the two types of insurances. In the first case, the state budget is allocated for premiums and the recipients are the insurance companies. Such kind of insurance in Russia, as well as in Georgia, is presented as the state programs of health insurance. At this time, the state organises the health insurance programs, the beneficiaries are citizens of the country, but premiums are paid from the government budget. The second form in Russia is used in the sense of traditional compulsory insurance. At this time the law obliges the population to have insurance. In Russia, this is the civil responsibility of auto owners (Organization for Economic Cooperation and Development, 2005, p. 26).

In practice, compulsory MTPL insurance cannot take on the the first form (when the state budget is allocated for premiums). The reason for this is that the factor of introducing the compulsory insurance is the expansion of the sphere of respon-

sibility. If the state allocates funds for the premiums, and the insurance company reimburses the damage, the “offender’s”, (the person who carries the risk of the accident) liability will not increase. If the premiums are not paid by the “offender”, but the state, the benefit of the compulsory insurance will be decreased, since the driver (potential offender) will not have a motivation to reduce their risk of road accidents (which is carried out by Bonus-Malus system through an increase in the premium over the next insurance period if previous insurance period is completed with loss) and vice versa we may push the driver to the negligence because they will not have any financial interest: the loss will not affect them personally.

Compulsory MTPL insurance may be carried out on the basis of a premium calculation according to the distance. This method is called Pay-As-You-Drive system. Within this method, an insurance premium is calculated based on how many miles or kilometers (distance units) have been driven during the insurance period. This system of premiums calculation ensures that if a driver passes more miles/kilometers and accordingly has greater road accidental risk, the driver has to pay more premiums than a driver, who drives less miles and has less risk of a road accident. The Pay-As-You-Drive system is based on the market principle that the price that the customer pays has to be based on expenses. Over time the perception of justice increases in society, because the individual customer knows that the driver pays for what he or she spends, for example like a mobile phone operator’s service. (Victoria Transport Policy Institute, 2014). This system increases the perception of justice and also protects low-income drivers and their families; low-income families can still use vehicles despite compulsory insurance; The number of uninsured drivers is reduced because the fair approach facilitates the establishment of a positive attitude in society; (Boucher, Pérez-Marín, & Santolino, 2013); The movement and load on roads are reduced by about 10%, which improves traffic congestion, parking, road and pollution condition while increasing the safety of traffic on the roads. (Victoria Transport Policy Institute, 2014).

These miles/kilometers are counted according to data indicated at the beginning and end of the insurance period on the odometer (the distance measuring device). Some countries also use a GPS system to calculate the distance travelled. This way not only the distance but also the location of the vehicle and therefore the road conditions are taken into consideration, which improves the accuracy of premiums calculation (Rejinkumar, 2013, p.20).

However, researchers who contradict this method have proven that the passing less distance does not mean that the owner of the vehicle has lower risk. To prove this, the researchers said that people who drive cars more often and therefore have high mileage

are more experienced drivers and have a low risk of road accidents. And those who have high mileage are mostly moving on highways, which are more secure and safe than those who use cars less frequently at towns or cities (Boucher, Pérez-Marín & Santolino, 2013, p. 4).

Various forms of insurance may be presented as compulsory insurance. Also, compulsory insurance can be made by different methods. However, as we have seen in the example of the countries of Asia, the developed and developing countries of Europe and the Baltic countries, the MTPL insurance is compulsory in every country. As for implementation methods, Pay-As-You-Drive system is one of the most effective and efficient methods implemented in the developed countries after many years of experience.

Development of Compulsory Third Party Liability Insurance in Foreign Countries

Brazil is one of the best examples of the development of obligatory MTPL insurance, since previously 60% of cars were uninsured. Such kind of problem is characterized for the planned economy system. In these countries, free market relationships are limited, which affects the development of insurance sector itself. Brazil's compulsory MTPL insurance (called DPVAT in Brazil) was established in 1974, and changes were made in 1992 and 2007. All vehicles that are purchased under the procedure prescribed by law and are shipped to Brazilian territory must be insured annually. Compulsory insurance must be purchased in Brazil once a year when the driver is renewed for driving license. This process is regulated by the Private National Insurance Council which is independent of state structures.

