

立法會
Legislative Council

LC Paper No. CB(1)1385/10-11(01)

Ref: CB1/PL/TP+FA

**Panel on Transport and
Panel on Financial Affairs**

Joint meeting on 28 February 2011

**Background brief on
Difficulties encountered by the transport sector in
obtaining insurance coverage**

Purpose

This paper provides background information on the subject of "difficulties encountered by the transport sector in obtaining insurance coverage". It also summarizes the main concerns and views expressed by Members when relevant issues were discussed by the Panel on Financial Affairs (the FA Panel) in 2003 and raised at Council meetings in recent years.

Background

2. According to Section 4 of the Motor Vehicles Insurance (Third Party Risks) Ordinance (Cap 272), it shall not be lawful for any person to use, or to permit any other person to use, a motor vehicle on a road unless the vehicle concerned is covered by valid third party risks insurance. Offenders shall be liable to a fine of \$10,000 and to imprisonment for 12 months on conviction. There were media reports in the past year that the transport sector, in particular the taxi and public light bus trades, had encountered difficulties in obtaining insurance coverage. Their major concerns included the soaring insurance premiums and rejection by insurance companies to underwrite/renew their policies. The insurance sector, while pointing out that the phenomenon was mainly caused by substantial increases in both the number and amount of insurance claims in traffic accidents, remarked that there existed organised

frauds to deceive claims under motor vehicle insurance policies. There were also media reports on the activities of some recovery agents in abetting the injured in traffic accidents to exaggerate the degree of injuries sustained in order to claim for a higher amount of compensation.

3. Based on the data on premium incomes¹ released by the Office of the Commissioner of Insurance on the Internet, which comprises information on both third party risks and comprehensive risks policies, the average premium per vehicle (net of no claim discount and other discounts) from 2007 to 2010 for taxis, public light buses and goods carrying vehicles and tractors are as follows:

Year	Taxi		Public light bus		Goods carrying vehicles and tractors	
	Average premium per vehicle (HK\$)	Year-on-year change (%)	Average premium per vehicle (HK\$)	Percentage change (%)	Average premium per vehicle (HK\$)	Year-on-year change (%)
2007	7,797	Not applicable	21,208	Not applicable	5,339	Not applicable
2008	9,259	+19	20,846	-2	5,547	+4
2009	12,378	+34	30,766	+48	5,336	-4
2010 ²	17,289	+40	38,702	+26	5,536	+4

Panel discussions in 2003

4. In view of the then difficult operating environment facing the insurance industry and the difficulties encountered by some business sectors, including the transport sector, in obtaining insurance coverage, the FA Panel held four meetings on 16 January 2003, 15 and 22 March 2003 and 19 June 2003 to meet with the Administration, the Equal Opportunities Commission and the relevant industry associations to discuss the relevant issues. Most deputations expressed views on issues relating to the two major types of mandatory insurance, namely employees' compensation insurance and motor vehicle third party risks insurance. Their main concerns were the soaring premiums and refusal by some insurers to underwrite for certain sectors/industries, the lack of transparent mechanisms for determining risk levels and premiums, and the

¹ The Office of the Commissioner of Insurance does not separately collect information on the premiums of third party risks insurance.

² The figure for 2010 is for the period from January to September 2010.

trend of escalating damages awarded by the court on claims. The insurance industry pointed out that the main reason for the rise in insurance premiums was the huge underwriting losses suffered by the insurance industry in the preceding years. The industry opined that the promotion of industrial and road safety would reduce accidents and the compensation to be paid out by the insurers.

5. Having regard to the views expressed by deputations, Panel members expressed concern on whether the significant rise in premium rates was commensurate with the trend of the relevant risks. They pointed out that while the insurance market was a free one, industry operators had the legal obligation to obtain mandatory insurance in respect of motor vehicle third party liabilities and employee compensation. Members urged the Administration to take urgent measures, such as improving the transparency of the operation of the insurance industry and implementing industrial and road safety measures, to tackle the problems.

