Relation to current practice in industry malaysia economics essay

Economics

Every contract will included Contractual Provision. Contractual Provision is the insurance company limit the coverage of the insurance policy. In another words actually there don't have full coverage because Contractual Provision included there are several scope of coverage included: deductible, co-insurance, policy limits, exclusions. Deductible which mean the money that you have to pay yourself or we also can call it as the money u take out from your own pocket. The reason policies have deductible is trying to reduce the small claims from the policy holder. If the claim amount is too small, the processing cost will even higher than the cost you want to claim. Hence, the insurance company will try to avoid the losses by using the deductible. The popular product we can found deductible which is health insurance plan. Other than health insurance actually we can found deductible from the products automobile insurance and medical insurance also. For example you bought an automobile insurance the deductible amount is RM500. Therefore when any accident lost happen on your car which is less than RM500 you have to pay it by your own pocket money but if your accident lost is more than RM500 which is RM700 so the remaining RM200 lost will be covered by the insurance company. Coinsurance which means the insurance company requires the policy holder pay a specified proportion of the loss. Coinsurance is same concept with deductible but coinsurance is paying the amount according to a specific percentage in the total loss. Some of the company will name it as copayment. The different between the copayment and coinsurance were the copayment normally is a fixed while the coinsurance is count in percentage. Normally we can see coinsurance in health insurance, property insurance and also employer's liability insurance. For example when you own a property, one day the property cause fire and get a huge losses so the insurance company will required the insured pay 20% of the losses and the remaining 80% covered by the insurance company. Every company also has the policy limit to each plan. Policy limit is the maximum amount the insurance company will compensate. It always used for liability insurance policies. But we also can normally found it on crime insurance, property insurance and etc. For example the homeowner keep his luxury watch at home, if there is any thief have stolen his watch, the insurance company very hard to determine the compensate amount of the watch. Normally insurance company have a policy limit for certain product and the company only will compensate a certain amount for fixed. There is exclusion for every insurance company with every different product. For example the usual exclusion clause which is the car insurance policy if the policy holder (driver) who drink over the legal alcohol limit set by the government and cause any accident the insurance company will not compensate or accept any claim from the policy holder because the driver has offense the rules of driving and there is an exclusion for the policy. There also a reliance on exclusion clauses. For example if you smoke on your bed and this reason because the fire happened, the fire caused is a breach of your policy. But if the fire was caused by the electricity it may not consider as a breach. According to the insurance exclusion of the life insurance normally is when the insured person commits suicide within the first two years after the policy or having certain dangerous activities for example motor-car racing, skydiving, flying fox, flying other than with a regular scheduled airline, hangliding, scuba diving and war is an exclusions. We got example of the insurance company which is some main exclusions will not be coverage in the plan which is the pre-existing illness for example you try to conceal your illness when u buy the insurance plan, specific illness occurring within the first 120days from the risk effective date, any medical or physical conditions arising within the first 30days from the risk effective date, plastic surgery, war, suicide, eyes examination, dental conditions, AIDS, drug, private nursing, pregnancy, childbirth, ionizing radiation and contamination, mental or nervous disorders, psychotic, donation of body organ, sex change, sickness or injury arising from racing of any kind (except foot racing), hazardous sport, any accident caused by mosquito bites.

