

For information  
on 28 February 2011

**Legislative Council Panels on Transport and Financial Affairs  
Joint Meeting on 28 February 2011**

**Insurance Coverage for Taxis and Public Light Buses**

**Introduction**

This paper sets out the present business environment of Hong Kong's motor insurance market as well as the action taken by the Office of the Commissioner of Insurance ("OCI") that are relevant to the matters raised by Hon. Miriam Lau and Hon. K P Chan regarding insurance coverage for taxis and public light buses ("PLBs").

**Background**

2. In 2009 and 2010, taxi and PLB trade operators complained that exorbitant claims caused by rampant insurance frauds were the major causes for underwriting losses incurred by the insurance industry. They said that there were examples of staged incidents, i.e. injury caused deliberately by third party; and material misrepresentation or exaggeration of injury. They considered that it was unfair for those innocent taxi/PLB trade operators to bear the consequences.

3. Pricing of the insurance business is based on risk assessment. Insurance companies will consider the risks assumed, mainly the accident rate and quantum of claims, in determining the premium levels. Premium rates therefore reflect the level of risks assumed by insurers, while the underwriting results are largely impacted by the frequency and severity of claims.

4. Hong Kong has an open insurance market and there is no entry barrier for any insurers to enter the taxi/PLB insurance market provided that they are able to meet the prudential requirements set out in the Insurance Companies Ordinance (Cap 41) ("ICO"). There are currently 62 insurers authorized to underwrite motor insurance business in Hong Kong and out of them at least 12 insurers are providing insurance cover for some 18,000 taxis and 4,000 PLBs. The premium setting by insurers should best be left to market forces. Indeed, OCI is specifically debarred under section 26(3A) of the ICO from intervening into this commercial decision.

5. Due to fierce competition and high amount of claims payments, the insurance industry has been suffering continuous underwriting losses since 2005 and 2006 on taxi and PLB insurance respectively. The increase in premium rates, mainly

in 2009 and 2010, is attributable to the heavy underwriting losses and the need to restore premium rates to a more reasonable and sustainable level. Relevant statistics of accident rates and underwriting results are summarized at Annex 1 and Annex 2 respectively.

6. The insolvency of a taxi insurer in early 2009 has highlighted the fact that persistent unreasonably low level of premiums that is not adequate to meet claims is not sustainable and could lead to insurer insolvency. Other insurers in the same business thus consider it necessary to tighten their underwriting policy and raise their premium rates.

7. OCI is mindful of taxi/PLB operators' concerns on escalating claims and increasing premium rates. Any vehicle owners/drivers who face difficulties in obtaining compulsory insurance may contact OCI.

### **Measures Implemented and the Way Forward**

8. In 2009 and 2010, OCI, together with Hon. Miriam Lau and Hon. K P Chan, held a series of meetings with the insurance industry and taxi/PLB trade operators to explore possible measures of addressing their concerns over commercial vehicle insurance. Measures implemented since then include:

- (a) The Hong Kong Federation of Insurers ("HKFI") issued a "Market Understanding on Reinstating No Claims Discount ("NCD") for Taxi and Public Light Bus" to improve and standardize the market practice in handling NCD. Prior to this, reinstatement of NCD varied among insurers and sometimes it could be difficult for taxi/PLB operators to have their NCD reinstated even if they were not at fault. The market understanding clarifies the circumstances under which NCD could be reinstated. In general, notwithstanding that a claim has been submitted to the taxi/PLB insurer, NCD may be reinstated if the insurer succeeds in recovering the claim payment or the insured has eventually decided to relinquish his/her rights under the insurance policy by signing a declaration letter to that effect;
- (b) HKFI issued a leaflet named "What to do after a car accident occurs" to provide general guidance for motorists in a traffic accident;
- (c) HKFI and the taxi/PLB trade operators jointly explored effective ways to reduce accident rates in the long term, including promoting good driving behaviour, installing black boxes<sup>1</sup> in taxis voluntarily and speed limiters<sup>2</sup> in PLBs compulsorily; and

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<sup>1</sup> Black boxes are electronic devices that record the operational data of a vehicle, such as journey speed, journey time, distance travelled, acceleration and deceleration, etc. They can be used for monitoring drivers' performance and investigation of accidents.

<sup>2</sup> Speed limiters are devices which primary function is to control the fuel feed to the engine in order to limit the maximum speed of a vehicle at the set speed.

- (d) HKFI sought legal opinion on taxi/PLB owners' potential liabilities arising from their drivers' drink/drug driving. Briefly, if a taxi/PLB owner only rents his/her vehicle to a driver for use in connection with the driver's own business, the owner is in general not liable for the driver's drink/drug driving and hence not liable for any third party claims so arising.

9. Notwithstanding the above progress, we understand from the taxi/PLB trade that the high amount of claims payments was also attributable to rampant insurance frauds. Thus, lowering motor insurance premium rates in the longer term depends on the successful tackling of alleged insurance frauds.

**Financial Services and the Treasury Bureau  
Office of the Commissioner of Insurance  
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### Private Car, Taxi and Public Light Bus Involvements in Accidents

Class of Motor Vehicle		Year		
		2007	2008	2009
Private Car	No. involved in accident	6,450	5,927	6,085
	No. licensed (mid-year)	363,689	379,399	385,675
	Annual veh-km (in millions)	4,442	4,453	4,537
	Involved rate: per 1,000 vehicles	17.7	15.6	15.8
	Per million veh-km	1.45	1.33	1.34
Taxi	No. involved in accident	4,004	3,926	3,801
	No. licensed (mid-year)	18,045	18,084	18,126
	Annual veh-km (in millions)	2,102	2,135	2,130
	Involved rate: per 1,000 vehicles	221.9	217.1	209.7
	Per million veh-km	1.91	1.84	1.78
Public Light Bus	No. involved in accident	1,173	1,080	1,110
	No. licensed (mid-year)	4,349	4,346	4,349
	Annual veh-km (in millions)	387	380	377
	Involved rate: per 1,000 vehicles	269.7	248.5	255.2
	Per million veh-km	3.03	2.84	2.94

Source: Road Traffic Accident Statistics from the Transport Department (Figure 3.1)  
[http://www.td.gov.hk/filemanager/en/content\\_4387/09fig3.1e.pdf](http://www.td.gov.hk/filemanager/en/content_4387/09fig3.1e.pdf)

### Underwriting Results of Taxi and Public Light Bus Business

Year (HK\$'000)	2005	2006	2007	2008	2009
<b><u>Taxi</u></b>					
Gross premiums	190,396	147,485	129,018	153,886	209,303
Gross claims paid	143,360	119,030	120,576	147,321	129,811 <sup>Note 1</sup>
Underwriting profit/ (loss)	(21,136)	(4,025)	(30,677)	(50,882)	(25,940) <sup>Note 1</sup>
<b><u>Public Light Bus</u></b>					
Gross premiums	116,621	96,993	94,819	90,557	135,001
Gross claims paid	68,605	68,269	80,774	95,787	97,694
Underwriting profit/ (loss)	1,448	(9,379)	(21,142)	(12,924)	(3,824)

Note 1: Anglo Starlite Insurance Company Limited was 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 administrated 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.