Council questions

6. At the Council meeting on 20 May 2009, Hon Miriam LAU raised a written question on "commercial vehicle insurance provided by insurance companies". Referring to the substantial the substantial increase in premiums for commercial vehicles in recent years, she enquired about the number of insurance companies operating the business of commercial vehicle insurance and whether the authorities had any regulatory measure to ensure that the premiums for commercial vehicles were set at a reasonable level. Ms LAU's question and the Administration's reply are set out in **Appendix I**.

7. Hon Miriam LAU raised a written question on "regulating activities of recovery agents" at the Council meeting on 27 January 2010. She expressed concern that the activities of recovery agents in abetting the injured in traffic accidents to exaggerate the degree of injuries sustained had become rampant, resulting in increases in the amount of compensation payouts and substantial increases of insurance premiums by insurance companies. She enquired about the causes for the phenomenon, the progress in combating the activities of recovery agents, and the Administration's latest position on the need to introduce legislation to regulate recovery agents. Ms LAU's question and the Administration's reply are set out in **Appendix II**.

8. At the Council meeting on 2 June 2010, Hon CHEUNG Hok-ming asked an oral question on "third party risks insurance for taxis". He enquired about the premiums for the third party risks insurance for taxis in recent years,

how the premiums for taxis compared with those for private cars and related to the accident rates of taxis, and whether the Administration would study the feasibility of installing "black boxes" in all taxis. Mr CHEUNG's question and the Administration's reply are set out in **Appendix III**. On the question of whether the Administration would consider mandating taxis to install "black boxes", the Administration responded that while the installation of "black boxes" might cause changes in the driving behaviour of drivers and the technology was already available, the installation of "black boxes" on all taxis was not yet required as a mandatory regulatory measure in any places. The Administration would however monitor the situation closely and would be happy to provide assistance to the taxi trade on the technical aspects.

Latest Development

9. The FA Panel and the Panel on Transport will hold a joint meeting on 28 February 2011 to meet with deputations and the Administration to discuss issues relating to "difficulties encountered by the transport sector in obtaining insurance coverage".

Relevant Papers

10. The relevant papers are available at the following links:

Official records of proceedings of the Council Meeting on 2 June 2010 (page 56-64):

<http://www.legco.gov.hk/yr09-10/english/counmtg/hansard/cm0602-translate-e.pdf>

Official records of proceedings of the Council Meeting on 27 January 2010 (page 78-80):

<http://www.legco.gov.hk/yr09-10/english/counmtg/hansard/cm0127-translate-e.pdf>

Official records of proceedings of the Council Meeting on 20 May 2009 (page 83-86):

<http://www.legco.gov.hk/yr08-09/english/counmtg/hansard/cm0520-translate-e.pdf>

Minutes of Joint Meeting of Panel on Manpower and Panel on Financial Affairs on 19 June 2003 (paragraphs 2 and 10):

<http://www.legco.gov.hk/yr02-03/english/panels/fa/minutes/famp0619.pdf>

Summary of views relating to employees' compensation insurance expressed at the special meetings on 15 and 22 March 2003 and written views submitted to the Panel on Financial Affairs:

<http://www.legco.gov.hk/yr02-03/english/panels/fa/papers/famp0619cb1-1904-1e.pdf>

Minutes of meeting of Panel on Financial Affairs on 22 March 2003:

<http://www.legco.gov.hk/yr02-03/english/panels/fa/minutes/fa030322.pdf>

Minutes of meeting of Panel on Financial Affairs on 15 March 2003:

<http://www.legco.gov.hk/yr02-03/english/panels/fa/minutes/fa030315.pdf>

Minutes of meeting of Panel on Financial Affairs on 16 January 2003 (paragraphs 9-12):

<http://www.legco.gov.hk/yr02-03/english/panels/fa/minutes/fa030116.pdf>

Website of the Office of the Commissioner of Insurance on insurance business statistics:

