Periodic Updates on Developments Following Liberalisation of the Motor Tariff

Introduction

With the progressive liberalisation of the Motor Tariff, motor insurance products now reflect market based prices. This is an update on the trends of motor insurance premium and products following the first two phases of liberalisation of the Motor Tariff:

(i) Since 1 July 2016, new motor insurance products which do not fall under the Motor Tariff can be introduced by insurers and takaful operators (insurers) at market rates.

(ii) Since 1 July 2017, premiums for Comprehensive[1] and Third Party Fire and Theft (TPFT)[2] motor insurance products, previously regulated under the Motor Tariff, were allowed to be determined by individual insurers at market rates.

Under the Motor Tariff, premiums for Comprehensive and TPFT were determined based on the value of vehicle (sum insured) and the engine capacity, with loadings for age of driver, age of vehicle and past claims history. Since 1 July 2017, insurers have refined their pricing for motor insurance products with additional rating factors such as location, vehicle make/ model, gender, experience of the driver and security features to better reflect the underlying risk profile of drivers and vehicles. Such risk-based pricing enables a better differentiation of good and bad risks.

Observations are based on premium data and new products filed by insurers with the Bank and the industry associations up to 31st December 2017. Premium data includes premium quotes[3] and actual premiums charged[4] submitted by insurers according to specified risk groups for common car makes and models.

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[1] 'Comprehensive' products provide coverage for third party losses and loss or damage to an insured's own vehicle due to fire, theft or any road accident.
[2] 'Third Party Fire and Theft (TPFT)' products which provide coverage for third party losses and loss or damage to an insured's own vehicle due to fire or theft only
[3] Based on data submitted by 16 insurers and 5 takaful operators.
[4] Based on data submitted by 13 insurers and 3 takaful operators.

Key observations

Wider divergence in premiums between low and high risk groups

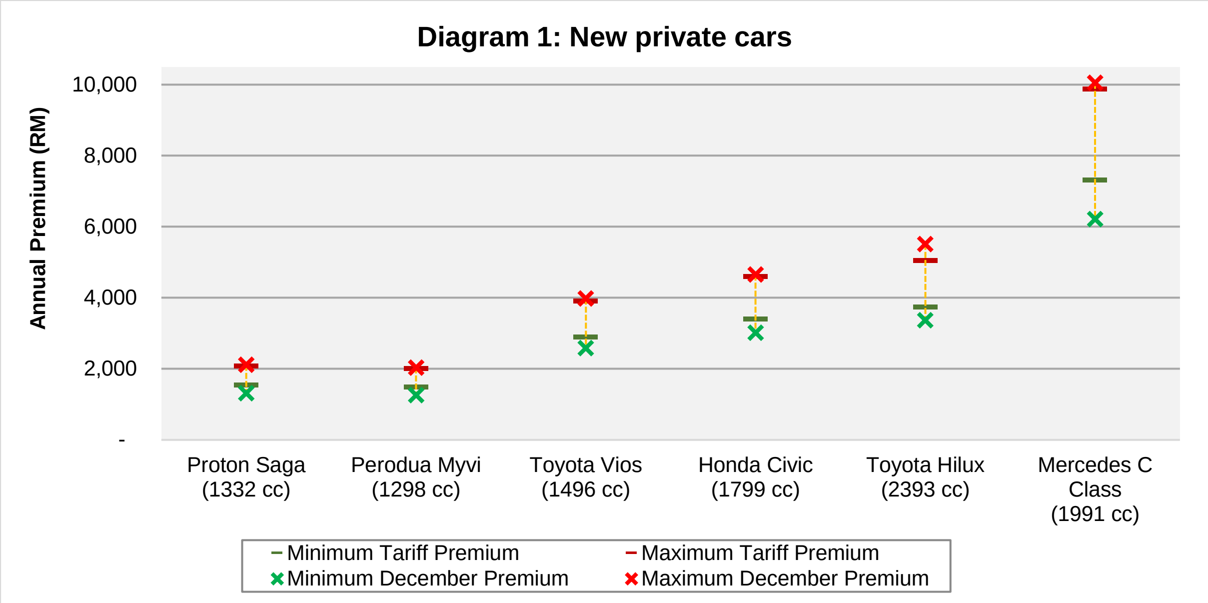
- Average premiums per policy for Motor Comprehensive remained broadly unchanged over the last two quarters of 2017. However, across specific risk groups, departures from tariff rates were observed as prices began to adjust to better reflect the underlying risks as well as the risk appetite and operating experience of individual insurers. Competition also remained orderly.

