

REINSURANCE OF THIRD PARTY MOTOR INSURANCE AND MOTOR INSURANCE IN FINLAND

by

TEIVO PENTIKÄINEN
Helsinki (Finland)

The need and extent of reinsurance of third party motor insurance depends fundamentally on the risk limits prescribed in the legislation of the country in question (and on the other hand the legal limits of the compulsory insurance may have been fixed with regard to the reasonable possibilities of the insurers getting reinsurance). There are two kinds of risk limits which are applied in different countries: total limits and individual limits. The former defines the maximum joint indemnity for an accident, paid to all claimants together, and the latter defines the maximum indemnity paid to each claimant separately. From the social point of view limits of this sort are not expedient, especially in regard to physical injuries. Owing to this total limit the indemnity for a single claimant can depend on the number of other claimants, which is quite inadequate from the point of view of the actual need to get insurance cover for injuries. The individual lump sum limit allows full compensation for slight injuries but can cut down the compensation for serious ones, which is an irrational method of settling an indemnity system. Owing to these risk limits motor car drivers may also be held responsible for the extra claims personally on the basis of civil (or criminal) law, which compels them to take an extra third party liability insurance (which often also has risk limits).

The above mentioned unsatisfactory factors caused the abolishment of all risk limits concerning physical injuries in Finland in 1960, whereas the risk limit of property losses was fixed at 25 million marks (£ 22 000). The abolishment of the latter was not considered necessary as the damaged property, if the loss is large, is in general of such a kind that the indemnification can fall in the field of fire, loss of profit etc. insurance. The motor car driver is no longer liable for payment over the limit mentioned above on the basis of any other law either.

The risk cover of the Finnish third party motor insurance companies is based fundamentally on a *catastrophe treaty*, where all companies are participators. If a claim exceeds 10 million marks (£ 9 000) the excess is divided among all the companies in proportion to their premiums in this branch. No upper limit exists and the companies are mutually liable to participate in each others' losses. The sum of the premiums paid for buses is accounted in tripple amount in the share basis calculation, because this class of risk is considered more liable to catastrophes.

The largest third party claim to appear as yet in Finland was about 40 million mks (£ 36 000). Sums of this magnitude can be borne jointly by the treaty companies without difficulty. Theoretically it is, however, quite possible that also very much larger losses can occur. We can think, for instance, that at some conference high salaried people, during a joint excursion, are killed in a bus accident if the car is hurled down into an abyss or plunges into the water. An accident between a car and a train can in extreme circumstances have still more fatal consequences and claims of several hundreds of million marks may result. One might ask if such a disaster would not be enough to ruin some of the treaty companies. To prevent this risk the Ministry of Social Affairs, which confirms the premium rates in this branch, has an understanding with the companies that after a very large catastrophe the premiums for the following year or years may be increased and this extra income may be noted in the balance sheet among the assets even before the premium increase actually falls due. Because the risk is divided in proportion to the premiums, increase per cent can cover the loss of each company in a satisfactory way. The need for ready money is not very urgent in cases of bodily injury because the main part of the claims are settled in the form of current pensions. The largest imaginable catastrophes may not exceed 10-15 % of the total premium income of the Finnish third party motor insurance. Larger increases of premiums than this are often carried out for other reasons.

The catastrophe treaty in this branch, being arranged on a nation wide basis, is, perhaps, an ideal solution of the catastrophe risk cover. It makes it unnecessary to estimate the real rate of the risk premium or to pay reinsurers any "security loadings", which

apparently could not be avoided if the unlimited risks were covered by some reinsurance treaty. The treaty limit of 10 million marks (it will be 20 million mks from the beginning of 1962) added to the company's own treaty shares for catastrophes can easily be carried by larger companies without any other reinsurance (see the author's report on the adjustment reserve system in connection with another report to the colloquium, which system helps considerably to enlarge net retentions). Smaller companies usually have excess of loss reinsurance to cover losses which exceed some smaller limit.

The risks of *motor vehicle insurance* are not reinsured by the larger companies, except in the cases of certain large garages, where the risk of fire can be considerable. The smaller companies often have excess of loss or stop loss treaties, which include also garage fire risk. These types of reinsurance safeguard also against the risk of e.g. several insured vehicles being lost in a ferry catastrophe.