<http://www.oci.gov.hk/stat/index06.html>

Council Business Division 1
Legislative Council Secretariat
24 February 2011

Question on "Commercial vehicle insurance provided by insurance companies" raised by Hon Miriam LAU and written reply by the Secretary for Financial Services and the Treasury at the Council meeting on 20 May 2009

Question:

Some people from the transport industry have relayed to me that currently there are only a few insurance companies operating the business of commercial vehicle insurance. Due to insufficient competition, the premiums concerned have all along been on the high side. Most owners of taxis and public light buses have therefore chosen to take out insurance with a small-scale insurance company which charged lower premiums, against which the court has recently issued a provisional liquidation order. In this connection, will the Government inform this Council:

- (a) whether it knows which insurance companies currently operate the business of commercial vehicle insurance, the general level of the premiums charged by them and the respective highest and lowest premiums;
- (b) whether it knows the rate of increase in the premiums concerned in the past three years; whether it has looked into the causes for the substantial increase in premiums for commercial vehicles in recent years;
- (c) as I have learnt that some insurance companies are planning to increase premiums for commercial vehicles substantially, whether the authorities have any regulatory measure to ensure that the premiums for commercial vehicles are set at a reasonable level; whether they will adopt measures to encourage more insurance companies to operate such business, with a view to increasing market competition so that the premiums can be maintained at a reasonable level or even lowered; and
- (d) whether it has explored if public confidence in insurance companies has been shaken by the liquidation of the aforesaid insurance company; if so, what measures the Government has to strengthen the regulation of insurance companies (such as specifying the statutory financial requirements), so as to avoid the recurrence of similar incidents?

Reply:

President,

(a) In 2008, there were a total of 47 insurance companies in Hong Kong (names of the companies listed at Annex 1) providing insurance services for various classes of commercial vehicles including taxis, public light buses, goods carrying vehicles and tractors.

Based on the provisional data provided by the insurance companies to the Office of the Commissioner of Insurance (OCI) on the total premiums receivable (Note) and the number of vehicles insured in 2008, OCI has calculated the average premiums for the three different classes of commercial vehicles viz. taxis, public light buses, and goods carrying vehicles and tractors to be \$9,252, \$20,846 and \$5,547 respectively.

As OCI does not have information on the premiums chargeable to individual commercial vehicles by individual insurance companies, they cannot provide data on the highest and lowest premiums.

(b) The average premiums calculated based on the operating statistics provided by the insurance companies to OCI in respect of various classes of commercial vehicles in the past three years are shown in the table at Annex 2.

The figures show a reduction in the average premiums receivable for all classes of commercial vehicles in 2006 and 2007. There was a 19% increase in the average premiums receivable for taxis based on provisional figures for 2008, which is believed to be related to the increasing amount of compensation required to be paid out by insurance companies to claims arising from traffic accidents that has resulted in continued losses suffered by the commercial vehicle insurance market in the past three years.

(c) There was a reduction in the insurance premiums chargeable to all classes of commercial vehicles in both 2006 and 2007 (see part (b) of the reply). Similar to other commercial services, insurance companies determine the level of premiums for individual commercial vehicles based on commercial principles by considering their underwriting risks, claim factors, etc. OCI will closely monitor the market situation and promote the healthy development of the insurance industry.

(d) OCI has been exercising prudential supervision of all insurance companies. The Insurance Companies Ordinance provides that insurers carrying on general insurance business shall maintain assets in Hong Kong to

match their local insurance liabilities. OCI will closely monitor the financial position of the insurance companies, regularly collect and analyse their key operating statistics, and conduct on-site inspections and stress tests, etc. Where necessary, OCI will exercise its statutory powers conferred by the Insurance Companies Ordinance to take appropriate intervention actions, such as restricting the amount of premiums that an insurance company can underwrite, or requiring an insurance company to make bank deposits of specified amounts in the name of the Insurance Authority to protect the interests of policyholders.

As regards the case of Anglo Starlite Insurance Company Limited which was taken over by the provisional liquidators due to suspected forgery of its deposit receipts, OCI has taken effective measures to protect the interests of the insured and the insurance claimants. OCI will continue to dutifully discharge its statutory regulatory functions to promote the overall stability of the insurance industry and protect the policyholders.