- Reductions of premium below the minimum Motor Tariff rates were observed across a range of vehicle makes and models (Diagram 1). As an example, the lowest minimum premium quoted by at least one insurer for a 25-year-old driver of a new 1,332 cubic capacity Proton Saga with a sum insured of RM45,800 was RM1,382, compared to a minimum premium for the same risk group of RM1,540 under the tariff.

- Increases of premium above the maximum Motor Tariff rates were also observed for higher risk groups, in particular the vehicle groups which are susceptible to higher theft rates. As an example, the highest maximum premium quoted by at least one insurer for a 25-year-old driver of a new 2,393 cubic capacity Toyota Hilux with a sum insured of RM121,200 was RM5,517, compared to a maximum premium for the same risk group of RM5,045 under the tariff. (Diagram 1).

- Minimum premiums[5] for each risk group in the diagrams below (as depicted by the individual candlesticks) show the lowest minimum premium reported for the industry. It should be noted that not all insurers will be able to quote minimum premiums at this level. Therefore, consumers will benefit from shopping around across different insurers for the best premiums for their vehicles.

[5] Premium quotes depicted in Diagrams 1 and 2 are before No Claims Discount (NCD).

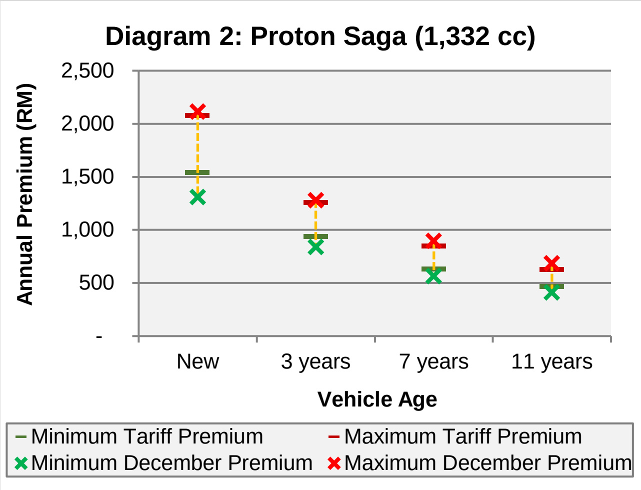


Notes: Sum insured sampled for Diagram 1 are-

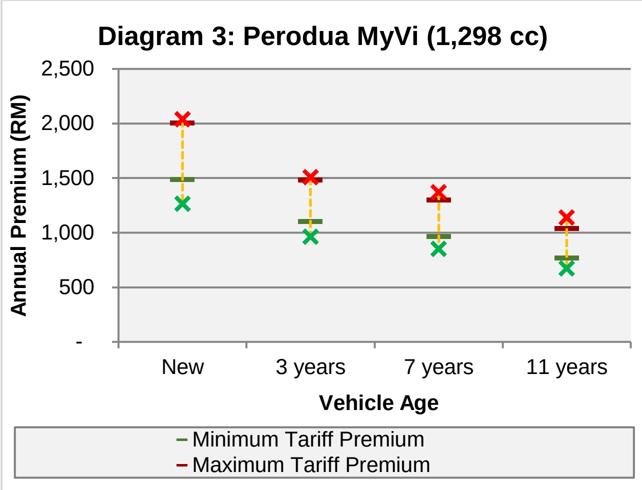
(i) Proton Saga: RM 45,800;
(ii) Perodua MyVi: RM 43,900;
(iii) Toyota Vios: RM 93,200;
(iv) Honda Civic: RM 110,500;
(v) Toyota Hilux: RM 121,200; and
(vi) Mercedes C Class: RM 252,900

For the same vehicle make and model, premiums are observed to be lower for older vehicles

