

# Competitive motor insurance premiums

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“It is unlikely that the financial impact on motor insurers will be significant, as the liberalisation of the tariff is done gradually and in phases to ensure market stability,” said General Insurance Association of Malaysia chairman Anthony Lee.

PETALING JAYA: General insurance companies are expected to see increased competition in the pricing of motor insurance premiums, but the insurance association does not think a price war will erupt within the industry.

“It is unlikely that the financial impact on motor insurers will be significant, as the liberalisation of the tariff is done gradually and in phases to ensure market stability,” said General Insurance Association of Malaysia chairman Anthony Lee.

Insurance companies will have flexibility in pricing motor insurance premiums for comprehensive insurance taken by motorists from tomorrow with the ongoing liberalisation of motor insurance premiums that started in 2016.

Third-party motor insurance will still follow the tariff model, but with the bulk of premiums coming from comprehensive insurance, there is a suggestion that smaller insurers might start to cut premiums to incentivise a migration of customers.

“As Malaysia progresses towards developed-nation status, the insurance market is being opened up to allow a more equitable approach to the charging of premiums,” said Lee.

Freedom to price insurance premiums within a fixed band following the liberalisation of motor insurance will limit any price war the industry might be engaged in to win over market share.

In the new risk-based pricing model, Lee said good risk will be rewarded and bad risk recognised.

“This means that a good driver would likely pay a lower premium compared to a driver who is in a class that is more likely to experience many accidents. As such, bad drivers will be incentivised to adjust their driving behaviour to become better risks and be rewarded with a reduction in premium. However, there are other factors which also determine insurance pricing such as the type of car, the age of the driver, geographical location, etc,” he said.

Lee said that as insurance companies are regulated by Bank Negara, any company that wants to price its premiums aggressively would need the approval of the central bank.

“Adequate and robust measures and guidelines are in place to ensure proper and prudent underwriting and a sound marketplace. The Risk-Based Capital Framework implemented by the regulator will ensure insurance companies have adequate funds to operate their business.

“One of the policy intentions of Bank Negara is to moderate the increase in competition and product innovation to ensure the industry and consumers will be able to adapt in a sustainable and gradual manner. The motor detariffing is implemented in a phased approach. This will allow time for the industry to adjust to the new operating environment,” he said.

In a report, Maybank Investment Bank said any revision of the price of comprehensive motor insurance premiums by within a band of more or less than 10% from current prices would need the approval of Bank Negara.

“Whether comprehensive motor premiums decline upon detariffication depends on a variety of factors, for example premiums on luxury and new cars could fall but premiums on mass-market models and used cars could increase due to a prevailing pricing mismatch in these segments,” the report said.

While it thinks motor premiums may decline, its assessment is that the impact may not be large, particularly since third-party motor insurance will not be fully liberalised yet.

“Presently, comprehensive motor insurance is profitable with an average claims ratio of 70%-80%, while third-party motor insurance is not, with claims ratios averaging over 100%.

“The former has, in fact, been subsidising the latter all these years such that on a combined basis, the average claims ratio for motor insurance is tolerable at 70%-80%.”

Another reason for a drop in overall growth in motor insurance premiums is the drop in car sales.

Lee said the slowdown in new vehicle sales would impact the topline premium growth of motor insurance in the country.

“Profitability is driven by many factors beyond car sales alone. Improved driver behaviour and reduction in motor vehicle accidents and theft rates are additional factors, among others,” he said.