

For information
on 28 February 2011

**Legislative Council Panel on Financial Affairs
and Panel on Transport**

**Difficulties Encountered by the Transport Sector
in Obtaining Insurance Coverage**

PURPOSE

This paper informs Members of the concerns raised by the taxi and public light bus (“PLB”) trades on insurance matters as gathered by the Transport Department (“TD”) through their daily contact with the relevant trades.

CONCERNS OF TAXI AND PLB TRADES

(a) *High insurance premium*

2. Since 2009, the taxi and PLB trades have been raising concerns about the soaring taxi and PLB insurance premium. According to some taxi and PLB trade leaders, the third party insurance premium per vehicle per annum could be as much as \$20,000 for taxi and \$50,000 for PLB, while the comprehensive insurance premium per vehicle per annum could be up to \$30,000 for taxi and \$60,000 for PLB. It is estimated that insurance costs constituted about 17.1%¹ of the average total operating expenses of the owners of the urban and the New Territories taxis, and 5.6%² of the average total operating expenses of operators of green mini-buses (“GMBs”)³. Based on the statistics released on the website of the Office of the Commissioner of Insurance (“OCI”), the average insurance premium per vehicle paid by the owners of taxis, red mini-buses (“RMBs”) and GMBs in the past five years, inclusive of third party and comprehensive insurance, are as follows :

¹ The percentage is calculated based on the operating statistics of rentor-owners of urban and the New Territories taxis in the first half of 2010.

² The percentage is calculated based on the operating statistics of GMB operators in 2009/10.

³ As operations of red mini-buses (“RMBs”) are not regulated by TD, similar statistics are not available for RMBs.

Year	Average insurance premium per vehicle		
	Taxi	RMB	GMB
2006	\$8,623	\$29,012	\$17,702
2007 (change over 2006)	\$7,801 (-9.5%)	\$28,241 (-2.7%)	\$17,552 (-0.8%)
2008 (change over 2007)	\$9,252 (+18.6%)	\$26,253 (-7.0%)	\$18,129 (+3.3%)
2009 (change over 2008)	\$12,378 (+33.8%)	\$39,318 (+49.8%)	\$26,842 (+48.1%)
2010 (Jan – Sep) (change over 2009)	\$17,289 (+ 39.7%)	\$45,971 (+16.9%)	\$35,473 (+32.2%)

3. The taxi trade also reflects that some insurers started to impose a further 25% increase in insurance premium in September 2010 by introducing an “old vehicle age loading” charge on taxi with a vehicle age of 10 years or above. According to some taxi trade representatives, some of the insurers withheld the imposition of the loading charge from October 2010 as a result of strong opposition of the taxi owners, but some insurers imposed the charge on a case-by-case basis.

(b) Limited number of insurers

4. The taxi and PLB trades have repeatedly complained that there are only a few insurers in the market who are willing to underwrite taxis and PLBs. Moreover, according to the trades, some insurers refuse to underwrite taxis and PLBs which have been involved in claims before, or charge very high premium for these vehicles upon renewal of the insurance policies.

(c) Deduction of No Claim Discount (“NCD”)

5. Another concern raised by the taxi and PLB trades is that when a traffic accident is reported to the Police and the insurer, the NCD of the policy holder would be deducted by their insurer even if the driver involved is subsequently found not at fault in the accident. The trades

consider this arrangement unfair and ask that the NCD be reinstated to the policy holder if the driver concerned is found not at fault in the accident.

6. The PLB trade also notes that in recent years, if one of the PLBs in a fleet insured is involved in a traffic accident, the NCD of the whole fleet of PLBs insured would be deducted. The PLB trade considers this treatment unfair. They request the insurers to reinstate the NCD granted to other claim-free PLBs in the fleet.

7. The OCI has followed up the requests of the PLB and taxi trades with the Hong Kong Federation of Insurers (“HKFI”). On 16 November 2010, the HKFI issued a “Market Understanding on Reinstating No Claim Discount (NCD) for Taxi and Public Light Bus” (“the Market Understanding”, copy at [Annex](#)) which sets out the circumstances under which NCD would be reinstated. However, the taxi and PLB trades consider the circumstances prescribed in the Market Understanding too harsh, and have no obvious positive effect in stabilising or reducing their insurance premium.

(d) Refusal of processing claim applications

8. According to some taxi and PLB trade leaders, it is common for some taxi or PLB drivers who are involved in a traffic accident to sign a reconciliation agreement with the third party involved in the accident. However, there are cases where the third party subsequently files a claim against the owner of the taxi or PLB involved in the accident. In respect of these cases, some insurers have refused to process the insurance claim applications by the taxi and PLB owners on the ground that the driver concerned has signed a reconciliation agreement with the third party involved in the traffic accident. The trades consider such refusal unfair as the signing of a reconciliation agreement would not stop (and indeed has not stopped) the third party from making a claim against the taxi/PLB owner, in which event the taxi/PLB owner would have to make payment to the third party from his own pocket should the insurer refuse to process the insurance claim application by the taxi/PLB owner.