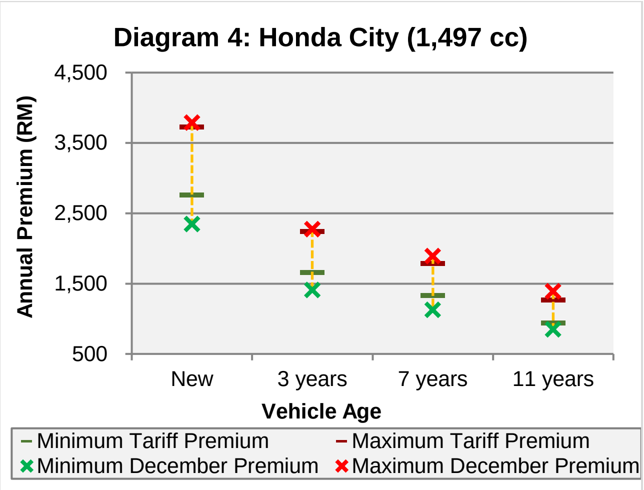
- The sample premium showed that premiums are lower for older vehicles, for the same vehicle make and model (Diagram 2 to 5).
- This is mainly attributed to reducing sums insured due to the depreciating market value of vehicles over time. While some insurers also account for other contributing factors in pricing considerations such as driving behaviour and safety features of the vehicle which may also correlate with the vehicle age, the impact of these factors to premiums are not significant at present. More refined pricing models that better reflect various risk factors related to vehicle age would be possible as more granular experience data is collected.



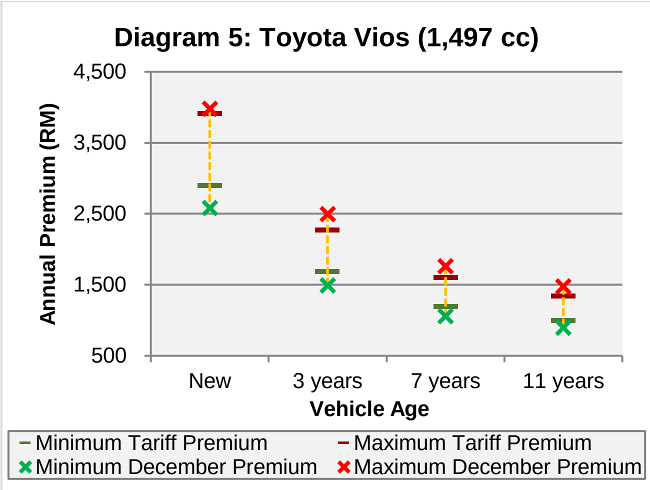
Notes: Sum insured sampled for Diagram 2 are-
(i) New: RM 45,800;
(ii) 3 years: RM 23,500;
(iii) 7 years: RM 12,900; and
(iv) 11 years: RM 6,700.



Notes: Sum insured sampled for Diagram 3 are-
(i) New: RM 43,900;
(ii) 3 years: RM 29,600;
(iii) 7 years: RM 24,400; and
(iv) 11 years: RM 17,200.



Notes: Sum insured sampled for Diagram 4 are-
(i) New: RM 88,900;
(ii) 3 years: RM 48,100;
(iii) 7 years: RM 36,400; and
(iv) 11 years: RM 23,000



Notes: Sum insured sampled for Diagram 5 are-
(i) New: RM 93,200;
(ii) 3 years: RM 49,300;
(iii) 7 years: RM 31,400; and
(iv) 11 years: RM 25,000.

Source: Submissions by companies

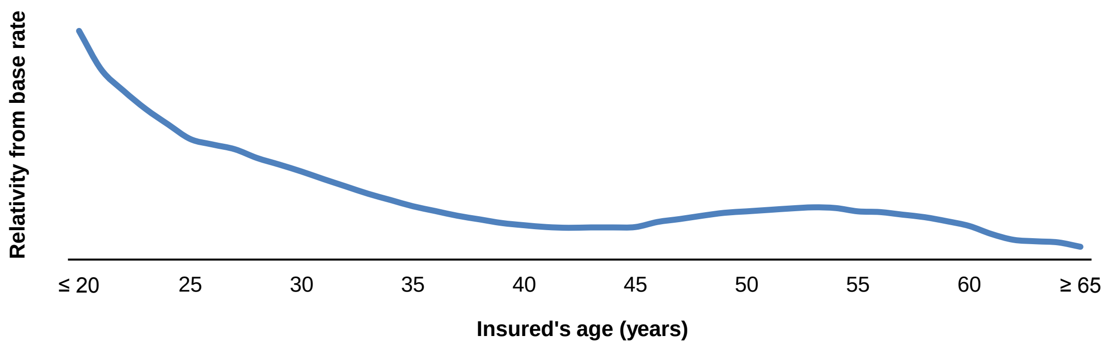
For the same vehicle make and model, premiums are observed to be lower for older drivers

- The sample premiums showed that premiums are lower for older drivers[6], for the same vehicle make and model.

