The compensation of Motor bodily injury claims in the Nordic Insurance Markets

The following study on the motor insurance market in Northern Europe has been compiled by SCOR Global P&C’s underwriting, legal and actuarial departments. Its target is to compare the legal basis for Motor Third Party Liability (MTPL) insurance in Denmark, Finland, Sweden and Norway and to explain how bodily injury cases are compensated.

Introduction

The European motor insurance market (MTPL and Own damage) is by far the largest segment within the non-life insurance industry. In 2008 around 1,000 motor insurance companies generated a total premium income of €127.5 billion, representing roughly 31% of total non-life premium income.

The Nordic Markets (Denmark, Finland, Norway and Sweden) contributed 5.6% – approximately €7.15 billion – to total European motor premium income in 2008.

Although the legal situations in Denmark, Finland, Norway and Sweden differ from each other, they have some common characteristics that make them unique in comparison to most other European countries:

• Most importantly and unlike in most other European countries, the recovery options of social security carriers for hospitalization and related costs are broadly restricted, if not impossible.
• The amounts paid as compensation for non-pecuniary damages are substantially lower than in countries like France, Germany and the United Kingdom.
• The driver of an insured vehicle is compulsorily included in the cover of that vehicle’s motor policy, even if he/she has caused the accident in question through negligence.
• Denmark, Sweden and Finland have set up Road Traffic Injuries Commissions which must be consulted by insurance companies in non-immaterial bodily injury cases and which must impartially give their advisory and non-binding opinion on some of the most important aspects of compensation for victims.

Increasing bodily injury claims, along with unknown inflationary factors over the coming years, will present challenges for both insurers and reinsurers in the future.

Legal Overview

As in all European countries, MTPL insurance is compulsory in the Nordic countries, but the compulsory insurance policy limits for personal injuries and material damage vary from country to country.

Minimum sums insured in the MTPL insurance industry are regulated by the European Union for its Member States. The latest EU Directive relating to civil liability insurance in respect of the use of motor vehicles (Directive 2009/103/EC) stipulates the minimum amounts covered by compulsory motor insurance. According to this Directive, the minimum amount of cover in the event of personal injury is €1,000,000 per victim or €5,000,000 per claim, regardless of the number of victims involved. In the case of damage to property (material damage) the minimum amount is €1,000,000 per claim, regardless of the number of victims involved.

The following table gives an overview of the coverage sums regulated by law for bodily injury and material damage claims in the four Nordic countries as well as in France, Germany and the United Kingdom.

<table>
<thead>
<tr>
<th>Country</th>
<th>Bodily Injury</th>
<th>Material Damage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>13,435,800</td>
<td>2,687,200</td>
</tr>
<tr>
<td>Finland</td>
<td>unlimited</td>
<td>3,300,000</td>
</tr>
<tr>
<td>Norway</td>
<td>unlimited</td>
<td>1,174,660</td>
</tr>
<tr>
<td>Sweden</td>
<td>28,669,200</td>
<td>1,000,000</td>
</tr>
<tr>
<td>France</td>
<td>unlimited</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Germany</td>
<td>7,500,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>unlimited</td>
<td>1,097,830</td>
</tr>
</tbody>
</table>

All figures are in €, foreign exchange rate as per 01.12.2009.

In Finland, France, Norway and the UK, motor insurance companies are obliged to provide unlimited cover for bodily injury claims, whereas in the other countries listed above fixed minimum sums insured apply.
**Statistical overview**

**Personal Injuries**

Accident data is based on reports by the police, but not all accidents are actually reported to the police. Severe accidents are reported more frequently than minor accidents. Studies of hospital statistics in Finland\(^4\) indicate that accidents involving only pedestrians or cyclists are very seldom reported to the police, although they are often severe.

In all Nordic countries there are ongoing improvements in road safety, e.g. Vision Zero in Sweden\(^5\), which have a positive impact on the total number of injured persons.

**Motor Loss frequencies**

The Motor loss frequency shows the total number of losses divided by the total number of vehicles. In the following diagram the total number of vehicles is shown according to the registered vehicle stock from the vehicle register (including trailers). The claims count in this paragraph is based on police reports of accidents involving personal injuries.