In order to reduce the cost of administrative / operating expenses by insurance companies, a Centralized Electronic Data Interchange System operates in Brazil, which includes information about insurance history of each insurer. If an insurer selects another insurance company for the next year, the insurance history will be easily transferred to a new company. This makes it more precise to determine premiums.

The second issue, which is also important for organizing the activities of insurance companies, is the issue of the involvement in compulsory insurance. The authorized body inspects financial sustainability and other issues and only after this is the insurance company is allowed to provide compulsory insurance products.

The third important issue is to maximize the standardization of contracts and the conditions within them. That will minimize the administrative costs and increase efficiency. The minimum requirements provided for insurance companies and for the insurers should be included in the insurance contract and are regulated at the legislative level. This ensures the protection of the insurer so that she or he has acknowledged all of the rights or obligations associated with participating in the compulsory insurance policy.

The regulatory body obliges the insurance company to submit the following information on the policy: the type of insurance, insurance definition and purpose, phone number, where all the explanations can be obtained. It also provides a website that enables detailed information: information that allows the identification of the vehicle owner, information about the policy insurer, payment limits on one case or one person, documents required for compensation for losses, deadline for submitting an insurance case, description of the insured vehicle and information about the premiums (The World Bank, 2009, pp. 13-16).

When calculating premiums in Brazil, statistical calculations of frequency and severity of risk are used. However, this standard model does not take into consideration the individual characteristics of a car's owner, which has a significant impact on the frequency and severity of insurance cases. Most of the countries count this factor when calculating premiums. One of the simplest methods is Bonus-Malus, a fine-bonus system (The World Bank, 2009, pp. 17-18). This implies an increase or decrease in insurance premiums (in Parliament, 1997, pp. 1) in accordance the change in insurance risk.

Compulsory insurance premiums are allocated between insurance companies and state structures. 100% insurance premiums are distributed in Brazil as follows:

1. 45% belong to the Ministry of Health to cover costs incurred for medical and hospital services arising from a road accident
2. 5% belong to the National Traffic Department, which is a structural part of the local unit or city governing body in Brazil and is responsible for controlling and eliminating traffic accidents. Simply put, this is a division that provides safe road traffic and establishes penalties for violations.
3. 44.28% are distributed on administrative expenses
4. 2% is profit margin

5. 0.5% is commission for brokers and insurance intermediaries

6. 44.0572% returns for reimbursement losses.

Such transparent redistribution will ensure the establishment of fair insurance premiums. However, on the one hand, such control is a big limitation for insurance companies; The Brazilian National Insurance Council unilaterally declares that legislation does not guarantee profitability of insurance companies, but its purpose is to offer fair public insurance services to the public. (The World Bank, 2009, pp. 17-18)

The “Law on Insurance” focuses on the financial stability of insurance companies in Georgia. Developing insurance markets should pay significant attention to financial analysis and assessment of insurance companies. Financial sustainability increases public trust towards the insurance market and its participants.