[6] The vehicle owner is used as proxy for the driver.

- This is attributed to the lower risk associated with longer driving experience (Diagram 6). Premiums generally decline with age, reflecting higher risks associated with younger and less experienced drivers, in particular below the age of 25 years. However, some policyholders within the age band of 40 and 50 years old may experience marginally higher premiums, which is partly attributed to the use of their vehicles by young adult children of driving age.

Diagram 6: Premiums gradually decline with age of driver



Source: Submissions by companies

Emergence of products that reward safe driving

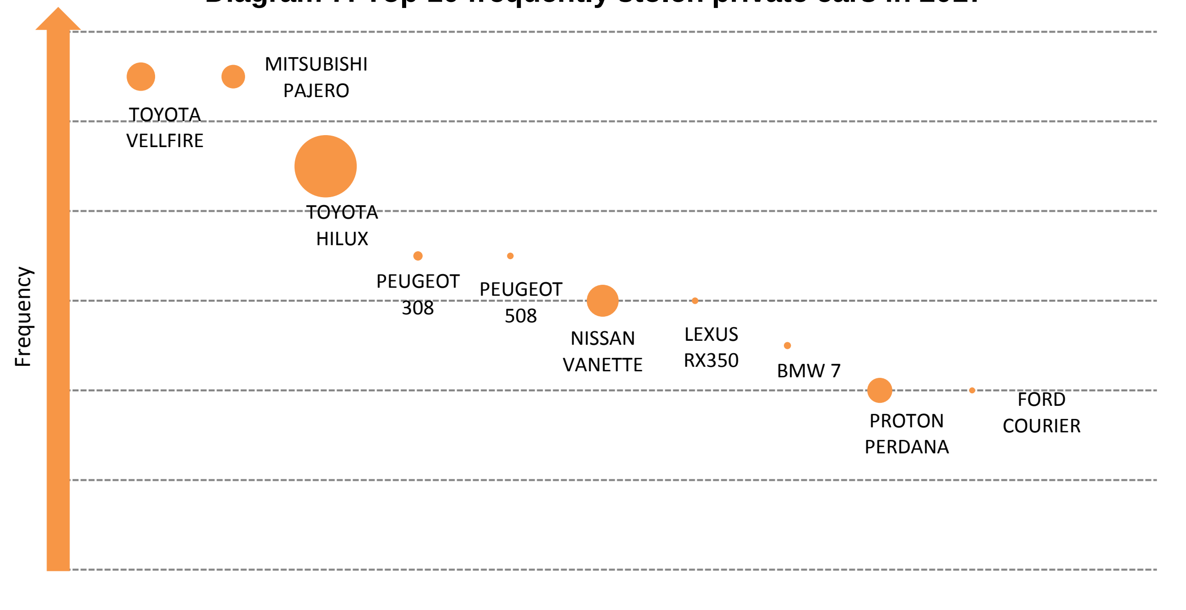
- Some insurers have started to offer products with premiums that are more tailored to the driving behaviour of the insured. For example, some insurers have introduced telematics devices to collect data on driving behaviour, such as driving speed, acceleration, braking and cornering patterns. Insureds with a safe driving pattern may benefit from premium discounts or other enhanced benefits.

- Safe and careful drivers would also continue to enjoy No Claim Discount (NCD) during the phased liberalisation period if they maintain a claim-free record. The NCD structure will remain standardised across the industry and is transferable from one insurer to another. For private cars, the maximum NCD is 55% for five or more claim-free years.

Potential for future reduction from efforts to combat vehicle theft

- The incidence of motor vehicle theft[7] has reduced by 59% from 2011 to 2017. However, the overall level of motor vehicle theft still remains high (2017: 15,323 cases[8]) and could be improved further. The incidence is highly correlated to vehicle make and model (please refer to Diagram 7), with certain models featuring on the list of most frequently stolen for many successive years.