In Denmark there is a sustainable decreasing frequency in the observation period: In 1995 the loss frequency amounted to 3.1 accidents per 1,000 vehicles, whereas in 2008 it was 1.3.

Loss frequency in Finland has also been improving over the last 14 years. In 1995 it was at the same level as Denmark, with three accidents involving personal injuries per 1,000 vehicles. Currently the frequency is 1.9 per 1,000 vehicles.

Norway also shows a decreasing frequency for the years 1995 through 2008. Starting in 1995 with 2.8 accidents per 1,000 vehicles, the frequency currently stands at 1.7 accidents per 1,000 vehicles.

For Sweden the number of registered vehicles has only been available since 1999. During the observation period there is no significant improvement visible. The loss frequency remains stable at around 2.3 accidents per 1,000 vehicles.

In three out of four countries, the loss frequencies show improvements over the last 10-14 years. These improvements can be regarded as a result of ongoing road safety initiatives in all Nordic countries.

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\(^{5}\) In 1997 the Swedish Parliament introduced a “Vision Zero” policy, which aims to reduce fatalities and serious injuries to zero by 2020.

\(^{6}\) Cf. Danish Road Directorate, Finnish Road Statistics, Vägverket, Statistics Norway.

\(^{7}\) Statistics Danemark, Finland, Norway and Sweden; Danish Road Directorate: Liikenneturva (Finland); SIKA (Sweden).
Similar and diverging legal bases in Nordic countries

Denmark

I. Law applicable
• Liability for Damages Act (Loeskravningsloven), LDA.
• Traffic Circulation Law, particularly § 101, (Færdelseloven) TCL.
• Industrial Injuries Act (referral to the National Board of Industrial Injuries) (Arbejdsskadestrikningsloven).

II. Particularities of Danish practice/legal situation
• Strict Liability (§ 101.1 TCL) for personal damages due to a motor driven vehicle including its driver, irrespective of her/his fault. Under § 101.2 TCL, a given compensation amount may be reduced or denied if the claimant has contributed to the accident in a grossly negligent manner. However, case law shows that gross negligence must be extensive. Maximum reduction to be expected, other than in extraordinary cases: 1/3. Not wearing a seat belt or a helmet does not justify any liability.
• If the insurer and victim are unable to agree on a certain level of loss of earning capacity or permanent disability, each of them may address the National Board of Industrial Injuries, which will recommend the relevant percentage. Their recommendation has no binding effect but is usually accepted.
• Costs for medical treatment and care are, apart from minor exceptions, covered by the social security system without any right for recoveries for these carriers.
• Employers are entitled to recover sick pay up to the amount they have actually paid to their injured employee, but only if they are able to prove that they have suffered a financial loss (e.g. if they have hired a substitute), cf. LDA § 17.2.
• Local authorities are entitled to recover sickness benefits paid by them to the injured person under the Sickness and Maternity Benefits Act, cf. LDA § 17.1. There is no recourse for other benefits paid under social legislation. Nor is there any recourse for pension benefits paid out by the State or a local authority.
• Most heads of damages are determined by a fixed scale (i.e. loss-of-earning-capacity, permanent injury, loss of dependency/supporter) and capped by a maximum amount. The relevant scales are adjusted by law once a year on the basis of the development of the average cost index plus 2%. The respective amounts are published by the Minister of Justice.

