

## Compulsory Third Party Insurance for Motorists

Last Revised: 28 August 2009



### CAN Policy:

*Introduce a compulsory insurance for property damage from road crashes for motorists.*

*Restructure the ACC motor vehicle account funding so that the annual flat levy is replaced by a levy based on driver characteristics (e.g. age and driving record).*

### Background:

New Zealand has a form of compulsory insurance for personal injury from road crashes. This is administered by the Accident Compensation Corporation (ACC), financed through a levy taken with the annual vehicle licence fee and a levy per litre of petrol.

New Zealand does not, however, have compulsory insurance for property damage from road crashes. This means that some uninsured drivers may avoid paying for property damage they have caused, especially if they have little or no financial means.

Most insurance policies include an Uninsured Motorist Extension (UME) which covers policyholders from damage caused by uninsured drivers. In CAN's view, the UME is an appeasement tool by the insurance industry without real value for motorists as payouts are capped at a low value. For example, AMI Insurance (2009) and AA Insurance (2009) limit the payout to \$3,000 and \$4,000, respectively. Hence, the UME could leave motorists who did not cause an accident tens of thousands of dollars out of pocket.

The insurance system can be a strong road safety policy tool. Some countries base insurance premiums solely on the type of vehicle. Others take account of the characteristics of the driver, particularly age and history of motoring offences. This can result in high premiums for young drivers and those with poor driving records.

It is CAN's view that car insurance for third party property damage should be compulsory, with premiums based on driver characteristics.

Furthermore, CAN would like to see the ACC motor vehicle account funding restructured. In the 2008/09 year, the annual ACC licensing levy for petrol driven cars is \$158.14. In addition, there is a levy of 9.34 cents per litre of petrol (ACC, 2009). The annual levy should, much like our proposal for compulsory third party property damage insurance, be based on driver characteristics.

These policy measures would result in high premiums for young drivers and those with poor driving records. We aim to achieve the following outcomes:

- Keep more young drivers and high risk drivers out of powerful cars.
- Keep more young people cycling for longer.
- Make the NZ vehicle fleet safer.

- Stop safe drivers from having to subsidise uninsured drivers (e.g. by having to finance the UME part of their insurance or by uninsured drivers not paying the damage that they cause).
- Stop safe drivers from having to subsidise less safe drivers through reduced ACC levies.

CAN acknowledges that the NZ Insurance Council is opposed to compulsory third party insurance. We understand that insurance companies don't want to have to insure a high risk group but it is exactly this group that does not voluntarily purchase third party insurance.

**CAN believes that:**

- Car insurance for third party property damage should be compulsory, and
- The annual ACC levy should be based on driver characteristics.

**References:**

All internet references have last been accessed on 28 August 2009.

- AA Insurance (2009) – available online at [http://www.aainsurance.co.nz/resources/policydocs/AAi16 -  
\\_RoadCover\\_Third\\_Party\\_and\\_TPF\\_and\\_T\\_Policy.pdf](http://www.aainsurance.co.nz/resources/policydocs/AAi16_-_RoadCover_Third_Party_and_TPF_and_T_Policy.pdf)
- Accident Compensation Corporation (ACC, 2009) Motor vehicle classification groupings and levy rates for 2007/08 – available online at [http://www.acc.co.nz/news/PRD\\_CTRB091177](http://www.acc.co.nz/news/PRD_CTRB091177)
- AMI Insurance (2009) – available online at [http://www.ami.co.nz/products/vehicle/third\\_party\\_cover/](http://www.ami.co.nz/products/vehicle/third_party_cover/)

**CAN's Vision:**

Cycling is used as a means of transport by most people for some trips each month.

**CAN's Objectives:**

- 80% of people cycle for some trips each month by 2020.
- 20% of all trips are by cycle by 2020.
- 90% of those who cycle are satisfied with their cycling experience by 2020.
- Rates of fatality and injury for cycling are below that for cars (currently 5 per 100 million km) by 2020.
- Cycling is perceived as positive by 90% of the general population by 2020.