MTPL insurance in India has an interesting development history, which led to the launch of the Fatal Accident Act in 1955. Before then, only those road accidents with fatal consequences were taken into account in the frame of legislation. Body damage was not covered by the law. The guilty verdict was made within the law and civil responsibility was imposed on the offender to compensate the family of dead person. The beneficiary may be only spouses, parents and children of dead person. The other person will not be compensated. Actually, third-party responsibility does not need to be approved by a law that simplifies the remuneration of compensation. The economic consequences of road accidents in India during this period became so important that it was impossible to ignore the health and property damage that was neglected by the old legislation. Based on this, a compulsory form of insurance was introduced. Here, as in Brazil, only a licensed company could offer insurance services. Also, in addition to the requirements on the insurance company in Brazil, which includes periodic submission of financial statements, in India information about corporate governance is required at least twice a year. This includes documentation that will be submitted to the Board of Directors by Top Management (The World Bank, 2009, pp. 156). The difference between these two countries is that legislation in Brazil does not name limits to property damage. Also under the definition of compulsory insurance the legislation does not clarify the need to insure this form of liability as compulsory form. In India it is clear that transport is considered to be adequate only when it is insured in licensed insurance company and insurance coverage is against the damage to the third party's body as well as property. Public transport has to insure not only third party liability against bodily or property damage, but also liability against its own passengers (The World Bank, 2009, pp. 145-146).

As of 2011, 43% of the total premium in India comes from the compulsory MTPL insurance, which comprises 35% of the total motor insurance market. This sector is regulated by the IRDA of Insurance Regulation and Development Authority (Rej Kumar, 2013, p. 21).

In India, the process of pooling is also controlled. Among the insurance features, one of the most important is the pooling losses. Pooling refers to the distribution of the losses arising from a minority to the whole group, which in result replaces the actual damage by the average losses. This process involves grouping a large number of homogeneous units which have higher potential risk. Consequently, India's legislation promotes grouping homogeneous pools between insurance companies, which unites the greater number of risks and improves the total balance of the pool. This reduces the average loss and reflects the amount of premium (The World Bank, 2009, p. 159).

Data management in Brazil, as well as in India, is centralized, which facilitates the simple and quick exchange of information between the insurance companies. Statistical information on the frequency and severity of risk is also improved.

A great example of the importance of a centralized system of data management can be found in Turkey. This country has long been trying to harmonize the activity of insurance companies while monitoring the service of agent to make compulsory insurance more productive. One of the factors that has contributed to this process was the creation of the Turkish Central Database for Insurance Companies (TRAMER). Before data system there were the following problems: a high percentage of uninsured drivers, invalid use of bonus-malus system, a lack of a unified insurance history that should be distributed to insurance companies, imperfect information about fraud losses and premiums, the absence of unified statistical database, bankruptcy of some insurance companies (The World Bank, 2009, pp. 215). After TRAMER started to work, some of the problems were solved and the severity of the rest of the problems decreased.

MTPL insurance became mandatory in Russia in January 2004, although the sale of insurance policies was still in force from July 1, 2003. From that time, the legislation imposed quite low insurance limits. The compulsory form has received a lot of criticism in society. The main reason was the imposition of additional burden on low-income families and pensioners. However, to address this problem limits and premiums were reduced to a minimum level. This issue was one of the reasons for abolishing the law on compulsory insurance in Georgia (Organization for Economic Cooperation and Development, 2005, pp. 49-50).

As well as in all the above-mentioned countries, in Russia operates the Automobile Insurance Association (RAMI), which controls two funds. The money is allocated from premiums and is aimed at covering uninsured drivers. The first fund receives 2% of premiums to cover claims inflicted by the hit-and-run or uninsured drivers; and the second fund distributes 1% of premiums to cover claims that the client's insurance company has not fully or partially paid for insolvency (Organization for Economic Cooperation development, 2005, pp. 50-70).

Compulsory MTPL insurance in Poland covers 30% of the entire insurance market and more than half of the non-life insurance market. Since this form of insurance in Poland has been compulsory, public safety related to traffic accidents has been improved in 2001-2009. Despite the fact that the number of vehicles increased by 50% during these years, traffic accidents have decreased by 18%. The better results are in 2001-2010 when traffic accidents have decreased by 28% (Kwiecien & Poprawska, 2011, pp. 117-118). Despite everything, Poland still has a high risk of road accidents. The mortality rate is 10 people per 100 road traffic accidents, while in Czech Republic it is 5, in Hungary – 6, and in Britain, Sweden and Germany this figure is only 2-3 (Kwiecien & Poprawska, 2011, p. 119).