III. Specific heads of damages (figures mentioned are those applicable since 1 January 2009)

a) Pecuniary damage
• Medical expenses are paid by the tax-financed health system (hospital, medical treatment, medicine). Self-retention of the victim (for medicine, dental treatment, physiotherapy, chiropractor and psychologist) is reimbursed by the liability insurer.
• Compensation for temporary loss of earnings is paid concretely on gross salary basis (comparison of the situation before and after the accident) until either - the injured person has resumed working activities or - (in the case of permanent partial or total loss of earning capacity) the injured person's earning capacity has been assessed finally or temporarily by the National Board of Industrial Injuries or the insurance company has made a reasonable assessment of the permanent loss of earning capacity and paid compensation according to the assessment.
• Sick pay, benefits from an employer or the local authority, insurance benefits in the nature of true damages and similar benefits paid to the injured person shall be deducted from the compensation.
• Loss of earning capacity (for the future): Compensation is calculated as follows: Annual gross income (preceding the year in which the injury occurred) x Percentage of loss of earning capacity x 10. Payment of loss of earning capacity requires that the percentage of loss of earning capacity is assessed at a minimum of 15%. The maximum amount payable is DKK 7,588,500. If the injured person is over 29 years of age compensation shall be reduced depending on his age (s. details in § 9 LDA).
• Lawyers’ fees are compensated if the retaining of a lawyer is reasonable. In bodily injury cases this is generally the case.

IV. Statutory limitation / reopening of claims
Limitation for claims against the tortfeasor and/or his insurer is 5 years irrespective of whether they are founded on negligence or strict liability. The 5-year rule only applies to claims made before 1 January 2008, or in the period from 1 January 2008 to 1 January 2011. The limitation period will be 3 years for claims according to accidents occurring after 1 January 2011.
A settled claim may be reopened at the injured person’s request if the actual circumstances of the case change substantially in relation to those given at the time when the claim was settled (not just in the case of deterioration of health status but also in cases where the economic conditions have changed, e.g. loss of employment).

Lawyers’ fees for a claim of between DKK 2 and 5 million are in the range of between DKK 110,000 and 280,000, tax included. If the case is settled out of court the lawyers’ fees will typically be reduced by 50%.

b) Non-pecuniary damage
• Pain and suffering: DKK 165 is paid for each day the injured person is sick. In any event, the compensation cannot exceed DKK 63,000.
• Compensation for permanent disability is set as a capital sum calculated on the basis of the medical nature and scope of the injury and the inconvenience caused in the injured person’s life. The maximum amount payable in the case of 100% disability is DKK 723,000 (this amount may be increased to DKK 866,500 in special circumstances, e.g. if the injured person suffers a combination of injuries such as total paralysis and blindness). This amount is reduced proportionally for lower levels of disability. No compensation is paid for disability of less than 5%. The Liability for Damages Act provides for deductions in the event that the victim is over 39 years of age (s. § 4 section 2 LDA).

The Liability for Damages Act provides for deductions in extraordinary cases: 1/3. Not wearing a seat belt or a helmet does not justify any liability. The 5-year rule only applies to claims made before 1 January 2008, or in the period from 1 January 2008 to 1 January 2011. The limitation period will be 3 years for claims according to accidents occurring after 1 January 2011. A settled claim may be reopened at the injured person’s request if the actual circumstances of the case change substantially in relation to those given at the time when the claim was settled (not just in the case of deterioration of health status but also in cases where the economic conditions have changed, e.g. loss of employment).
Finland

I. Law applicable:
- Motor Liability insurance Act 1959/279, MLIA (Liikennevakuutuslaki).
- Tort Liability Act 412/74 (Vahingonkorvauslaki).
- Road Accident Board Act 2002/441 (Liikennevahinkolautakunnasta).

II. Particularities of Finnish practice /legal situation
- Strict Liability: Motor Liability insurers have to pay compensation for bodily injuries including those of the vehicle’s driver, irrespective of his liability for the accident in question. Damage to another vehicle, however, is not compensated unless the accident has been caused by the negligence of the owner, driver or passenger of the other vehicle, Section 8 MLIA. Based on Section 7 MLIA compensation for bodily injury may be reduced up to 50% in case of the victim’s gross negligence (e.g. driving under influence of alcohol). Not wearing a seatbelt or a helmet is usually not considered to be gross negligence.
- The Traffic Accident Board (liikennevahinkolautakunta) is appointed by the Finnish Government and composed of representatives of the government, traffic safety organisations, motorists and insurers. Its main functions are:
  - to harmonise and develop claims handling practices by providing guidelines and statements (circular letters) in matters of traffic accidents;
  - to provide recommendations for appropriate compensation in traffic accident cases, both for bodily injury and material damage cases.

