

# NEW INSURANCE PRICING

*July marks the start of the new insurance liberalisation program, are you ready?*



**A** new month is here and with it comes a much awaited change. For those who do not yet know, automotive insurance has changed from the usual fixed price that is based on the price of the car, to a risk-based assessment system. What this means is that the amount of insurance you pay for your car will depend on how good of a driver you are, generally speaking that is.

The plan was first announced back in 2012, and then it was reaffirmed again in 2014, and on the 1st of July of 2016, the new policy was introduced, but in stages. In 2016, insurers were allowed to offer new insurance products which included new "add-on" options that cover a car in case of a flood or a fire. This was separated from the previous flood damage insurance which was controversial because of its expensive pricing which prevented many from opting for it despite the fact that we live in a flood prone country.

Prices for these new products and options were not regulated by the government, in fact, like many developed countries, the pricing was determined by market forces. Insurers were free to compete against each other by dropping their prices, or by adopting pricing strategies to lure customers.

This year, beginning 1st of July, the insurance liberalisation plan entered its second phase.

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According to the official Bank Negara Malaysia website, "Effective 1 July 2017, premium pricing for Motor Comprehensive and Motor Third Party Fire and Theft products will be liberalised where premium pricing will be determined by individual insurers and takaful operators."

"Premiums will take into account broader risk factors that will drive fairer pricing, greater innovation on new products tailored to consumer needs with improved services, and sustainable motor insurance protection for consumers over the long-term at competitive price."

What this means is that the amount you pay for insurance now depends on your driving habits. If you are a habitual law breaker, have multiple unpaid summons, a regular speeder and are a general nuisance on the road, you will pay a higher premium to be insured. And if insurance companies deem that your driving habits are too reckless and the risk of providing insurance coverage to you is way too high, they may even opt to not offer you insurance coverage at all.

However, third-party policies will continue to be regulated and will be subject to tariff rates. Prices for third-party policies will see a gradual increase over time as insurers have long said that the segment is "substantially underpriced" and as such will see a sharp price hike.

Not too long ago, Bank Negara Malaysia (BNM) held a press conference where it explained the switch from the previous system to the current risk-based assessment system. At that time, BNM assistant governor Jessica Chew was quoted as saying, "the reality is that the premiums that are collected today and the claims that are paid, particularly for bodily injury claims, have a great disparity. It has been there for a long time, when you consider that we have not touched pricing since 1978. Over the long term, this is not going to be sustainable."

She also went to explain that opening the market to the current system "will allow insurers to take into account a broader set of risk factors, and what it will do is to reduce the cross subsidisation between business classes as well as risk groups."

The new system is also deemed to be more fair towards those who drive safely on the road. "This will allow consumers from the low-risk groups to enjoy lower premiums," added Jessica.

The new insurance system will also encourage people to be safer drivers on the road, and those who are not habitual offenders will find the new system fair to them as they will not have to pay as much as compared to habitual traffic offenders.

But premiums will not only be driven by a driver's driving style, but will also take into consideration other factors like the cubic capacity of the engine, age of both the car and the driver, where the vehicle is used most often (traffic prone areas or otherwise), and even traffic offences record. This will help insurers determine the premium of a person.

The new insurance system will most definitely encourage people to be safer drivers on the road, and will eventually mimic the British system where safe drivers will pay lower premiums and dangerous drivers will pay higher premiums. We welcome this fair policy but only time will tell how it will all pan out eventually.

Confused as to how the new insurance plan will affect you? Contact BNM Telelink at 1300885465, Persatuan Insurans Am Malaysia at 0322747399, Malaysia Takaful Association at 0320318160 or call your insurance agent.

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