(e) Alleged exaggeration of claims by recovery agents

9. The taxi and PLB trades have complained that the practice of some recovery agents may involve fraudulent or illegal activities, such as exaggerating the degree of injuries sustained by their clients to substantiate a claim for a higher amount of compensation. The increase in the amount of compensation payout has, according to the trades,

contributed to the significant increase in insurance premium. The taxi and PLB trades are aggrieved as they are made to pay for increased insurance premium caused by suspected illegal activities of the recovery agents.

10. A taxi association wrote to OCI in October 2010 to express their concern. At a meeting with OCI in December 2010, the taxi trade requested the Police and OCI to step up their enforcement actions against the aforesaid illegal activities relating to insurance claims.

ADVICE SOUGHT

11. Members are invited to note the above concerns on insurance matters raised by the taxi and PLB trades.

**Transport and Housing Bureau
Transport Department
February 2011**

**Market Understanding on Reinstating No Claim Discount (NCD) for
Taxi and Public Light Bus**

Introduction

It is a general practice for taxi and public light bus insurers to give a progressive discount, i.e. No Claim Discount (NCD) to the renewal premium if the previous year's motor insurance policy has been claim-free. Given the nature of this discount, NCD will only be given when there is no claim made under the policy. It is important to note that NCD will not be allowed, irrespective of whether the insured/insured driver is at fault, once the insurer has been given a notice of accident in which:

- 1) An 'Own Damage' claim is being made;
- 2) 'Third Party Property Damage' is involved; or
- 3) 'Third Party Bodily Injury' is involved.

Despite the above general practice, there are occasionally disputes on the issue of reinstating NCD in respect of taxi and public light bus insurance policies. For the purpose of minimizing these disputes, this Market Understanding, as agreed by most taxi and public light bus insurers, is prepared to clarify the issue and set out the circumstances where NCD will be reinstated. To be eligible, the insured must maintain the motor insurance with the same insurer throughout the material time (i.e. from the date of accident to the date when the NCD is to be reinstated).

1) In respect of 'Own Damage'

- a) When the insurer receives a notice of accident with an 'Own Damage' claim made, the NCD will be affected accordingly.
- b) The NCD can be reinstated if the insured has eventually decided to relinquish the rights under the insurance policy in connection with the particular accident at issue by signing a declaration letter to that effect before the next insurance renewal.
- c) The taxi and public light bus insurer may also reinstate the NCD to the insured if:
 - i. the insured/insured driver is not at fault in the accident;
 - ii. the third party at fault is traceable; and
 - iii. the insurer succeeds in recovering the claim payment.

2) In respect of 'Third Party Property Damage'

- a) When the insurer receives a notice of accident involving 'Third Party Property Damage', the NCD will be affected accordingly.
- b) The NCD can be reinstated if the insured/insured driver has eventually decided to relinquish the rights under the insurance policy in connection with the particular

accident at issue by signing a declaration letter to that effect before the next insurance renewal.

- c) The taxi and public light bus insurer may also reinstate the NCD to the insured if:
 - i. the insurer is satisfied that the insured/insured driver is not at fault in the accident;
 - ii. the insurer takes over the defence of the claim; and
 - iii. the claim is concluded and the insurer needs not make any payment.

3) In respect of 'Third Party Bodily Injury'

- a) When the insurer receives a notice of accident involving 'Third Party Bodily Injury', the NCD will be affected accordingly.

- b) The NCD may be reinstated if the insured/insured driver has eventually decided to relinquish the rights under the insurance policy in connection with the particular accident at issue by signing a declaration letter to that effect before the next insurance renewal. However the insurer must first be satisfied that:
 - i. the insured/insured driver is not at fault in the accident;
 - ii. the third party bodily injury sustained and the potential claim arising therefrom are slight; and
 - iii. the insured/insured driver will defend and pay the 'Third Party Bodily Injury' claim if found liable.

Conclusion

It must be stressed that to be eligible for reinstating NCD, the insured must maintain the motor insurance with the same insurer throughout the material time. The reinstatement of NCD represents concessions granted by the insurer concerned on an ex-gratia basis and hence each case is to be handled based on individual merits; and the insurer reserves the right to refuse reinstatement if circumstances warrant.

Note:

This Market Understanding is agreed by the following insurers:

- 1) Bank of China Group Insurance Company Limited,*
- 2) China Taiping Insurance (Hong Kong) Company Limited,*
- 3) Dah Sing Insurance Company Limited,*
- 4) The Pacific Insurance Company Limited,*
- 5) Target Insurance Company Limited,*
- 6) Trinity General Insurance Company Limited, and*
- 7) Wing Lung Insurance Company Limited.*

(as at 16 November 2010)