In Poland, the process of collecting and processing statistical information is in very high level. Macroeconomic, demographic and other factors have a significant impact on the frequency and severity of risks. Therefore, information about traffic accidents is sorted by different demographic factors. For example, 77% of the traffic accidents are caused by males and 23% are caused by 18-24 year-old drivers (Kwiecien & Poprawska, 2011, p. 119). As mentioned above, in Brazil the individual characteristics of a car's owner is not taken into consideration. But such kind of calculation is not as fair, as a model, which counts demographic or personal characteristics.

In researching the frequency and severity of claims, Poland found that the frequency of traffic accidents is directly related to the two main factors. First is an increase of awareness of the public. The second factor is the change of society's attitude with regard to road accident reports (to inform the responsible governmental body) and submitting information perfectly (Kwiecien & Poprawska, 2011, p. 20).

Compulsory MTPL insurance in Azerbaijan covers passenger cars, trucks, minibuses, buses, motorcycles and tractors and other vehicles used for road construction, forestry and agriculture. It also includes Trolleybuses and Trams (Republic of Azerbaijan, 2014). There are several articles in the legislation. Article 5.3 states that the insurer can choose insurance company by himself but only from that companies, which has the

authority to carry out compulsory insurance. Policy is valid only if it contains relevant information and this policy is submitted in Information Data System (Article 51.1); Article 53.4 is quite clear and understandable, which relates to the insured driver: “Regardless of who is referred to in the insurance policy, any person who has a legitimate right to use the vehicle can be considered as the person whose responsibilities is covered beyond this legislation”. This part increases the scope of the law and ensures a greater chance of reimbursement to the victim. In Azerbaijan, as in other countries, funds are allocating from the Compulsory Insurance Bureau and are directed to compensate losses from uninsured drivers. (Republic of Azerbaijan, 2014)

In France, since 1985, the law has been enacted which protects especially pedestrians. The insurance limits are very high if the car accident involves pedestrian. Here is the Pay-as-You-Drive system. That means the calculation of the insurance premium according to the calculating mechanism of the kilometers passed by the car (European insurance and reinsurance federation, 2010, p. 74). France also has a mechanism for restricting driving damaged car. In 2008, insurance companies and state authorities established a rule that gives companies the authority to prohibit the movement of a vehicle that was seen as a dangerous for road accidents.

The advantage in Germany is its regulated electronic system, which allows the owner of the vehicle to register quickly and easily.

Compulsory MTPL insurance is regulated by legislation in Serbia, which is called the Law on Compulsory Road Insurance. This law consists of compulsory accidental insurance for public transport passengers, as well as motor third party liability insurance, compulsory liability insurance towards aircraft passengers and compulsory third-party liability insurance of vessel’s owners (Republic of Serbia, 2011)

In all EU countries, motor third party liability insurance is compulsory. The European Insurance and Reinsurance Association reports that 300 million motor vehicles were operating in Europe in 2009. This figure is almost equal to US and Canadian data. Since the main goal of the European Union is to create a single open market system for member states and to provide free movement between countries, it is critical to introduce the compulsory form of motor third party liability insurance. The EU countries are united in their Green Card system.

In 1949, before the EU was established, the Committee on Road Transport created a so-called green card system. Its main objective was to simplify movement of vehicles between countries. The system was based on the Scandinavian model that had been op-

erating since 1926. According to the EU's model, a "Green Card" is a document whose main purpose is to ensure the uninterrupted crossing of the border by the vehicle's owners. The Green Card system unites 45 European member countries. Latvia, Lithuania, Estonia, Ukraine, Moldova and Belarus are members from the post-Soviet countries (Business and Economics Center, I-002, p. 6). Based on the concept of the Green Card, the Central Insurance Organization of different European countries presented compulsory MTPL insurance. After that, national organizations (compulsory insurance bureau or other authorized organization) of the countries were able to reimburse the claims of foreign nationals within their country's insurance companies. Without this procedure, the direct involvement of foreign insurance companies increased the deadlines for reimbursement and complicated procedures.