Pricing Policy

When we talk about the pricing policy, we talk about how we price for the deductible. Therefore pick a right plan for yourself is very important. Many people will tempting to find a policy with a lowest monthly premium, but at the same time the policy have a highest deductibles too. When you have a high deductible you have to stand by a bunch of money if anything occur. So when we choose a insurance policy we have to make a smart choice make decision based on the health and financial disaster that you might be faced. According to the AXA company they provided a SmartCare Optimum which is health insurance, you can choose to buy the deductible option when you pay the first RM7, 500, RM10, 000, RM15, 000 or RM20, 000 of your hospitalization bills. They no need you to declare the health status if you decide convert the Deductible policy to Non-deductible policy subject to follow conditions: Insured’s age next birthday is 59 or below, The coverage for the insured has been enforced for at least 2 continuous policy years, Conversion is only allowed on policy renewal, Conversion is for the same plan only, Insured must submit a written request to the company, The required additional premium must be paid, Any existing loadings and/or exclusions shall continue as per the original deductible policy, One time conversion is allowed per lifetime(From the AXA website)Deductible normally decide the price depend on the insured conditions. They will be quote the deductible price by categories. For example if the insured was a heavy smoker they will categories in a group, definitely the premium of the insurance will be higher than the normal insured which do not smoke at all. Because the risk of heavy smoker occur is much higher than the normal insured which do not smoke. When you pay for the higher premium, at the same time you can pay the lower deductible. Company offered full coverage and partially coverage with deductible. The company do offered partially coverage with deductible because the insurance company were try to offered an affordable product to the insured with deductible. Not every one of the insured need and look for full coverage. Some of the insured clearly know where and what is their risk and the amount they able to bear themselves. Therefore they will look for the partially coverage because it is more affordable and cheaper compare with the full coverage. When the amount of the premium is high, the deductible of the will be lower, which mean the insurance company will compensate more if you exceed the deductible amount.

Relation to current practice in industry in Malaysia

Health Insurance

According to Insurance Act 1996, insurance companies are required to disclose and provide full and clear explanation on the following information to prospective policy owners. Policy benefits

Exclusions and limitations of benefits

Pre-existing conditionsSpecified illnessesQualifying period

Deductibles

Co-insurance

Residence overseasOverseas treatment

Circumstances in which the limitations and exclusions apply

Due to above applications, policy owners (insured person) should know that they will not receive the full payment claims as stated in policy benefits. As resulted from the applications, insurance company can reduce moral hazard problem while taking consideration of administrative cost, capital cost and adverse selection.

1. 1 Company and products

We are going to analyze the contractual provisions (deductibles, coinsurance, policy limits, and exclusions) of the following insurance company (insurer) and theirs products that are available in Malaysia.

CompanyKurniaAIAPrudentialGreat Eastern

Product/Plan

MediGuard Premier 100Excelcare Plus 150PruHealth 100GMC2-150(Information taken from respective health insurance company’s product brochure.)

1. 2 Deductibles

Deductible refers to the first pre-agreed amount that the insured person will have to pay before the insurer pays the rest or balance of the eligible claim amount. CompanyKurniaAIAPrudentialGreat Eastern

Deductibles

-

-

Optional:

RM 3, 000 or

RM 10, 000

-

(Information taken from respective health insurance company’s product brochure.)In Malaysia, most insurance company does not implement deductibles in their health insurance product. However, one notable case is that certain insurance company such as Prudential allows their prospective policy owners to take an option on whether to include a deductible in their insurance policy. For example, if deductible of RM 3, 000 is selected, the insured person is required to pay the first RM 3, 000 of the losses. One of the reasons why people will chose to have a deductible policy is because the higher the deductible, the lower the premiums of the health insurance product will be. The insurer rewards by reducing the premiums charged to the policy owners who are willing to pay a small amount of deductible. Deductibles are suitable to those who are younger, healthier and who do not need much medical care and have savings, in order words, lower risk people. It is not advisable for people who are in their middles or late age, low-income earners and those who need medical care to buy deductible policy, as the deductible would be costly. Deductible help insurer to reduce moral hazard problem and adverse selection as insured person should know that they would have to pay a certain amount of losses, thus, insured person would take incentive to reduce the likely of loss such as taking more health care when insured.

1. 3 Coinsurance

Coinsurance is a cost-sharing term between the insured person and the insurer; both party have to pay a proportion of the losses. For example, if the coinsurance is 10%, the insured person is required to pay 10% of all medical cost and the insurer is required to pay rest of 90% of all medical cost subject to eligible benefits, limits, and exclusions.

Hospital & Surgical Benefit

Outpatient Treatment Benefit

Co-insuranceMinMaxMinMaxCoinsurance Free Amount

Kurnia

-

-

-

-

-

-

AIA

10%

-

RM 3, 000

-

-

RM 22, 000

Great Eastern

10%

-

RM 500

-

-

-

Prudential

10%

RM 300

RM 1, 000

-

RM 2, 000

-

(Information taken from respective health insurance company's product brochure.)In Malaysia, certain insurance company such as Kurnia does not charge coinsurance in their health insurance product. When there is no coinsurance, it is most likely the premium charged will be more expensive.