If the victim suffers “serious” bodily injuries or if an accident causes permanent or partial disability, the insurance company is required to submit the compensation matter for the Traffic Accident Board’s appraisal. Recommendations made by the Traffic Accident Board are not binding, but in practice the insurance companies follow them in almost every case.
- Usually, victims are not represented by legal consultants/lawyers due to the social effect of the Traffic Accident Board. The party who loses the case is not liable for the other party’s legal costs. Out-of-court legal costs are not paid by the insurers.
- Compensation for pain and suffering (personal injuries) are usually granted as lump sums whereas material damages (particularly loss of earnings and care allowance) are paid as an annuity.
- Pay-as-you-go System/Indexation Pool (jakojärjestelmä): Due to an amendment of the MLIA in 2005, the liability insurer has to pay compensation for all costs and expenses resulting from the accident (Full Cost Compensation System, täyskustannusvastaavuusjärjestelmä). The insurer is, however, entitled to recover all payments made for medical treatment and care after 10 years from the date of the accident from a Pool financed by all Finnish motor liability insurers according to their market share (pay-as-you-go system).
- The insurer also compensates the victim for his loss of earnings. However, any increase in the respective annual gross income the victim received at the time of the accident, whether due to inflationary developments or other reasons, may be recovered from an Indexation Pool established by the Finnish motor market and again financed by all motor liability insurers on the basis of their market share.

III. Specific heads of damages
a) Pecuniary damage
- Medical treatment: doctors’ fees, cost of medication, hospital expenses, cost of prostheses etc. (see II. last point).
- Compensation for loss of income: claims handling distinguishes between times of temporary and permanent disability. In both cases, the amount to be paid equals the actual loss of income. Tax on payments to the victims is directly transferred to the relevant tax authorities. Liability insurers coordinate their payments with the Finnish social security system, which usually stops its contribution to the injured person as they are compensated on a 100% basis by liability insurers (see II. last point).
- Compensation for care costs: All the necessary care costs are paid by the motor liability insurance. If an injured person needs home assistance, the costs for this are compensated to the person injured. For this purpose the person injured is paid care allowance which is divided in three classes depending on the seriousness of injury (in 2009: class I €26.39, class II €17.81, class III €7.92 per day).
- Compensation for clothing: this is paid if the injured person uses prostheses or a supporting vest/corset made from hard material (class I: €2.11 per day) or if the injured person uses surgical aids made from soft materials/bandages, which cause extra wear from clothes (class II: €0.53 per day).
- Compensation for increased cost of household and other necessary costs: i.e. in the event of additional property maintenance costs, alteration works in the injured person’s apartment and necessary communication devices, adaptation of vehicles if they are necessary and unavoidable.
- Compensation for rehabilitation costs: rehabilitation costs aiming to maintain victims’ professional activities and their social ability.

b) Non-pecuniary damage
- Compensation for pain and suffering, divided into 6 classes (from minor injuries with no compensation at all to extremely serious injuries). In legal practice maximum amounts are close to or slightly above €20,000.
- Permanent damage and handicap injuries are classified into 20 separate classes (identical to those mentioned in the Employment Accident Act) according to their degree of severity. Amounts vary from €1,600 to €96,000. The victim’s age may reduce compensation: 1% from the compensation for every year the victim’s age exceeds 18 years.
- Compensation for permanent cosmetic handicap is in a range of between €800 for slight damage and over €21,600 for extremely severe cosmetic damage/impairment.

IV. Statutory limitation / reopening of claims
Claims for compensation are time-barred after 3 years from the point at which the injured party was aware of all the circumstances allowing him to submit his claim. If the medical status of a victim deteriorates or recovers, compensations are revaluated.
Norway

I. Law applicable
- Motor Car Liability Act (Bilansvarsloven (BAL) 1961).
- Damage Compensation Act (Skadeerstatningsloven (SKL) 1969).