(Note: The premiums receivable are net of all discounts, including no claim discount.)

**Annex 1
to Appendix I**

List of Insurance Companies Carrying on Commercial Vehicle Insurance Business in 2008

- 1 Pacific Insurance Company, Limited
- 2 Bank of China Group Insurance Company Limited
- 3 Ming An Insurance Company (Hong Kong) Limited
- 4 AXA General Insurance Hong Kong Limited
- 5 Anglo Starlite Insurance Company Limited (in provisional liquidation)
- 6 Lloyd's Underwriters
- 7 Royal & Sun Alliance Insurance plc
- 8 QBE Hongkong & Shanghai Insurance Limited
- 9 Wing Lung Insurance Company Limited
- 10 American Home Assurance Company
- 11 Asia Insurance Company Limited
- 12 MSIG Insurance (Hong Kong) Limited
- 13 New India Assurance Company Limited
- 14 Zurich Insurance Company
- 15 Tugu Insurance Company, Limited
- 16 People's Insurance Company of China (Hong Kong) Limited
- 17 Target Insurance Company, Limited
- 18 Dah Sing Insurance Company Limited
- 19 Allianz Insurance (Hong Kong) Limited
- 20 Hang Seng General Insurance (Hong Kong) Company Limited
- 21 Falcon Insurance Company (Hong Kong) Limited
- 22 ING General Insurance Company Limited
- 23 Trinity General Insurance Company Limited
- 24 Tokio Marine and Fire Insurance Company (Hong Kong) Limited
- 25 HSBC Insurance (Asia) Limited
- 26 Mitsui Sumitomo Insurance Company (Hong Kong) Limited
- 27 Concord Insurance Company Limited
- 28 AXA China Region Insurance Company (Bermuda) Limited
- 29 Pioneer Insurance and Surety Corporation
- 30 Sompo Japan Insurance Inc.
- 31 China BOCOM Insurance Company Limited
- 32 Nipponkoa Insurance Company (Asia) Limited
- 33 Prudential Assurance Company Limited
- 34 Blue Cross (Asia-Pacific) Insurance Limited
- 35 Sun Hung Kai Properties Insurance Limited
- 36 China Pacific Insurance Co., (H.K.) Limited
- 37 GAN Assurances IARD Compagnie Francaise D'Assurances Et De Reassurances Incendie, Accidents Et Risques Divers
- 38 Chevalier Insurance Company Limited
- 39 China Overseas Insurance Limited

- 40 Chong Hing Insurance Company Limited
- 41 California Insurance Company Limited
- 42 Wing Hang Zurich Insurance Company Limited
- 43 Assicurazioni Generali Società per Azioni
- 44 Ming An Insurance Company (China) Limited
- 45 Federal Insurance Company
- 46 Min Xin Insurance Company Limited
- 47 ACE Insurance Limited

**Annex 2
to Appendix I**

(HK\$)

Classes of vehicles	2006		2007		2008 (provisional figures)	
	Premiums receivable Note	Change (%)	Premiums receivable Note	Change (%)	Premiums receivable Note	Change (%)
Taxis	8,606	-19.2%	7,797	-9.4%	9,252	18.7%
Public light buses	21,772	-9.7%	21,241	-2.4%	20,846	-1.9%
Goods carrying vehicles and tractors	5,574	-8.6%	5,495	-1.4%	5,547	0.9%

^{Note} The premiums receivable are net of all discounts, including no claim discount.

