

**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.