

**For discussion
on 7 April 2021**

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

**Joint Subcommittee on Issues Relating to
Insurance Coverage for the Transport Sector**

Procurement of Motor Insurance by the Transport Sector

Purpose

This paper sets out the situation of procurement of motor insurance by the transport sector and provides information on issues of concern to the trade and members.

Background

2. According to the Motor Vehicles Insurance (Third Party Risks) Ordinance (Cap. 272), any vehicle owner must procure insurance from authorised insurance companies to insure such person or drivers authorised by such person against the liability incurred by personal injury or death to a third party due to use of motor vehicles. The Transport Department (“TD”) has been maintaining close communication with the transport sector, the Insurance Authority (“IA”) and relevant government departments on issues relating to the procurement of insurance by the transport sector. In recent years, taxi and public light bus (“PLB”) trades have from time to time expressed concerns about high insurance premium, surcharges imposed by insurance companies for different items (e.g. elderly drivers, old vehicle age, etc.) and arrangement of deduction of no claim discount (“NCD”). In addition, the cross-boundary transport trade is concerned about the arrangement for cross-boundary vehicle insurance and hopes that insurance companies can provide insurance products with coverage calculated in days.

Concerns of the trade

(a) Insurance premium

3. The main function of insurance is to reduce the loss to be borne by policyholders in the event of unforeseen circumstances via risk management and mitigation, thereby facilitating various socio-economic activities. For motor insurance, insurance companies will make reference to data including accident rate and claims amount in the past when underwriting and determining premium levels. According to the information of the IA, the annual average comprehensive insurance premiums, average third party insurance premiums and their year-on-year change for taxi, green minibus (“GMB”) and red minibus (“RMB”) during the period from 2016 to 2020 are as follows –

Taxi					
Year	2016	2017	2018	2019	2020
Average comprehensive insurance premiums (HK \$)	25,911	25,859	25,537	28,050	33,902
Compared with same period in preceding year	-2.5%	-0.2%	-1.2%	9.8%	20.9%
Average third party insurance premiums (HK \$)	20,435	20,381	20,670	22,210	26,189
Compared with same period in preceding year	-1.0%	-0.3%	1.4%	7.5%	17.9%

GMB					
Year	2016	2017	2018	2019	2020
Average comprehensive insurance premiums (HK \$)	53,311	53,577	47,937	49,637	46,266
Compared with same period in preceding year	4.3%	0.5%	-10.5%	3.6%	-6.8%
Average third party insurance premiums (HK \$)	33,301	32,737	32,325	31,385	31,142
Compared with same period in preceding year	-7.5%	-1.7%	-1.3%	-2.9%	-0.8%

RMB					
Year	2016	2017	2018	2019	2020
Average comprehensive insurance premiums (HK \$)	55,212	54,275	58,381	60,944	55,913
Compared with same period in preceding year	-8.5%	-1.7%	7.6%	4.4%	-8.3%
Average third party insurance premiums (HK \$)	42,319	42,133	39,931	40,288	40,227
Compared with same period in preceding year	-6.1%	-0.4%	-5.2%	0.9%	-0.2%

4. Accident rate is one of the factors to be considered by the insurance companies when determining premium levels. According to the information of TD, the number of traffic accidents involving taxis and PLBs during the period from 2016 to 2020 are as follows –

Table 1: Traffic accidents involving taxis

Year	Number of traffic accidents involving taxis ¹			
	Fatal	Serious	Slight	Total
2016	20	483	3 425	3 928
2017	15	430	3 392	3 837
2018	19	368	3 529	3 916
2019	14	419	3 765	4 198
2020	21	331	3 056	3 408

Table 2: Traffic accidents involving GMBs

Year	Number of traffic accidents involving GMBs			
	Fatal	Serious	Slight	Total
2016	10	94	631	735
2017	7	98	613	718
2018	9	60	557	626
2019	8	80	514	602
2020	4	77	383	464

¹ Definition :

Traffic accident :	An incident reported to the Police, involving personal injury occurring on roads, in which one or more vehicles are involved.
Fatal accident :	Traffic accident in which one or more persons dies within 30 days of the accident.
Serious accident :	Traffic accident in which one or more persons injured and detained in hospital for more than 12 hours.
Slight accident :	Traffic accident in which all persons involved are either not detained in hospitals or detained for not more than 12 hours.