**Question on "Recovery Agents" raised by Hon Miriam LAU and
written reply by the Secretary for Justice
at the Council meeting on 27 January 2010**

Question:

Some members of the transport industry have relayed to me that the activities of recovery agents have become more rampant in recent years, and these agents abet the injured in traffic accidents to exaggerate the degree of injuries sustained so as to claim for a higher amount of compensation, resulting in insurance fraud becoming an undesirable trend. As a result of an increase in the amount of compensation payout, insurance companies have also significantly increased the insurance premiums (e.g. the insurance premiums for taxi have been increased by 50% within a short period of time). Some insurance companies even plan to cease to underwrite insurance for commercial vehicles. Moreover, those injured in traffic accidents may have to pay high service charges to recovery agents. In this connection, will the Government inform this Council:

- (a) whether it has looked into the causes for the activities of recovery agents becoming more rampant in recent years, and whether they include the failure of many of those injured in traffic accidents in meeting the eligibility criteria for the Supplementary Legal Aid Scheme (SLAS), which has resulted in their seeking help from recovery agents; if so, whether the authorities will consider reviewing and relaxing the eligibility criteria for SLAS;
- (b) of the latest progress in combating activities of recovery agents by the authorities, and the specific plan for the next two years; of the latest progress of the review of the need to introduce legislation to regulate recovery agents; and
- (c) whether it has assessed if the number of prosecutions instituted in respect of combating activities of recovery agents in the past three years is on the low side; if the number is on the low side, of the reasons for that, whether it is because it is more difficult to prove such activities, and how the authorities overcome such difficulties?

Reply:

President,

(a) There are multiple causes for the activities of recovery agents. According to the findings of the 2008 Reports of the Consultancy Study on the Demand for and Supply of Legal and Related Services, one of the reasons for the use by households of claims agents was that they could not afford or did not want to spend money or time resolving their problems through other means. Affordability is therefore only one of the many reasons for the public to engage the services of recovery agents. Another reason is the lack of awareness of the nature of recovery agents by members of the public.

The Home Affairs Bureau and the Legal Aid Department are in the process of formulating proposals for the five-yearly review of the criteria of assessing the financial eligibility of legal aid applicants. The Administration will consult the Legal Aid Services Council and the Legislative Council Panel on Administration of Justice and Legal Services by mid-2010.

(b) The Administration is addressing the problems caused by recovery agents by enhancing public education and law enforcement through investigation and prosecution.

In the case of HKSAR v Cheung Oi-ping and Winnie Lo (DCCC 610/2008), a recovery agent and a solicitor were convicted of offences related to champerty and maintenance and sentenced to 15 months' and 16 months' imprisonment respectively. The convicted solicitor has lodged an appeal and a hearing date has not been fixed yet.

In the verdict dated June 25, 2009, the trial judge has clearly spelt out the elements of the common law offences of champerty and maintenance. In dealing with these offences, the court has to look at the facts of each case to determine whether an offence has been committed. The court has to take into account the competing public policy considerations, such as the risk to the integrity of the court's system and access to justice.

Therefore, attempting to provide rigid statutory definitions of champerty and maintenance may not be required or desirable. The Administration will continue to monitor the development of the relevant common law offences and review the need for legislation accordingly.

(c) Apart from the successful prosecution in DCCC 610/2008, five suspected cases are under Police investigation. Where fraud (including insurance fraud) is involved and substantiated, those perpetrating the fraud may also be prosecuted for fraud-related offences.

One of the reasons for the low number of reports received by the Police is that the general public may not be aware of the nature of the offences of maintenance and champerty and that the relevant activities of recovery agents are unlawful. As a result, some victims might still be under the mistaken belief that recovery agents are able to help them and are thus unwilling to co-operate with the Police in their investigations.

The Department of Justice has stepped up publicity through the media to enhance public understanding of the activities of recovery agents and the offences of maintenance and champerty. The public is reminded to be vigilant with regard to the activities of recovery agents which may be unlawful and may also jeopardise their own interest. The frequency of broadcasts of these messages has been increased since the successful prosecution in DCCC 610/2008 in June 2009. The number of time slots for TV and radio channels have increased by 64% and 11% respectively.

The Law Society has since June 15, 2009 operated a telephone helpline to assist claimants pursuing personal injury compensation to seek proper legal assistance directly from lawyers and to avoid engaging the services of recovery agents. Over 100 solicitors have joined the programme to provide up to one-hour legal consultation free of charge.