Upgrading Room and Board

The coinsurance rate may changes when you upgrade your Room and Board and so does the minimum and maximum capping amount.

Upgrade Room & Board

Co-insuranceMinMax

Kurnia

-

-

-

AIA

-

-

-

Great Eastern

20%

-

∞

Prudential

-

-

-

(Information taken from respective health insurance company's product brochure.)

Coinsurance Free Amount

Hospital & Surgical Benefit

Outpatient Treatment Benefit

Co-insuranceMinMaxMinMaxCoinsurance Free Amount

AIA

10%

-

RM 3, 000

-

-

RM 22, 000

(Information taken from respective health insurance company’s product brochure.)There is one notable term used by AIA insurance, which is the " Coinsurance Free Amount". Coinsurance Free Amount acts as a rebate to total expenses subject to co-insurance. Please refer to the example below for a better explanation of Coinsurance Free Amount." ExcelCare Plus and MediCover Plus have a co-insurance free amount. You may need to pay for certain portion of your hospitalization expenses if the cost exceeded the co-insurance free amount. Eligible expenses exceeding the co-insurance free amount are subject to a co-insurance of 90% payable by the Company and 10% payable by you. However, you will only be required to pay up to a maximum of RM 3, 000 per policy year" (AIA. Bhd, 2013)The following shows the example of medical costs of RM 26, 000 with and without Coinsurance Free Amount of RM 22, 000. With Co-insurance Free AmountWithout Co-insurance Free Amount

Total expenses incurred

RM 26, 000RM 26, 000

Co-insurance Free Amount

(borne by Company)

(RM 22, 000)

-

Total expenses subject to co-insurance

RM 4, 000RM 26, 000

Co-insurance expenses borne by Insured Person

RM400(10% of RM 4, 000)RM 2, 600(10% of RM 26, 000)

Total expense to be paid by Insured Person

RM400RM 2, 600(Information taken from respective health insurance company's product brochure.)Thus, with Coinsurance Free Amount, the insured person only requires to pay a coinsurance of a total amount of RM400 compare to RM 2, 600 without Coinsurance Free Amount.

Minimum and Maximum Coinsurance

Minimum and maximum coinsurance refers to the minimum and maximum capping coinsurance amount that the insured person has to pay when there is a losses. Most insurance company in Malaysia has maximum coinsurance capping but seldom have minimum coinsurance. The following shows the minimum and maximum coinsurance of Prudential's PruHealth 100.

Hospital & Surgical Benefit

Outpatient Treatment Benefit

Co-insuranceMinMaxMinMaxCoinsurance Free Amount

Prudential

10%

RM 300

RM 1, 000

-

RM 2, 000

-

(Information taken from respective health insurance company’s product brochure.)The following shows the example of medical costs of RM 2, 000, RM 5, 000, and RM 50, 000 subject to minimum and maximum coinsurance.

Total expenses incurred

RM 2, 000RM 5, 000RM 50, 000

Co-insurance expenses borne by Insured Person

RM 200(10% of RM 4, 000)RM 500(10% of RM 5, 000)RM 5, 000(10% of RM 50, 000)

Total expense to be paid by Insured Person

RM 300

(as minimum RM300)

RM 500

RM 1, 000

(as maximum RM1000)

Prudential Malaysia Co-insurance / Co-takaful (Zahar, 2009)Thus, for minimum coinsurance of RM 300, the total expense to be paid by insured person is RM 300 even though the coinsurance is only RM 200. On the other hand, for maximum coinsurance of RM1000, the total expense to be paid by insured person is only RM 1, 000 even though the coinsurance is RM 5, 000, which is five times the amount.

1. 4 Policy Limits

Policy limits refers to the maximum amount that the insurer will cover for your losses. Insured person shall bear the amount losses above the limits stated in the policy. KurniaAIAPrudentialGreat Eastern

Hospital Room and Board

100150100150

Intensive Care Unit

Full ReimbursementReasonable and Customary charges up toCo-insurance Free amount. Balance exceeding Co-insurance Free amountup to Annual Limit is further subject toCo-insurance. As charged, subject to coinsurance or deductible. Full Reimbursement

Medical & Surgical Procedures

As charged, subject to coinsurance.

