



## **PHASED LIBERALISATION OF THE GENERAL INSURANCE INDUSTRY IN MALAYSIA**

### **TOP 10 THINGS THAT YOU SHOULD KNOW ABOUT THE IMPLEMENTATION OF PHASED LIBERALISATION OF MOTOR AND FIRE TARIFFS**

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Motor and Fire insurance are mandatory insurance protection and accounts for close to two-thirds, i.e. 66% of the total general insurance market in 2015.

For the past three decades, the premiums which insurance companies can charge consumers have been regulated by a tariff structure. For motor insurance, this has resulted in a growing gap between premiums collected and claims paid out by the insurers. This has led to the Motor Third Party business becoming unsustainable.

To ensure that motor insurance cover continue to be made available and accessible to motorists, The New Motor Cover Framework (the Framework) was implemented in 2012 and saw four rounds of gradual upward adjustments from 2012 to 2015. The Framework also paves the way for phased liberalization of Motor Tariff in 2016. On the other hand, the Fire Tariff was revised three times from 1992 to 2000.

In March 2016, Bank Negara Malaysia announced the Phased Liberalisation of the Motor and Fire Tariffs before transitioning to a fully liberalized market

Here are top ten things that you should know when purchasing or renewing your new Motor and Fire insurance coverage starting 1 July 2016.

### **1. What is an Insurance tariff?**

Tariffs are fixed price lists that determine the premium rates which insurance companies can charge consumers for insurance products sold by them.

Examples of these are Motor and Fire insurance policies. When premiums are tariffed, insurance companies are not allowed to vary the prices chargeable on an insurance policy.

### **2. What does liberalisation of the tariff means?**

Liberalisation of the tariff means removing the tariff structure or freeing up the fixed premium rates so that insurance companies are able to charge premiums that commensurate or correspond to the risk behavior of the consumers.

This also implies that different insurance companies can charge different rates for the same risk behavior based on their business risks models and strategies.

### **3. Why do we need to liberalised the tariff now?**

The liberalisation of the tariffs is a continuation of the Framework established in paving the way for the pricing of motor and fire insurance protection which is more reflective of risks behaviour of the consumers.

### **4. What is Phased Liberalisation of Motor and Fire Tariffs?**

The Phased Liberalisation of the Motor and Fire Tariffs provides for the removal of tariffs through a phased approach.

In this new environment, the insurance and takaful industry will have the flexibility to offer motor and fire products with new features at market-based pricing which is based on the risk behavior of the policyholders.

## **5. When and how will it be implemented?**

The Phased Liberalisation of the Motor and Fire Tariffs will be implemented in a phased approach to allow time for consumers and industry to adjust to the new operating environment.

In the first phase, starting 1 July 2016, insurers will progressively offer new products to the consumers at market rates. Existing Motor Third Party product and Motor Comprehensive and Motor Third Party Fire and Theft product will continue to be made available.

A year later, premium rates for Motor Comprehensive and Motor Third Party Fire and Theft product will be liberalised.

In parallel, a more gradual upward adjustment similar in quantum to the adjustments of tariff made from 2012 to 2015 under the Framework will be made for some vehicle classes under Motor Third Party cover which remain substantially under-priced (for every ringgit of premium received, insurers and takaful operators are paying between RM1.30 to RM3.00 in claims). This is to avoid sharp upward premium rates adjustments if this class of coverage is immediately liberalised.

To allow insurers time to rebalance their portfolios gradually, premium rates for Fire class will continue to be regulated under the tariff with gradual downward adjustments until a review is made in 2019.

The progress of liberalization will be reviewed in 2019 with an assessment of the impact on consumers and industry before full liberalization takes place.

## 6. What are the expected outcome?

- Adoption of risk-based pricing will allow premiums to be priced according to differentiated risk profiles of the consumers
- Competition will encourage insurers to innovate and offer a wider range of motor and fire products to cater for different consumer needs and preferences.
- This will also drive insurers to improve operational efficiency to enhance service level to consumers such as adoption of diversified and cost-effective distribution channels which allow consumers to access motor and fire products through their preferred distribution channels.
- Increase professionalism among agents to provide quality advice to consumers.
- In conclusions, consumers will not only benefit from having greater product choice, higher service level and improved accessibility of coverage but to benefit from vary coverage limits which is customised to match individual risk profiles.

## 7. What are the benefits to the consumers?

As a consumer, you can expect a wider range of motor and fire insurance products to cater for your lifestyle needs, along with preferred channels to purchase Motor and Fire insurance protection and higher quality of services provided by agents.

Premium charged on products will also vary from one insurance company to another based on their business risks models and strategies.

Over time, it is expected that premium rates for both motor and fire insurance will adjust and align to the underlying risk, thus allowing vehicle owners and property owners with low risk profiles to be charged lower premium rates.

**8. What should I be looking for when buying my insurance cover in a liberalised market?**

Motor and Fire insurance are mandatory insurance protection. Due to the nature of how these insurance are bought, in general, consumers lacks the understanding and awareness on motor and fire insurance coverage.

Consumers should ensure that his/her risks are adequately protected. Price should not be the determining factor when purchasing an insurance protection. Customer service standards, claims handling and the track record of insurers are some of the important considerations. It is important for consumers to shop around and compare for appropriate covers and premium rates, and this should be done early before your policy expires.

**9. Is the insurance industry ready for liberalisation?**

Discussions on liberalisation between the industry and Bank Negara Malaysia had taken place since 2013. Various measures have been taken at individual company level with lead time provided to allow all insurers to build internal capabilities and formulate their marketing activities based on their business models.

In addition, the Phased Liberalisation of the Motor and Fire Tariffs will be implemented in a phased approach which will allow time for industry to adjust to the new operating environment.

**10. Where can I go to find out more about liberalisation?**

For further information on the Phased Liberalization of the Motor and Fire Tariffs and its development, members of the public should access the PIAM website at [www.piam.org.my](http://www.piam.org.my)