**Question on "Third party risks insurance for taxis"
raised by Hon CHEUNG Hok-ming and
reply by the Secretary for Financial Services and the Treasury
at the Council meeting on 2 June 2010**

Question:

I have received complaints from members of the taxi trade about the pressure on the operating costs of the taxi trade caused by the existing high third party risks insurance premiums for taxis, which in general have been increased from \$8,000 to the level of \$18,000. Moreover, some taxi operators have recently introduced a data recording device specially for taxis, commonly known as "black box". They believed that the installation of "black boxes" in taxis may substantially enhance taxi drivers' awareness of safe driving, which will in turn reduce accidents and safeguard the safety of road users. In this connection, will the Government inform this Council:

- (a) of the number of insurance companies operating the business of third party risks insurance for taxis at present; whether it knows the third party risks insurance premiums for taxis charged in general by such insurance companies and how such premiums compare with those for private cars; of the respective rates of increase in the third party risks insurance premiums for taxis and private cars in the past three years;
- (b) whether the authorities had, in the past three years, studied if the increase in the third party risks insurance premiums for taxis was related to the frequent occurrence of traffic accidents involving taxis; if it was related, of the situation of traffic accidents involving taxis and the resultant increase in third party risks insurance premiums for taxis during this period; and
- (c) whether the authorities will study further the feasibility of installing "black boxes" in all taxis; if they will, of the implementation timetable; if not, of the factors considered by the authorities?

Reply:

President,

- (a) Currently there are 9 insurance companies in Hong Kong providing insurance services for taxis.

Based on the data on premium incomes (Note) provided by motor insurance companies to the Office of the Commissioner of Insurance (OCI), which comprises information on both third party risks and comprehensive risks policies, the average premium per vehicle (net of no claim discount and other discounts) from 2007 to 2009 were \$3,566, \$3,661 and \$3,417 respectively for private cars, and \$7,797, \$9,259 and \$12,378 respectively for taxis. Accordingly, over the past three years, the average premium for private cars remained at about \$3,500. The average premium for taxis increased by 19% and 34% in 2008 and 2009 respectively.

(b) 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.

According to the statistics provided by the Transport Department, there are currently about 18,000 taxis in Hong Kong. From 2007 to 2009, the number of taxis involved in accidents was 4,004, 3,926 and 3,801 respectively. The accident rate of taxis was one of the highest among all classes of motor vehicles. During the same period, the number of taxis involved in fatal and serious traffic accidents was 543, 474 and 469 respectively.

The net claims incurred in taxi insurance business amounted to \$104 million, \$135 million and \$108 million for 2007, 2008 and 2009 respectively, while underwriting loss reached \$31 million, \$51 million and \$26 million. These figures have not included the insurance claims made against Anglo Starlite Insurance Company Ltd, which was put into provisional liquidation in 2009 and its outstanding claims which were taken up by the Motor Insurers' Bureau of Hong Kong. The total claims are estimated to exceed \$600 million.

(c) "Black box", a data recording device installed on a vehicle, records such parameters as vehicle speed, mileage and travel time. These data are mainly used by transport operators for fleet and service management. The parameters recorded can also facilitate traffic accident investigation.

On traffic accident investigation, as "black box" can provide circumstantial information (such as pre-accident speed and vehicle signals) of accidents, it can assist the Police to understand the details of the accidents.

Taxi service in Hong Kong is mainly operated by small individual entities, where most taxi drivers are rentee-drivers or owner-drivers. The taxi trade generally does not need to organise or manage a fleet. Besides, taxis mainly provide point-to-point personalised passenger service without fixed schedule, routing or operation hours. As such, the installation of "black box"

may not serve to enhance the organisation management and service quality of the taxi trade.

In view of the above, the Government does not have any plan at the moment to require the mandatory installation of "black box" on all taxis. However, the Government welcomes the taxi trade's initiatives to explore and introduce tools or equipment that may improve driving attitude and enhance road safety.

Note: The Office of the Commissioner of Insurance does not separately collect information on the premiums of third party risks insurance.

- End -