As for the other countries, some African countries have a yellow card system that performs the same functions as "green card". Drivers who have a yellow card can travel in other countries of the yellow card system and their liability insurance policy will be applicable at any stage of movement. Similarly, drivers in Canada and the US move freely in these two countries, since an insurance contract signed in one country is valid in the other country.

In most of the states that are included in the EU, there are specific tariffs. However, the liberalization of tariffs is also ongoing. This means that after the EU's third directive, insurance companies are given greater freedom to impose tariffs and offer conditions. Slovakia and Turkey use different systems. Based on the regulation of July 1, 2008, insurance companies are free to determine their tariffs, but there is a minimum and maximum margin in the legislation (The World Bank, 2009, pp. 200).

Despite the fact that MTPL insurance is compulsory in nearly every European country, there is still a big problem with uninsured drivers. This applies especially to those countries that have a developing economy. In those countries the police are obliged to detect uninsured drivers. For this purpose, the continuous availability of information to the relevant authorities is necessary. For example, according to 2009 data, every 1 person is uninsured from 20 in England. Here is the Motor Insurance Database. The base describes all the vehicles with their identification number and details of the insurance policy related to this car. Police have continuous access to this. This database helped to gather information on uninsured drivers and traffic accidents. (The World Bank, 2009, pp. 200-210)

Reasons of differences between countries during MTPL insurance

There are several factors causing differences between the insurance characteristics, premiums and other factors among the countries. First of all, it is important to take into account the frequency and severity of risk. Depending on the fact that countries have different risk frequency and severity, the risk of insurance policy is also different, which causes a difference in premiums. The frequency and severity of the risk depends on many factors. For example, road safety, infrastructure, road surveillance (patrol service), and the condition of cars in the country: release date, fuel consumption, and their maintenance. The economic situation in the country also affects risk: the health system and prices in case of bodily damage reflects premiums. In case of damaging property, we consider the economic situation and the country's culture. Luxury cars are more common in high GDP countries, but if the country has different cultural preferences, bicycles or mopeds can be in common. Such property damage is less costly.

Factors Associated with Risk Frequency

Legislation, which regulates insurance, has a significant impact on insurance terms. In many cases the coverage of uninsured drivers, fugitives or drivers' polices that do not meet the norms of the law shall be paid by a supervisory body that collects funds from the share of premiums supplied by insurance companies. How much is this share? How large is the burden of this share for the insurance company? Those factors affect policy terms.

In case of compulsory insurance, insurance companies have minimum limits to be considered in each policy, which is in line with EU requirements. Those limits are high and may be different from non-EU countries.

The conditions for reimbursement are also different between countries. Most countries have 3 months to pay compensation from the date of a loss.

The cultures of countries and populations are also important. In some countries it is clear that if driver acknowledges that MTPL insurance will reimburse losses and not him, this will force them to reduce their own liability. That is, they are more likely to be more negligent and thus increase the risk of car accident.

In many countries, road conditions are still poor. Signs, traffic lights, and the safe movement of pedestrians are not managed perfectly. In many countries infrastructure and road safety can be done perfectly, but the geographical environment of the country

leads to riskier roads. Accordingly, the geographical environment and the road conditions affect the frequency of the risk. The patrol system is also important. Strict and regulated patrol system ensures risk reduction.

In developing countries, societies that still do not obey the elementary rules of road safety, increase their risk. Climate conditions can also affect road safety. It is known that a snowy road is more risky and, consequently, countries that are often under the influence of the changing weather are at higher risk. Traffic jams also have a significant impact on the risks. In cases of high traffic, the risk is higher and the premiums are higher. According to the EU recommendation, countries with high rates of mortality risk during road accidents should have higher insurance liabilities.

