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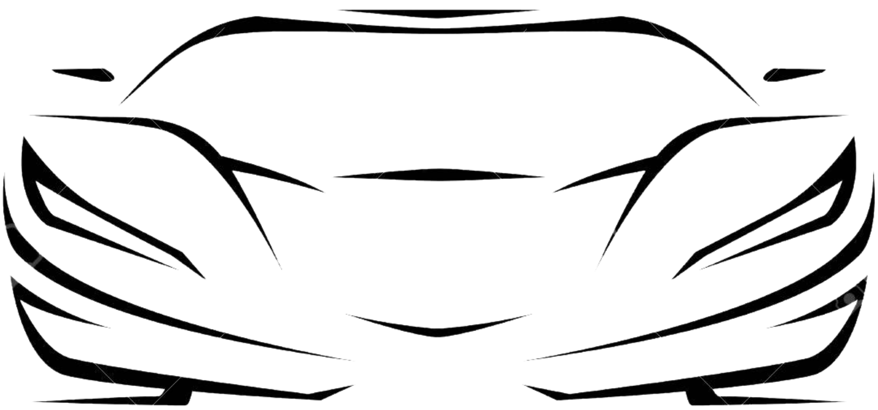
INSURANCE MONITOR



PART 1: Impact of Unified Motor Policy 2017

(Managing Motor Profitability Series)

Background
Impact of Unified Motor Policy
2017: 'Lower than expected' losses
Motor Insurance Outlook FY 2018

IN ASSOCIATION WITH **BADRI MANAGEMENT CONSULTANCY**

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The minimum premium differential introduced under the Unified Motor Policy 2017 was quite significant from ~AED 450 to AED 750 for a four-cylinder saloon.

Background

'"If the average turnaround time to repair a vehicle is five days and the day rate for rental cars is AED 200, the additional cost adds up to about AED 1,000." Such were common discussions between the motor underwriters, claim managers and actuaries in October 2016. The Insurance Authority had issued the draft Unified Motor Policy and approached all insurers to provide rates from actuaries. The conservative nature of actuaries and historical loss-making records of third-party motor insurance policies, the tariffs filed by the insurers were relatively high compared to the then existing rates.

Thereafter, new minimum and maximum tariffs had been prescribed by the Insurance Authority in January 2017 with additional benefits. The minimum premium differential was quite significant; for instance, minimum premium for a four-cylinder saloon increased from ~AED 450 to AED 750 and from ~AED 900 to AED 1,300 for third-party cover and comprehensive cover respectively.

The key changes in benefits for the Third-Party component of the policy included:

- Replacement vehicle for accident victims for up to 10 days or maximum daily allowance of AED 300;
- Agency repair for the first year following the registration date for third-party vehicles;
- Replacement of certain spare parts damaged by the accident with new parts without deduction of depreciation;
- Coverage of the following as affected (third parties) for the purposes of personal accident: family of the insured party or vehicle driver, driver of vehicle designated to rental, driver of vehicle designated to public transport, driver of vehicle designated to driving teaching;
- Complete write-off of vehicles where the chassis is damaged irreparably;
- Higher cover for damage to property at a maximum of AED 2.0mn i.e. eight times the previous liability limit (AED 250k);
- Cancellation of extra charge of AED 50 as extra premium for ambulance fees;
- New rates to include administrative/issuance fees of insurers; and
- Issuance of a decision from the competent authority in the UAE in the event of natural disasters.

In addition to the above benefits that automatically applied for the third-party component of comprehensive cover, the following were key changes:

- Restriction from denying insurance or reducing indemnity on grounds of age, gender, or otherwise (also applies to fleet); and
- Specification of maximum deductible.

This report provides an overview of the impact of the Unified Motor Policy and contributory factors that supported insurer profitability in FY 2017 along with an actuary's point of view on the outlook of motor insurance in UAE for FY 2018.

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The cost of motor insurance in the UAE is said to have surged by as much as 30-40% in FY 2017 while loss ratios were seen to drop to roughly 65-75% from 80-90% in FY 2016.

Impact of Unified Motor Policy

Top line growth

Following the introduction of the Unified Motor Policy from 1 January 2017, insurers were broadly seen as:

- **risk takers** who captured market share by offering minimum tariffs; or
- **risk averse** who offered rates starting with the median or 75th percentile or even the maximum tariff in some vehicle categories.

Towards the end of Q1 2017, the former had exceeded their budgets by large margins while the latter were down in terms of policy count but content that the top line was maintained with modest growth and lower exposure. As the year progressed some risk averse insurers were seen to reduce prices slightly and offered lower rates to certain segments.

On average, the cost of motor insurance in the UAE is said to have surged by as much as 30-40 percent in FY 2017 while owners of lower valued vehicles buying third-party and comprehensive insurance were hit the hardest, due to the increase in minimum premium.

FY 2017 was the second year when detailed mid-year pricing reviews on motor insurance were undertaken as a regulatory requirement. Unlike other regimes where insurers have to use actuarial pricing as a minimum, in the UAE insurers have flexibility with pricing. While bi-annual actuarial pricing reviews are undertaken, decision-making in terms of pricing remains with insurers, who are monitored and also held accountable. This flexibility enables healthy competition where underwriters can target niche segments without limitations on rates provided in the actuarial pricing report.

Towards the end of FY 2017, insurers were increasingly seen to shift away from unit or flat rates to factor-based pricing that would help them to target certain profitable segments.

Claims experience

As the year progressed, the actual claims were seen to be 'lower than expected'. Actuarial pricing reviews undertaken for FY 2017 indicate that motor loss ratios dropped to roughly 65-75% from 80-90% in FY 2016 where combined ratios of some insurers exceeded 100%.

