

Malaysia: risk of road accident and motor insurance



Risk is to describe any condition where there is uncertainty about what outcome will occur. Risk is costly and our life is full of risk. Therefore, risk management is important to minimize the cost of risk. There are many ways to reduce the cost of risk; the most common way is through insurance.

Insurance is a hedging instrument which is being used to manage the risks of any individual or business would face.

The following discussion will be based on four newspaper articles to discuss about the risk of road accident, and motor insurance in Malaysia.

The first article with the headline “ Young and reckless” is refer to an analyses of the road accident statistic and dilemma of road accident in Malaysia. Whereas the second article with the headline “ Miro: Male drivers tend to take chances” is refers to an analyses of the traits of male and female that will influence their driving behavior. Next, the article with headline “ New motor cover framework to take off in 2012” discusses about the adjustment of motor insurance premium, and receiving better service once the new motor cover framework begins next year. Lastly, the article with the headline “ Bank Negara urged to act against errant insurance companies” talks about the ethical issue among insurance agents, and Bank Negara Malaysia (BNM) urged to rein in insurance companies that compel excessive third-party charges.

Generally, road accident is a personal risk, individual may face the risk of a loss in the value of the physical assets include automobile (Harrington, 2003). This personal risk is called physical asset risk. On the other hand, road accident can categorized as business risk. For commercial vehicle,

company may need to bear risk of legal liability (e. g. damage for harm to public transport users), risk of worker injury (e. g. compensation pay for company's drivers). Both risk of legal liability and worker injury are pure risk. Commonly, liability risk and pure risk have large potential losses. Hence, individual or business will reduce this uncertainty by seeking the advice from financial advisors or purchasing contracts from insurance companies.

In Malaysia, there is average of 3.55 deaths per 10,000 registered vehicles in year 2009 (Official Website of Malaysian Institution of Road Safety Research, 2009). Of these figure, those aged 16 to 25 years old are the most vulnerable road users in Malaysia. There is 26.88% (1813) accounted for fatalities, 27.35% (2249) in serious injuries, 27.35% (4328) in minor injuries, and 26.71% (8390) of crashes under this age group in year 2009 (Bedi, 2011).

For the fatal rate mention above, there are 92% involving motorcyclists, and the 35.15% (336) is the novice riders. While for car crash leading to fatalities, 50.62% (82) is novice riders. Novice riders are those riders obtained their license less than five years.

From here, we can see that the road traffic accident rate in Malaysia is high. Therefore, Malaysian law requires every vehicle owners to have a motor insurance policy. This enforcement is crucial to ensure the car owner has enough liability to pay for damage or compensate to third party.

Basically, there are three basic types of Malaysia motor insurance policies. The most common type is comprehensive policy. This policy provides the widest coverage which includes third party bodily injury and death, property <https://assignbuster.com/malaysia-risk-of-road-accident-and-motor-insurance/>

loss, and damage to the policy holder's vehicle due to accidental fire, theft or an accident (Expat. com. my, 2011). There are others two type of coverage which are third party policy, and third party, fire and theft policy. Third party policy includes claims for third party bodily injury or death, and damage to their property caused by the policyholder's vehicle. While the third party, fire and theft policy is extended to fire and theft cover which are not included in third party cover.

As mention before, teenagers are the most vulnerable road users in Malaysia. Therefore, teenagers will be charged a higher insurance premium, which is around 10% to 15%, by insurance company. Some of the insurance company will set a compulsory excess towards policyholders' claimant, instead of charge them a higher premium. Compulsory excess is the first amount that must be contributed by the policyholders towards each claim (normally around RM500). There are also some insurance companies refuse to offer the motor insurance for teenagers.

