Detariffication Experience in Asia

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Premium rates for motor and fire insurance are regulated or tariffied in several countries. In a tariffied regime, premiums rates are controlled, usually for reasons of public policy. Conversely, on the other hand, once detariffied, insurers will be free to charge premiums as they see fit. This will result to different premium rates in the market.

The detariffied premiums are seen to introduce fairer pricing. Hence, from a uniform pricing, motor insurance pricing will take into consideration the risk profile of the policyholder. This risk profile would include such factors as the gender of the driver, claims history, history of traffic offenses and others. The higher the risk, the higher premiums. In other words, it will be a risk-based pricing. Detariffication would also imply stiffer competition amongst insurers on the level of pricing. Detariffication is also called liberalization.

While the initial competition will involve pricing, it will eventually involve the products being offered. In the end, it is the consumers that will benefit.

Under-pricing and Other Adverse Effects

Indeed, an adverse effect of detariffication is the under-pricing of insurance premiums which could affect the companies' capital standing. In India, it was observed that the profitability growth of property insurance deteriorated as insurers offered deep discounts to capture business. The premiums of fire policies had declined dramatically due to free pricing. Consequently, there was negative premium growth for fire insurance in the first year of detariffication. Price competition between the companies had also reduced the premium growth rate from 60% in 2007 to 20% in 2008. There was intense competition to win market share.

Subsequently, the growth returned to normal when adjustments were made. According to Kamaludin Ahmad of Etiqa Insurance, companies in a detariffied environment will also work towards strengthening its distribution channels, product development, brand building, actuarial capability, and customer service as well as concentrate on claims management, asset quality, and cost containment.

As stated by RHB Research analyst Kong Ho Meng, “the risk of the industry under-pricing will be mitigated by applying premium bands, improving underwriting standards and enforcement of strict capital buffering requirements. We think the premium band is essentially a form of restricted deviation on premium change for motor and fire insurance products. Hence, insurance players should not under-price a product if it bears a high loss ratio and places a heavy strain on its capital adequacy ratio (CAR).”

It was also observed that the removal of the tariff structure will also be good for online insurance. According to Tune Ins CEO Peter Miller, “the first products that often move online are car or fire insurance. When it is time for renewal in a non-tariffied market, consumers would go online and compare the prices of different companies.”

Whether such will also be applicable to the Philippines remains to be seen.

Chinese Experience

Let us take a look at China which had an interesting experience in detariffication. After joining the World Trade Organization in 2001, it had originally detariffied motor insurance in 2003. However, after three years of detariffication, it re-introduced tariffs again in 2006. It appears that the Chinese market was not fully prepared for detariffication in 2003. The regulatory environment was not prepared. It had inadequate focus on risk management and actuarial controls. It had no RBC system in place.

The Chinese insurance market fell into severe competition and rates fell to nearly half of the tariff rate. Motor premiums had comprised more half of the total premiums in the market and over 80% of the portfolio for some of the smaller companies. The sharp rate drop lead to major solvency concerns for the industry, especially for the smaller players that rely on their motor insurance sales to meet operating cash flow. Subsequently, when safeguards were already in place, it re-introduced detariffication in 2016 on all lines except motor insurance. China therefore is only partly detariffied.

Incidentally, this was the same experience of India when it detariffied on January 1, 2007. Aviation, personal accident, health cargo and some liability insurance were first detariffied in 1994. Fire insurance and motor insurance were then de-tariffed in 2007 except motor third party liability. India is also only partly detariffied.

Malaysian Experience

The latest Asian jurisdiction to adopt detariffication is Malaysia. In 2017, Malaysia, through Bank Negara Malaysia, completed the detariffication of motor and fire insurance. It covered both the regular and takaful insurance. The detariffication was implemented in phases. Phase 1 took place on July 1, 2016 which was a partial detariffication. Phase 2 was implemented on July 1, 2017 when full detariffication was effected.

Previously, the New Motor Cover Framework of Malaysia issued in 2012, which provides for the tariff structure, has been adjusted upwards four times from 2012 to 2015. The Fire Tariff was adjusted three times from 1992 to 2000.

On March 2016, Bank Negara Malaysia adopted the “Phased Liberalisation of the Motor and Fire Tariffs” with the end in view of having a fully liberalized market. Discussions on detariffication in Malaysia started as early as 2013.

Other Asian Countries

Cambodia and Thailand are still tariffied. But in Thailand, tariffs, though existing in regulation, are not strictly applied.

There are other Asian countries and jurisdictions that have fully detariffied. This would include Hong Kong, Indonesia, and Singapore.

There are other jurisdictions that have only partly detariffied. This would include Vietnam where tariffs have been removed except on obligatory insurance lines such as motor third party liability, aviation passenger insurance, fire and explosion insurance.

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