II. Particularities of Norwegian practice/legal situation
- Strict liability Motor Liability insurers have to pay compensation for bodily injuries even if nobody is personally liable for the traffic accident. Compensation claimed by the injured person might be reduced under the principle of contributory negligence, depending on all the circumstances of the concrete case. Examples:
  - not wearing a seatbelt: 15-25% if this had been causal for the concrete injuries;
  - driving under the influence of alcohol with ≥ 1.2‰: circa 50% up to 100% depending on the concrete circumstances;
  - extensive violation of speed limit: circa 1/3 co-liability.
- Unless the injury was inflicted intentionally there is no subrogation of victim’s rights to social insurance institutions; hence they are not entitled to recover money from motor insurers that they have paid to the injured party.
- In most cases compensation is settled in a lump sum. Annuities are only paid under special circumstances. They are usually capitalized on the basis of the most current mortality tables and by applying an interest rate of 5%.
- Contrary to the other Scandinavian countries, there is no professional committee in Norway to be consulted for the assessment of reduced working capacity and the level of permanent disability. The degree of reduced working capacity is evaluated in the light of the injured person’s profession and medical condition and by negotiation.
- Reserve calculations and the determination of final settlements are usually completed by a software-program called “compensatio”. This tool is updated on an annual basis, takes into account the most recent developments in tax law and is used by both parties in a personal injury case and before the courts.

III. Specific heads of damages
a) Pecuniary damage
- Compensation for all types of medical treatment and care costs are summed up under the term “supplementary expenditures”. Supplementary costs must meet the test-criteria that they are reasonable and necessary. The public welfare system will usually settle most of the expenditures, particularly in serious injury cases. Such public benefits are deducted from the compensation that motor liability insurers have to pay. Therefore the share of medical/care costs for the motor insurer can be relatively modest even in very serious cases. Example: for an injured person with total paralysis it would currently be realistic to take an annual amount of between NOK 175,000 and 250,000 into consideration as the part of the overall care costs to be borne by the liability insurer. Care costs are usually capitalised up to the age of 80 (male victim) or 83 (female victim) years of age.
- Compensation for incurred (past) loss of income is paid on a gross basis until the victim either goes back to work or it turns out that the loss of working capacity is permanent. All official benefits (e.g. pensions/disability benefits) are deducted. The injured person himself has to pay income tax on this head of damage (all other payments of motor liability insurers are tax-free).
- Compensation for future loss of income is paid on a net income basis. The final amount is capitalised taking into account the retirement age of 67 years in Norway and paid as a discounted lump sum to the victim without using any mortality table or pre-mortality risk. The assessment is based on an analysis of what can be expected from the injured considering his abilities, education, experience, age and re-training options. Since the future loss of income is unpredictable, the final compensation amount becomes a matter for negotiation.
- In addition motor liability insurers will have to settle an extra amount of circa 25% on the lump sums paid for future loss of income and future expenditure. This is due to the fact that interest accruing from the investment of these lump sums is subject to taxation.

b) Non-pecuniary damage
- Compensation for permanent injury is based on the victim’s age, his sex, the extent of his injuries and a basic amount (Grundbelop, currently NOK 72,881 as of 1 May 2009; the basic amount is adjusted by the Parliament every year) and this amount is eventually increased by one third.

IV. Statutory limitation / Reopening of cases
Claims for compensation are time-barred after 3 years from the point at which the injured party was aware of all the circumstances allowing him to submit his claim. If the medical status of a victim deteriorates to an extent that the parties had not taken into account when they settled the case, negotiations may be recommenced according to SKL section 3-8 if the deterioration of the medical status justifies a significantly higher level of compensation.
Sweden

I. Law applicable
- Tort Liability Act (Skadeståndslagen 1972:207).

II. Particularities of Swedish practice/legal situation
- Strict Liability (“No Fault System”): Any person who suffers a personal injury as the result of a traffic accident has a right to compensation for bodily injuries. Consequences:
  - Each driver is entitled to compensation, irrespective of whether he is legally liable or not.
  - Reduction of compensation is generally possible in the case of gross negligence or intentional causation. Examples:
    - Alcohol consumption and probable causation of the accident;
    - Excessive violation of speed limit: Reduction only in extraordinary cases;
    - Not wearing a seat belt or a helmet: Does not usually justify any co-liability of the victim.