Besides, the road traffic accident rate has increased from year to year. From year 2002 to year 2009, the car accident rate has increased 34. 74%, whereas the motor accident rate has increased 18. 61%. Greater risk implies greater excepted loss, increasing the cost of risk. Therefore, BNM announced that the premium insurance motor insurance will increase over the next four years. This adjustment is reasonable because the increase of premium should come together with the significant increase in the level of car ownership, accident rate and claims. Insurers will only sell coverage if the premium received is sufficient to fund their expected claim costs and

administrative cost, and able to provide insurers with a fair return on their capital investment.

Also, Bank Negara said that the new framework would involve immediate implementation of critical measures to enhance efficiency in claims settlement (The Star Online, 2011). This enhancement is expected to reduce the claim settlement period from one to five years to six to 18 months. Such enhancement will increase the administrative cost of insurance, thus, increase the insurance premium.

In another viewpoint, male drivers are approximately 2.4 times more likely to crash than female drivers in year 2009. According to Malaysian Institution of Road Safety Research (MIROS), there are 244,336 cases of crashes involving male drivers, whereas 103,153 cases with female drivers in Malaysia, year 2009 (Kong, 2011). However, compare with year 2006, female drivers who involve in crashes has increased 97.74%. That is almost double up from year 2006 to 2009. For male drivers who involve in crashes has increased 67.93% from year 2006 to 2009.

According to research done by MIROS, different traits between men and women will influence their driving behavior. Generally, women are multi-tasker, so they tend to slip ups while driving as driving requires action and reaction. Also, female are more likely to have an accident due to slip-ups in spatial perception, such as when pulling out of a junction. On the other hand, male driver have a better psychomotor skill, making them highly confident, hence they tend to drive at high speed and drive dangerously.

Therefore, an issue arises regarding whether gender should take into consideration as a rating factor for motor insurance or not. In overseas, there are some countries, such as UK, consider gender as the rating factor when determining the price of insurance. However, in Malaysia, gender does not take into consideration as one of the rating factors for motor insurance.

In general, gender should be taken as a rating factor for motor insurance as there is a significant difference between male and female in their accident risk. The unisex pricing actually is not beneficial to female drivers as they have to pay the same premium with male drivers although they have a lower risk.

Also, claim severity for male drivers is higher compared with female drivers due to the different traits between male and female. For instance, poor spatial ability of female drivers may lead them to claim for some minor scratches, while male drivers tend to be involved in major accidents (Association of British Insurers, 2010).

In addition, unisex pricing will change the demand of consumers because the lower risk gender tends to buy less insurance cover, whereas the higher risk gender tends to buy more insurance cover. However, this situation does not clearly exist in Malaysia as not every Malaysian is well aware of this problem.

In contrast, it is not easy to apply gender as a rating factor in motor insurance. This is because it makes the determination of insurance pricing become complicated as the interaction factor between age, gender and vehicle types for drivers need to be counted into the pricing model. Moreover,

the accident rate of female drivers is increasing rapidly compare with male drivers.

Ethical issue of insurance agents is one of the significant issues in insurance industry. The existence of dishonest insurance agents not only will harm the insured but also will spoil the reputation of insurance companies. Since year 2009, BNM had received at least 37 complain that errant companies compel excessive third-party charges. There are some insurance agents who forced the vehicle owners to buy additional coverage, including personal accident and car passengers before they were allowed to purchase the third-party insurance (The Star Online, 2011). The dishonorable behavior of insurance agents may lead the public to not believe in taking up insurance to avoid from being cheated by insurance company to invest in unnecessary insurance coverage. BNM has been urged to rein those dishonest insurance agents and report it to authority.

CONCLUSION

In a nutshell, road traffic accident has been increasing from year to year and public should be made aware of the important of risk management in order to help them reduce their liability. The vehicle owners must at least obtain a minimal knowledge about the motor insurance to avoid exorbitant charge by insurance agents. Besides, the expected claim cost and administrative cost are vital determinant of insurance pricing. Hence, identify the risk that the vehicle owners' face is important to generate the relevant expected claim cost. Also, insurance companies should set a relevant premium for insured and offer reasonable service to them but not to exploit them as a tool to generate profit.

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