Factors Associated with Risk Severity

Risk severity contains factors associated with the costs that may be incurred within the health care system. In countries where treatment is expensive, the risk is high.

In some countries public transport is developed and accordingly, the risk of property damage is less. In some countries, it is common to use small cars, bicycles, and mopeds. In this case the severity of the risk is less. During a car accident, property damage can cause less loss, than in countries with luxury cars. In countries where more expensive and exclusive cars are on the roads, the risk is much higher.

The probability of car theft increases the risk. Countries where this precedent is high have higher risk severity.

Many of the country's population dishonestly use insurance services and often these actions are characterized as fraud. This increases the severity of risk.

Taxes also influence bonuses. A net risk bonus is added to different factors, including taxes, which increases the premium offered to the customer

Taxes also influence premiums. The net risk premium is added to different factors, including taxes, which increases the premium, offered to the customer.

The numbers of uninsured drivers increase the risk severity, since the funds required for the reimbursement of uninsured drivers are allocated from the premiums paid by consumers.

Conclusion

If we rely on international experience, it may be possible to disclose some minimum requirements that are necessary for the introduction of compulsory MTPL insurance. First of all, this has a legal basis. The legislation is essential not only to protect the public and to ensure the fairness of the insurance process but also to ensure that the rights of insurance companies are identified and taken care of. As already mentioned, any decision made about compulsory insurance in foreign countries has to be declared in the law.

The second important issue is the process of determining and developing tariffs. Since MTPL insurance is a burden to the public, the premiums, insurance limits and procedures for calculating the amount of compensation should be calculated very carefully. For this, the most important aspect is a centralized data system. Almost all of the above-mentioned countries have such kind of system. Databases simplify the insurer's movement from one insurance company to another. They also improve statistical information gathered from road accidents. Therefore, the calculations of premiums are improved. While the existence of perfect statistical information allows insurance companies to better evaluate the claims, which improve their calculations and makes possible better predict losses. Financial condition of Insurance companies as well as economic condition of society is protected.

The third requirement, which is followed by the introduction of compulsory insurance, is a guarantee fund for losses that are allocated for the reimbursement of the claims made by uninsured drivers. As already mentioned, despite the introduction of insurance in compulsory form, there are still numbers of non-insured drivers in each country. There is also a high probability that an insurance company will not be able to compensate full loss due to insolvency, or even the offender will escape from the crime scene. In such cases it is necessary to have some leverage that will protect the victim from a fugitive or insolvent driver.

A monitoring system is also very important. As already mentioned, the last stage of selecting a certain method in the risk management process is always a revision and monitoring of the relevant strategy. Consequently, it is necessary to monitor compulsory forms of insurance to ensure that the public and insurance companies get more benefits than losses.

It is essential that compulsory insurance should be offered by licensed companies only. In the example of Brazil, India and many other countries, the authorized body should

verify financial stability and other factors of insurance companies and then give the authority to be involved in the supply of compulsory insurance products. This will protect the public from the bankruptcy of the insurance companies (The World Bank, 2009, pp. 210-211).

In conclusion, it should be noted that introduction of the motor third party liability insurance has some important benefit. One is protecting society from risks the size and significance of which have increased in recent decades. Society should understand that a person who drives the car, collectively increases excessive damage and losses in society (The World Bank, 2009, p. 211). There are also the positive effects that have been introduced into compulsory forms of insurance almost all over the world. First of all, it is the expansion of the drivers' responsibility. Compulsory insurance ensures increases the liability by vehicle owners and consumers, which improves the road accident conditions. The condition of the victims is also improved and the same time public responsibility is improved. This is related to the public infrastructure, roads, vehicle condition, driving skills, driving conditions (prohibitions, restrictions and traffic rules) (The World Bank, 2009, pp. 211).

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