

**Paper for the joint meeting of
Panel on Financial Affairs and Panel on Transport of
the Legislative Council on 28 February 2011**

Background

1. Following the liquidation of a major motor insurer in 2009, the taxi & public light bus (PLB) industry has raised concerns about the level of insurance premiums they are required to pay to obtain the compulsory third party liability cover for their vehicles.
2. With the assistance of the Honourable Miriam Lau, the Honourable Kin-por Chan and the Office of Commissioner of Insurance (OCI), the Hong Kong Federation of Insurers (HKFI) has had a number of meetings with the transport industry representatives to discuss the matter and explore possible solutions.

HKFI's Position

3. The premium rates charged by the motor insurer referred to above apparently did not align with the actuarial requirements. Its eventual liquidation speaks volume for the fact that the premium rates adopted by the insurer were simply not sustainable. As such, their rates cannot and should not be used as a benchmark reference for comparison with those currently quoted in the market.
4. At present, there are no less than 12 insurers providing insurance cover for taxi and/or PLB with a range of premium levels depending on their underwriting policies, risk appetite and the nature of the risks involved. As such, taxi & PLB owners have sufficient choice in the market to secure suitable insurance schemes to meet their needs.
5. According to the market data released by the OCI, the motor insurance industry has suffered continuous underwriting losses during the past few years on taxi and PLB insurance business. Please see Annex I for details.
6. Apparently the amount of premiums collected over the years is not enough to match and meet the ultimate payment of claims. As a result, premium rates have to be adjusted upwards to make sure that there are sufficient funds in the pool to meet claims.

7. The situation has stabilized since mid-2010. But we remain concerned about the impact of fraudulent claims associated with the recovery agents and potential big claims/losses involving drink/drug driving.
8. We are seeing increased number of dubious claims related to psychiatric impairment following traffic accidents. And these cases with potential involvement of frauds have presented huge difficulties for enforcement agencies and professional bodies.
9. The problem, in some cases, is not helped by the reluctance of bodies like the Hospital Authority to review their existing procedures of granting sick leaves and/or to investigate complaints about suspected incidence of fraudulent claims.

Discussions with the taxi and PLB industry

10. Motor insurance is a highly competitive business. It is a free market and the premiums are determined by market competition based on assessment of risks and claims experience. As such, there is a meeting of mind among the parties concerned that the most effective way to bring down the level of premiums is to reduce accidents and eliminate fraudulent claims.

Way Forward

11. Going forward, we the HKFI fully support the proposal by the Honourable Kin-por Chan that all the relevant governmental departments should work together to:
 - a. find ways to reduce traffic accidents especially those related to drink/drug driving;
 - b. strengthen the joint efforts to combat illegal activities such as fraud and champerty; and
 - c. fight against exaggerated injury cases and enhance the Hospital Authority's control/procedures regarding the granting of prolonged sick leaves.
12. The insurance industry is ready and keen to work with all parties concerned in particular the Government to find a practical and effective way to address the issues listed above and safeguard the interests of the public including taxi and PLB owners and operators.

AS AT 31 DECEMBER 2009

AMOUNT IN HK\$000

MARKET STATISTICS (FROM OCI 4TH QUARTER STATISTICS)

TAXI

Calendar Year	Gross Written Premium	Net Written Premium	Net Earned Premium	No. of Vehicles Written	Gross Paid Losses	Net Paid Losses	Net Incurred Losses	Net Commission	Management Expenses	Underwriting Profit/(Loss)
2005	190,396	155,509	151,019	17,865	143,360	101,107	127,464	24,211	20,480	(21,136)
2006	147,485	110,509	128,602	17,104	119,030	92,116	96,311	22,431	13,885	(4,025)
2007	129,018	100,758	108,164	16,538	120,576	97,896	103,885	20,396	14,560	(30,677)
2008	153,886	130,552	119,752	16,632	147,321	133,121	135,482	17,628	17,524	(50,882)
2009	209,303	174,662	110,871	16,909	129,811	98,546	107,961	17,912	10,938	(25,940)

PLB

Calendar Year	Gross Written Premium	Net Written Premium	Net Earned Premium	No. of Vehicles Written	Gross Paid Losses	Net Paid Losses	Net Incurred Losses	Net Commission	Management Expenses	Underwriting Profit/(Loss)
2005	116,621	92,934	88,667	4,800	68,605	56,766	70,985	11,615	4,619	1,448
2006	96,993	78,114	81,329	4,450	68,269	62,877	75,981	11,102	3,625	(9,379)
2007	94,819	80,341	81,820	4,471	80,774	73,807	88,270	10,737	3,955	(21,142)
2008	90,557	77,046	79,041	4,344	95,787	88,071	79,024	8,977	3,964	(12,924)
2009	135,001	113,048	85,846	4,388	97,694	88,313	74,768	11,044	3,858	(3,824)

Note: A local insurer which engaged primarily in motor vehicle insurance business has been placed into provisional liquidation in early May 2009. The bulk of the insurance claims made against the insurer, being in respect of Motor Vehicle Third Party Bodily Injury and Motor Vehicle Third Party Property Damage, have been taken up by the Insolvency Fund administered by the Motor Insurers' Bureau of Hong Kong. Under these circumstances, the claims figures of the insurer have not been incorporated in the relevant statistical data since the second quarter of 2009. As a result, the underwriting loss for Motor Vehicle direct business shown in the table above cannot fully represent the overall industry performance.