Here are some reasons that explain the 'lower than expected' loss ratios in FY 2017.

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Role of the Federal Traffic Council: Increased road awareness, new traffic law with effect from 1 July 2017 and decrease in the number of road accidents in 2017 were key contributory factors to lower loss ratios in 2017.

2017: 'Lower than expected' losses (1/2)

Apart from higher tariffs, the following factors were active contributors to improving loss ratios for motor insurers in FY 2017:

Role of the Federal Traffic Council: increased road safety awareness, new traffic law with effect from 1 July 2017 and decrease in the number of road accidents in 2017

2017 Road accidents statistics

- Decrease in number of road fatalities due to speeding from 1,787 accidents in 2016 to 1,535 accidents in 2017;
- Decrease in the total number of deaths from 706 deaths (2016) to 525 in 2017 of which 312 (44%) and 230 (44%) occurred as a result of speeding respectively; and
- Reduction in speed violations from 8.61 million in 2016 to 7.727 million in 2017 across the country (11% decrease).

Dubai target: Zero road casualty per 100,000 residents by 2020
UAE Federal target: Reduce road casualty to 3 per 100,000 population by 2021 and zero by 2030, down from the current record of 6.1 deaths per 100,000 people
Wearing seatbelts reduces fatalities and injuries by 45-60%

Source: Khaleej Times, filed on January 3, 2018

The new traffic law introduced measures to reduce traffic casualties from about 6 per 100,000 people (2016) to 3 per 100,000 by 2021.

TABLE 1: Key controls under 2017 new traffic law

Company	Vehicle seizure	Fine	Black points	Other
Exceeding speed limit by 80kmph	60 days	AED 3,000	23 black points	
Reckless driving, blocking traffic, jumping red signals and sudden swerving	60 days	AED 2,000	23 black points	
Ignoring traffic signals	30 days	AED 1,000	12 black points	
Driving under the influence of drugs/ alcohol				License confiscation for 1 year
Avoidance of seat belts		AED 400	4 black points	
Use of cell phones when driving		AED 400	4 black points	
New license validity over 21 years of age				2 years
New license validity under 21 years of age				1 year

Source: https://government.ae/en/information-and-services/justice-safety-and-the-law/road-safety

Other initiatives: several other initiatives and traffic awareness campaigns were rolled out to reduce road fatalities, including reducing the speed limit to 110kph on two major roads in Dubai that were found to be hotspots for accidents and collisions.

2017: 'Lower than expected' losses (2/2)

Transition phase for unexpired risks of FY 2016, favourable weather conditions and poor awareness of additional policy benefits are other factors that improved insurer loss ratios in FY 2017.

Transition phase for policy benefits in the first year of application:

It can be said that FY 2017 witnessed a partial impact of the new motor tariffs, where unexpired policies issued in FY 2016 are not affected, but extensions and/or new policies issued in FY 2017 complied with the new rules.

Many of the new benefits under the Unified Motor Insurance Policies relate to third parties or the affected party. In many instances, either the party at fault or the affected party had not yet renewed as per the new policy benefits and as such the new benefits did not apply.

All insured parties are expected to have fully transitioned to the new motor benefits policy that will apply uniformly from 1/1/2018.

Natural factors – rain and fog:

Weather is an important factor that influences traffic incidents. In hindsight, loss ratios in FY 2015 and FY 2016 were unfavourably impacted due to weather conditions that included days of thick fog with drastically low visibility and heavy rains where a significant number of vehicles were involved in mass accidents or damaged by flooding. The occurrence/ impact of unfavourable weather conditions was less severe in FY 2017 with no major accident days due to fog and rain. As such, natural factors may also have improved loss ratios for insurers.

Poor awareness of additional benefits or hesitation to claim:

While repeated media announcements on the new motor pricing and associated benefits were common in the first half of 2017, accident victims were generally seen as hesitant to claim replacement vehicles. Poor awareness of additional benefits, fear of associated costs and inconvenience to claim may be some of the reasons for avoidance.

Motor Insurance Outlook FY 2018

Motor loss ratios expected to continue on the lower side in FY 2018.

Competition to force reduction in rates

Moving forward into FY 2018, we expect competition to force prices down again. Feedback on breach of minimum thresholds by insurers has not been uncommon. The Insurance Authority has permitted some flexibility on rates in Q1 2018 in terms of no claims discount for retail customers (up to 30% off for three accident-free years) and additional discounts (up to 10%) to loyal customers. The discounts are specified as a percentage of the minimum premium and for no claim discounts can apply where the driver had not caused the accident.

The definition of 'loyal' remains open and could mean a long-standing renewing customer or customers who purchase other insurance covers such as medical or travel from the same insurer. There is room for innovation here and insurers can come up with unique definitions to attract customers. The no claims discount remains within the discretion of the insurer.

Lower motor loss ratios is likely to be maintained in FY 2018

It is expected that motor loss ratios will continue on the lower side in FY 2018 as all insured parties fully transition to the new motor benefits policy from 1/1/2018 at higher minimum premiums. Note: loss ratios for FY 2017 in the range of 65-75% were subject to an element of FY 2016 lower pricing on unexpired risks.

Stringent controls based on the new 2017 traffic law and greater awareness of road safety in FY 2018 will also play an important role in maintaining loss ratios of insurers.

An increase in loss ratios is probable in FY 2019 as insurers start lowering rates during FY 2018 to remain competitive and consumers become more aware of policy benefits. Market discipline will be key in maintaining healthy profits for insurers going forward.

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