Road Accident Benefit Scheme (South Africa)
Assessing financial viability

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53rd Actuarial Research Conference
Western University - London, Ontario
9 August 2018
Global context: Road Accidents

Global Status Report on Road Safety 2015
World Health Organization

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

(WHO 2015)
South African context: Road Acc...

Global Status Report on Road Safety 2015
World Health Organization

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

(WHO 2015)
South African context: Road Acc...

Road Accident Fund (RAF)
Parastatal motor-vehicle insurer in South Africa

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

Road Accident Fund (RAF)
Parastatal motor-vehicle insurer in South Africa

- 2017 Annual Report
  Negative NAV = USD 13.4 billion (CAD 17.9 billion)
  (Road Accident Fund 2017)

- South African Auditor-General
  “Significant doubt on the entity’s ability to operate as a going concern”
  (Road Accident Fund 2010:144)
Financial position of the Road Accident Fund

USD\textdollar\textsuperscript{billion}

Financial year (ending 31 March)

- Total assets
- Total liabilities
South African context: Road Acc...

Road Accident Fund (RAF)
Parastatal motor-vehicle insurer in South Africa

• “The Fund cannot calculate its risk and then determine the premium to be paid”
  (Olivier et al. 2000:465)

• “Only a complete overhaul of the system, as proposed through the RABS, can address the fault-based, unfair and unsustainable system defined by the RAF Act.”
  (Road Accident Fund 2017:15)
South African context: Road Acc...

Road Accident Benefit Scheme (RABS)
NEW proposed parastatal motor-vehicle insurer for South Africa

<table>
<thead>
<tr>
<th>RAF (EXISTING INSURER)</th>
<th>RABS (NEW PROPOSAL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fault-based compensation</td>
<td>No-fault basis</td>
</tr>
<tr>
<td>Contested benefits</td>
<td>Defined benefits</td>
</tr>
<tr>
<td>Claims legally disputed</td>
<td>Internal appeal procedure</td>
</tr>
<tr>
<td>PAYG (no reserves)</td>
<td>Fully-funded</td>
</tr>
<tr>
<td>Lawyers distribute benefits</td>
<td>Direct payments</td>
</tr>
</tbody>
</table>
"Should RABS be enacted with the abolition of common law rights, the LSSA will consider challenging the {exclusion of driver liability} as unconstitutional."

(Law Society of South Africa 2014:4)
Research question

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

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

## Assessing financial viability

### Segmentation of claims

<table>
<thead>
<tr>
<th>Claim type (RAF)</th>
<th>% paid in 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare costs</td>
<td>7%</td>
</tr>
<tr>
<td>Income &amp; family support</td>
<td>43%</td>
</tr>
<tr>
<td>Funeral costs</td>
<td>0.4%</td>
</tr>
<tr>
<td>Legal fees</td>
<td>25%</td>
</tr>
<tr>
<td>General damages</td>
<td>24%</td>
</tr>
</tbody>
</table>

Source: Road Accident Fund 2017
Road Accident Benefit Scheme
Assessing financial viability

Claims for healthcare costs

Greater emphasis on rehabilitative care

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

Anderson, Heaton and Carroll (2010)
Road Accident Benefit Scheme
Assessing financial viability

Claims for income support

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

Claims for family support

• Include 28% unemployed population

• Allow for spousal income
  • Reduce benefit amounts

• Introduce of age limits
  • Payment period = min(15 years; up to age 60)
Road Accident Benefit Scheme
Assessing financial viability

Claims for funeral costs

• Fault-based exclusion had negligible effect
  ▫ Few claims previously repudiated

• Upper limit per funeral claim of USD 890
  ▫ Reduces average funeral claim value
    • from USD 1140 under RAF
    • to USD 660 under RABS
# Road Accident Benefit Scheme

Assessing financial viability

## Summary of changes (Best-estimate basis)

<table>
<thead>
<tr>
<th>RABS claim type</th>
<th>Frequency</th>
<th>Severity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthcare costs</td>
<td>+40%</td>
<td>+45%</td>
</tr>
<tr>
<td>Income support</td>
<td>+38%</td>
<td>-33%</td>
</tr>
<tr>
<td>Family support</td>
<td>+38%</td>
<td>-35%</td>
</tr>
<tr>
<td>Funeral costs</td>
<td>+1%</td>
<td>-40%</td>
</tr>
</tbody>
</table>
Road Accident Benefit Scheme
Estimated financial position as at 31 March 2017

<table>
<thead>
<tr>
<th>Financial basis</th>
<th>NAV (USD billion)</th>
<th>Relative to RAF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Road Accident Fund</td>
<td>-13.4</td>
<td>100%</td>
</tr>
</tbody>
</table>

Road Accident Benefit Scheme (estimates)

<table>
<thead>
<tr>
<th>Basis</th>
<th>NAV (USD billion)</th>
<th>Relative to RAF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Optimistic basis</td>
<td>-10.5</td>
<td>79%</td>
</tr>
<tr>
<td>Best-estimate basis</td>
<td>-11.3</td>
<td>84%</td>
</tr>
<tr>
<td>Prudent basis</td>
<td>-14.3</td>
<td>107%</td>
</tr>
</tbody>
</table>
Road Accident Benefit Scheme

Discussion: Financial viability of RABS

• Financially healthier, but still not viable.

• Continued underfunding of insurance system.
  ▫ Building-up reserves.
  ▫ Running-off of existing liability.

• Liquidity concerns.
Road Accident Benefit Scheme

**Discussion: Impact on individuals**

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

Discussion: Impact on commercial insurance industry

- Demand for gap cover likely to increase.
  - Covering gap between healthcare benefits provided and healthcare services needed
- Design of income protection products to change.
References (1)


References (2)