Table 3: Traffic accidents involving RMBs

Year	Number of traffic accidents involving RMBs			
	Fatal	Serious	Slight	Total
2016	7	50	263	320
2017	8	29	228	265
2018	2	40	262	304
2019	5	30	253	288
2020	3	22	169	194

(b) Arrangement of deduction of no claim discount

5. To encourage good driving behavior, it is a general practice of insurance companies to give an NCD on the premium upon renewal of policies. If a policyholder has made any claims during the policy period, the NCD would be reduced progressively. The taxi trade has expressed concern about the arrangement of deduction of NCD by insurance companies, where a claim in respect of one of the taxis in the fleet may lead to deduction of NCD for the entire fleet. According to our understanding, taxi owners currently do not provide insurance companies with information on traffic accidents and claims of individual drivers, hence insurance companies in general can only underwrite for the fleet as a whole. This may reduce the effectiveness of the usual practice of using NCD in differentiating the risk levels of individual drivers.

(c) Number of insurers

6. Whether an insurance company provides taxi and PLB insurance services is purely its commercial decision. According to the information of the IA, there are eight and seven insurance companies underwriting taxi and PLB insurance respectively. The taxi insurance business registered loss in 11 years during the 16-year period between 2005 and 2020. This has become one of the factors which insurance companies have taken into consideration when deciding whether to participate in this type of business. Regarding the PLB insurance business, four years of loss were registered during the same period and there have been signs of improvement.

(d) Suspension or reduction of levy under the Employees Compensation Assistance Fund

7. For employees who have sustained injuries caused by accidents arising out of and in the course of employment, in the event that the court awards an amount of employees' compensation and damages to be payable by the employer but the latter cannot pay the amount and does not have a valid employees' compensation insurance policy to cover his/her liability, hence rendering the injured employees or family members of deceased employees unable to make recovery against the employer or any insurer, they may apply for assistance payments from the Employees Compensation Assistance Fund ("the Fund") under the Employees Compensation Assistance Ordinance (Cap. 365) for the unrecovered sum.

8. The Fund, which serves as the safety net of last resort to provide employees' compensation protection for employees of all industries, is financed by a levy imposed under the Employees' Compensation Insurance Levies Ordinance (Cap. 411) ("ECILO") payable by employers in all sectors when they take out employees' compensation insurance policies for their employees. In other words, public vehicle owners without hiring any employees of their own need not pay the levy under ECILO since no employees' compensation insurance would be involved.

9. The Fund has accumulated a surplus of \$1.1 billion as at end March 2019. As regards the suggestion on whether to suspend the levy payment or reduce the levy rate, the Government considers it appropriate and necessary to continue with the existing levy arrangement. Suspension of levy payment or reduction of the levy rate is not an appropriate or feasible option having considered its far-reaching impact on the financial position of the Fund, in particular amid the current volatile economic environment which could already have negative repercussion on the levy income. Therefore, maintaining the current level of levy rate is of utmost importance to ensuring the financial sustainability of the Fund in order for it to continue to serve as the safety net to protect the interests of all employees in Hong Kong.

(e) Suspension or reduction of levy under the First Fund and Insolvency Fund

10. According to section 4 of the Motor Vehicles Insurance (Third Party Risks) Ordinance (Cap. 272), any person to use, or to cause or permit any other person to use, a motor vehicle on a road must have an effective policy of insurance which insures such person in respect of any liability which may be incurred by such person

in respect of the death of or bodily injury to any person. The Motor Insurers' Bureau ("MIB") is a company established by the insurance industry, the members of which include all companies authorised to conduct motor insurance business in Hong Kong. MIB administers the First Fund and Insolvency Fund, which respectively provide compensation to victims of traffic accidents when the driver is uninsured or untraceable, or when the insurer concerned is insolvent. The two funds are financed by levies on the premiums of motor insurance policies. Since July 2012, the levy rates of the First Fund and Insolvency Fund have been maintained at 1% and 2% of the gross premiums of motor insurance policies respectively.

11. As at 31 December 2019, the net assets of the First Fund and the Insolvency Fund were HK \$400 million and HK \$2,820 million respectively. The total levies collected during the period between 2015 and 2019 are provided in the table below. The IA stands ready to liaise with the MIB to discuss the feasibility of suspending the levies or reducing the levy rates if necessary. Factors to be considered in the process include sustainability of the funds and ensuring that the funds can continue to serve as safety nets.