Diagram 7: Top 10 frequently stolen private cars in 2017



Source: ISM Insurance Services Malaysia Berhad

Notes:

1. The size of the bubble represents the number of theft count for each vehicle model
2. Frequency is calculated by dividing the number of theft count by total policy count

- Vehicle manufacturers and vehicle owners can act to reduce premiums through theft mitigation measures such as the installation of immobilizers in vehicles and adoption of telematics.

[7] Motor theft claims count
[8] Source: ISM Insurance Services Malaysia Berhad

Underwriting losses for Motor Third Party cover remain high

- While Motor Comprehensive cover has been liberalised, Motor Third Party cover remains under tariff to ensure continued affordable access to compulsory motor insurance and orderly market conditions during the phased liberalisation.

Table 1: Premiums collected for Motor Third Party continue to be inadequate to compensate for insurance claims paid for the death of, and bodily injury to third parties and third party property damage due to a road accident

Vehicle Type	Loss Ratio*			
	Motor Third Party**		Motor Comprehensive***	
	2016	2017	2016	2017
All vehicle types	133%	136%	77%	80%
Private Cars	116%	116%	80%	84%
Buses	188%	189%	62%	42%
Taxis	119%	119%	50%	54%
Goods Vehicle	131%	132%	71%	70%
Others	105%	110%	56%	52%

Source: Submissions from Malaysian Motor Insurance Pool (MMIP) and 25 companies

Notes for Table 1:
* All loss ratios include claims incurred but not reported (IBNR) and are reported for the stated accident year. For accident year 2017, the figures are only up to 30 September 2017.
** The loss ratios are based on MMIP's loss experience
*** The loss ratios are based on the insurance and takaful industry's loss experience

- Affordable third party premiums, particularly for vehicles used in public transportation is currently supported by cross subsidies between risk groups. This can create longer term distortions due to the misalignment between risks and premiums. Under the Tariff structure, some risk groups have been consistently under-priced over the years (for example Motor Third Party), supported by higher premiums in other risk groups (for example Motor Comprehensive). In the long term, over-reliance of cross subsidies will weaken the incentives to improve the underlying risk profiles, resulting in higher subsidies required at the expense of lower risk groups. This is not sustainable over the long run.

- Tariff rates for most Motor Third Party products currently remain below what is required to cover insurance claims costs and related expenses. As shown in Table 1, for every RM1 of premium received for a Motor Third Party insurance policy, an average of RM1.36 was paid out in insurance claims in 2017.For buses, insurers paid out an average of RM1.89 in insurance claims for every ringgit of premium collected. This significant pricing gap, if left unchecked, would hamper efforts to incentivise safer driving habits and loss prevention measures, particularly in vehicle segments that provide public services. In this regard, measures identified under the New Motor Cover Framework[9] which allow for gradual adjustments to Motor Third Party premiums under the tariff, combined with measures to improve claims management (including controls to address fraud and abuse) remain relevant for ensuring a sustainable and equitable motor insurance industry.

Continued momentum in introduction of new motor products and add-on covers

- As at end December 2017, 179 new Motor products and add-on covers have been approved to be introduced to the market. Examples of new products and features that are being developed in the market include:
    - Guaranteed Asset Protection (GAP) – covers the difference between the outstanding loan amount/ invoice value and the market value of vehicle in the event of a total loss due to fire, theft and accidental damage;
    - Limited special perils – provides more flexible cover for selected perils such as flood, storm and/or tempest. These covers were previously only available as a standardised package under the Motor Tariff;
    - E-hailing extension cover – extends the insurance coverage during the use of private vehicle for e-hailing services; and
    - Usage-based insurance – policies that compute premiums based on actual usage of vehicles as measured by telematics devices.

Consumer advisory

As product features vary and are priced differently from one insurer to another, consumers are advised to understand the product they intend to buy and compare prices before buying or renewing their motor insurance policy. Consumers may access information on motor insurance and takaful, product options and obtain premium quotations from insurers through the ‘product selector’ provided at Persatuan Insurans Am Malaysia’s (PIAM) and Malaysian Takaful Association’s (MTA) websites.

[9] Details in Financial Stability and Payment Systems Report 2011

Alternatively, consumers may go to the websites of individual insurers directly, or through product aggregators, for information and quotes.