In the event of gross negligence the compensation for loss of income is adjustable to 80% of the victim’s estimated income, with a general cap of 80% of SEK 321,000 (SEK 256,800). Income exceeding SEK 321,000 will be compensated by 2/3. This calculation rule has been introduced by the Road Traffic Injury Commission starting on 1 January 2009.

- Social Security Bodies have no right of recourse for their payments/contributions (health treatment, sickness pay, pensions etc.) against the tortfeasor.

- If the victim’s degree of disability is greater than 10%, the file must be submitted to the Road Traffic Injury Commission. This commission advises the parties on how to compensate the personal injury and loss of income. This recommendation is not binding but in most cases accepted by the parties (approximately 200 cases are brought to court annually from around 30,000 road traffic accidents with personal injuries of which approximately 5,000 are submitted to the Commission).

- Compensation for personal injuries (“sveda och värk” including aesthetic impairment and amputations) is determined on the basis of tables approved by the Road Traffic Injuries Commission (Trafiksådenämnd), hence it is standardized. The tables are updated by conversion factors each year.

- Compensation for future loss of income is usually paid in the form of an annuity, while the non-pecuniary damage is paid as a lump sum.

- The claims handling process generally comprises two stages:
  - Stage one (“Medical Emergency Period”): the period until the medical situation of the victim has stabilized (improvement or deterioration of health status are no longer expected);
  - Stage two (“Stabilization Period”): the period after the stabilization of the victim’s health status. The file will then be forwarded to the Road Traffic Injury Commission in order to determine the degree of disability. The respective degree is the exclusive factor in deciding compensation for non-pecuniary losses.

III. Specific heads of damages
a) Pecuniary damage
- Medical treatment, i.e. medication, nursing, travel to doctors, all injury-related costs. These are generally paid by the tax-financed social system without any right of recovery. Only annual self-retentions for prescribed drugs (SEK 1,800) and for doctors’ consultations (SEK 900) may be claimed by the victims. Exceptions are possible in serious cases.

- Loss of income (basis: annual income minus compensation from social security carriers and employers’ payments); as social security carriers are not entitled to recoveries, only 10-25% of the loss of income has to be paid by liability insurers. Their calculation is based on the victim’s gross income; taxes are paid directly to the tax office.

- Increased needs/third party assistance: nursing expenses, costs for handicapped adaptation of apartments/vehicles are exclusively paid by municipalities/social system; they do not have any right to recover their payments. If the injured person can prove that he had executed works at home prior to the accident (e.g. painting or gardening), the corresponding costs for craftsmen must be paid.

- Costs of representation, in complex cases and when a claim is found to be indefensible, the insurer bears the costs of necessary and reasonable representation.

b) Non-pecuniary damage
- Pain and suffering as recommended by the Commission and on the basis of tables. The amounts the victim is entitled to claim depend on the seriousness of the injuries and the length of the ambulant or stationary treatment. If the victim suffered serious injuries the monthly amount is SEK 5,300 for the first six months of hospitalisation, SEK 3,900 for the following six months and thereafter SEK 2,800. For other than serious injuries the monthly amounts to be paid are SEK 3,900 for the first year of hospitalisation and thereafter SEK 2,800.

- During times of ambulant treatment the respective compensation is SEK 2,300 per month during the first year and SEK 1,200 for each following month.

- Compensation for disadvantage: This can include consequences of the injury in the form of scarring, malposition and other cosmetic defects. Factors taken into account are impairment of movement and/or functional impairment (of sight, speech, hearing, smell, taste etc.) and incapacity. The maximum compensation amount in the case of 99% medical disability is currently SEK 1,622,600.

- Specific inconvenience (in day-to-day life, leisure activities, strain at work).

IV. Statutory limitation
In practice, statutory limitation does not play any material role. Theoretically, compensation must be claimed within three years from the time when the victim became aware of a possible right to compensation. Once the insurer has declared that a final decision has been taken on the issue of compensation, the claimant has 6 months to initiate proceedings.