Total levies collected from 2015 – 2019 (HK \$'000)					
Year	2015	2016	2017	2018	2019
First Fund	40,177	40,369	41,841	42,233	45,141
Insolvency Fund	80,475	80,739	81,355	84,452	90,281

(f) Cross-boundary vehicle insurance

12. Guangdong and Hong Kong cross-boundary coach, hire car and goods vehicle operators must procure statutory motor insurance for relevant vehicles in both jurisdictions in accordance with the laws and regulations of Hong Kong and the Mainland, including the "Motor Vehicles Insurance (Third Party Risks)" of Hong Kong and the "Mandatory Traffic Accident Liability Insurance for Motor Vehicles" of the Mainland, before such vehicles can be issued with relevant licences for usage of such vehicles on the road and provision of services. In addition, Hong Kong and Macao cross-boundary coach and hire car operators are also required to procure the Macao's "Compulsory Motor Vehicle Third Party Insurance" in order to provide relevant services.

13. The IA has maintained close contact with the insurance industry, with a view to facilitating vehicle owners who use the Hong Kong-Zhuhai-Macao Bridge to purchase motor insurance conveniently and developing products with short tenor. The IA understands that there are individual insurance companies which provide consumers with cross-boundary motor insurance products with tenor ranging from seven days to one year.

Members' Recommendations

(a) Establishment of a database on traffic accidents and claims

14. The Government notes that the trade intends to establish a database on traffic accidents and claims involving taxis on its own initiative to facilitate taxi dealers or owners to identify drivers with bad driving records, which in turn helps reduce risks of traffic accidents. The IA considers the establishment of such database would facilitate taxi owners to provide information on traffic accidents or claims of individual drivers to insurance companies when taking out insurance, thereby enabling insurance companies to more accurately assess the risks involved. Since the relevant database is expected to store personal data of individual drivers, such as taxi driver identity plates, prosecutions against taxi drivers involved in traffic offences and information on convictions (including records under the Driving-offence Points System), the trade must be cautious about the collection, storage, access and transfer of personal data to a third party to ensure that the use of the database complies with the Personal Data (Privacy) Ordinance (Cap. 486) and other relevant legislations.

(b) Procurement of third party insurance by taxi drivers

15. According to the Motor Vehicles Insurance (Third Party Risks) Ordinance (Cap. 272), any person to use, or to cause or permit any other person to use, a motor vehicle on a road must have in force in relation to the use of the vehicle by that person or that other person, as the case may be, such a policy of insurance or such a security in respect of third party risks as complies with the requirements of that Ordinance. In addition, regulation 21 of Road Traffic (Registration and Licensing of Vehicles) Regulations (Cap. 374E) stipulates that a registered owner who applies for licensing of a vehicle (including renewal of vehicle licence) must deliver to the TD a policy of insurance in respect of the vehicle in the name of the registered owner which is valid on the date when the licence is to become operative. Therefore, a

registered owner of taxi should have the responsibility to ensure that there is a valid policy of insurance in respect of the taxi when it is used on roads.

16. There is suggestion of requiring taxi drivers (but not taxi owners) to procure third party insurance. At present, taxi drivers do not necessarily rent the same vehicle regularly and many of them provide services as part-time or replacement drivers. Requiring each taxi driver to procure a third party insurance on his/her own may affect the flexibility of taxi operation and also discourage newcomers from joining the taxi industry. It may aggravate the problem of manpower shortage in the taxi trade, which is not conducive to the sustainable development of the trade. Furthermore, since the legislation concerned involves requirements for all vehicles in the territory, requiring drivers (but not vehicle owners) to procure third party insurance would bring significant impact and change to the transport sector as a whole (e.g. PLBs, resident buses, tour buses, etc.). The Government has no intention to amend the existing statutory arrangements for the time being.

(c) Provision of concessionary insurance premiums for taxis and PLBs that are installed with devices to prevent and monitor traffic accidents

17. TD is open-minded about innovation and technologies that could effectively improve road and driving safety, and welcomes the introduction of advanced driver assistance systems by vehicle manufacturers for various classes of vehicles. TD has already approved a number of vehicles to install driver assistance systems, such as Anti-collision Warning, Lane Keeping Warning, Blind Spot Warning, Electronic Stability Control, Automatic Emergency Braking System, etc., with a view to enhancing driving and road safety. TD understands that currently quite a few of taxis and PLBs are already installed with dash cameras to record traffic conditions, which may help clarify the related liability issues in case of a traffic accident.

18. According to the understanding of the IA, the insurance industry considers that measures such as encouraging vehicle owners to hire drivers with good driving record and installing dash cameras can reduce the chance of traffic accidents and claims amount at source, which may in turn help to reduce the insurance premiums.

Advice Sought

19. Members are invited to note the content of this paper.

Transport and Housing Bureau
Financial Services and the Treasury Bureau
Transport Department
Labour Department
Insurance Authority
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