Even after a final determination of compensation by agreement or court decision, it can be reviewed if the conditions (health status or financial situation) on which the compensation was established have materially changed.
Calculation of compensation for a tetraplegic bodily injury claim - a case study

The legal situation for the compensation of a bodily injury claim varies from country to country. Identical accidents in two different countries will not generate identical indemnities. Compensation for both economic and non-economic loss can differ significantly between the observed countries.

The following table gives an overview of the calculation of compensation for a bodily injury case. The various claim positions and the respective monetary amounts are displayed for the four Nordic countries as well as France, Germany and the United Kingdom for the purpose of comparison.

Even within one single country the extent of damage for the same type of injury can vary substantially depending on the age and the income of the victim and on whether he will be tended in an institution or at his home.

Example of Bodily Injury Costs in Finland

Bodily injury claims are a key factor in the average cost of motor claims. In general there are four major components of indemnity to the insurer: medical treatment, loss of earnings, long-term care and pain and suffering. In many countries there are no detailed figures published regarding the composition of bodily injury costs. In Finland the Finnish Financial Supervisory Authority has released the various cost elements in its report “Non-life Insurance 2008”.

The majority of bodily injury claims consist of “Confirmed final continuous indemnity” expenses, with 30.2% of all claims paid by Finnish Insurers under their Motor Vehicle Liability insurance. The second largest portion of costs consists of medical expenses, which represent 26.3%. These are followed by claims paid for loss of income at 19.8% and rehabilitation at 12.6%. The remainder covers claims paid for pain and suffering, lump-sum indemnities for defect or permanent handicap, funeral expenses, confirmed final continuous indemnities paid as lump-sums and others. The obligation for insurers to pay all medical costs and care expenses is limited to ten years. After this period additional costs will be reimbursed by the Index Pool (“Pay-as-you-go system”).

Graph 3: Cost of bodily injuries in Finland in 2008

All figures are in €. In countries where annuities are paid (except for Denmark) the table takes into account capitalised amounts as they are usually reserved by insurance companies on the basis of the respective interest rate and actuarial table. Care costs include adaptation of the apartment and the vehicle.

Although the legal situation in the Nordic countries differs from country to country, there are some common characteristics. Unlike in most other European countries, the recovery options of social security carriers (e.g. for hospitalization and care) are partially or even broadly restricted. This explains the significantly lower costs for medical treatment in Northern Europe in comparison to France, Germany and United Kingdom. In these countries care costs may exceed, in most serious injury cases, 50% of the overall claim costs. This underlines the importance of the social security system in Northern Europe.
Conclusions

This Motor study shows that there are common characteristics in the Nordic Motor insurance sector which differentiate them from other European markets, especially the significant role played by the national social insurance systems with their still restricted possibilities for recourse. Bodily injury claim costs are much lower than in the three largest European motor markets Germany, France or the United Kingdom, because of significantly lower costs for care.

Loss prevention is long-term objective in all countries and road safety initiatives like Vision Zero in Sweden seem to be paying off. However traffic, vehicle and population density also have an influence on loss frequencies. All these developments, along with other elements such as average claim costs, driving habits and road conditions, will have an impact on the level of motor insurance premiums.

The future development of key bodily injury claim components depends very much on the respective legal, financial and social environment. Political discussions are ongoing. In Finland the government is considering a reform of the Motor Liability Insurance Act. Potential changes may have an impact on speediness of claims handling process, increase of compensation levels and the right to refuse compensation on the basis of the injured party’s contribution is proposed to be restricted in some aspects. In Norway a committee appointed by the Ministry of Justice is working on a proposal for a new law on standardization of how to assess personal injury damages. The Swedish government has established a committee to work out a proposal for a change in legislation related to the reimbursement of the state for hospital and related costs, which would boost the motor insurance premiums to be charged to cover these costs.

The economic slowdown as a result of the financial crisis is also expected to have an impact on loss frequency – this will become more evident once the figures for 2009 are published.

At SCOR we reflect the positive development in loss frequencies in our pricing considerations, but we also see a growing trend towards higher bodily injury compensations as well as the increased reopening of old claims.

From our point of view, for non-proportional reinsurance there is always a risk of falling behind current developments. The business remains challenging, especially when considering the development of inflation over the coming years.

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