Out-patient Cancer Treatment

RM 20, 000RM 112, 500

Out-patient Kidney Dialysis Treatment

RM 20, 000RM 80, 000

Emergency Accidental Outpatient Treatment

FullReimbursementRM 2, 000RM 1, 000RM 3, 000(No coinsurance is applicable)

Daily-Cash Allowance at Malaysian Government Hospital

5045

-

50

Overall Annual Limit

RM 150, 000RM 90, 000RM 50, 000RM 90, 000

Overall Lifetime Limit

RM 450, 000RM 200, 000RM 500, 000RM 360, 000(Information taken from respective health insurance company's product brochure.)Every insurance company has their own policy limits to protect from high claim cost and reduce classification. One noticeable difference is that the lower the overall annual limit, the higher the overall lifetime limit will be and vise-versa. Policy limits not only limit the amount of loss covered but also the number of days of hospitalization and medical treatment. Please refer to the table below for more information. KurniaAIAPrudentialGreat Eastern

Hospital Room and Board

100 days120 days120 days180 days

Intensive Care Unit

20 days120 days30 days180 days

Surgical Fees

Post-surgery care up to 60 days from date of surgery

-

-

-

Pre-Hospital Diagnostic Tests & Specialist Consultation

31 days60 days30 days60 days

In-Hospital Physician Visit

150 days240 days

-

2 visits per day

Home Nursing Care

-

-

120 days

-

Post-Hospitalization Treatment

60 days60 days90 days90 days

Prescribed Medicines

Within 150 days during hospitalization and 60 days after discharge

-

-

-

Emergency Accidental & Dental Out-Patient Treatment

Seek treatment within 24 hours and follow-up within 31 days30 days

-

30 days

Out-Patient Physiotherapy Treatment

60 days30 days

-

-

Daily-Cash Allowance at Malaysian Government Hospital

150 days120 days

-

120 days

Daily Guardian Benefit

-

120 days

-

-

(Information taken from respective health insurance company's product brochure.)

1. 5 Exclusions

Exclusion refers to the benefits and coverage that are excluded from the policy. The list of exclusions in most health insurance products is almost identical to each other. The following shows the common exclusions in most health insurance products. Common Exclusions1. Pre-existing conditions. 2. Specified Illnesses occurring during the first 120 days of continuous cover for: a. Hypertension, diabetes mellitus and cardiovascular diseaseb. All tumours, cancers, cysts, nodules, polyps, stones of the urinary system and biliary systemc. All ear, nose (including sinuses) and throat conditionsd. Hernias, haemorrhoids, fistulae, hydrocele, varicocelee. Endometriosis including disease of the reproduction systemf. Vertebro-spinal disorders (including disc) and knee conditions3. Any medical or physical conditions or any neonatal medical or physical conditions including birth trauma (a physical injury sustained by an infant during birth or the psychological shock experienced by an infant during birth) occurring within the first 30 days of the Life Assured's cover, date of reinstatement or date of birth whichever is latest, except for accidental injuries sustained other than during delivery of the Life Assured. 4. Plastic / Cosmetic surgery, circumcision, eye examination, glasses and refraction or surgical correction for nearsightedness (Radial Keratotomy) and the use or acquisition of external prosthetic appliances or devices such as artificial limbs, hearing aids, implanted pacemakers and prescriptions thereof. 5. Dental conditions including dental treatment or oral surgery except as necessitated by Accidental Injuries to sound natural teeth occurring wholly during the Period of Insurance. 6. Private nursing (save and except for Home Nursing Care Benefit), rest cures or sanitaria care, illegal drugs, intoxication, sterilisation, venereal disease and its sequelae, AIDS (Acquired Immune Deficiency Syndrome) or ARC (AIDS Related Complex) and HIV related diseases, and any communicable diseases required quarantine by law. 7. Any treatment or surgical operation for congenital abnormalities or deformities including hereditary conditions. 8. Pregnancy, child birth (including surgical delivery), miscarriage, abortion and prenatal or postnatal care and surgical, mechanical or chemical contraceptive methods of birth control or treatment pertaining to infertility. Erectile dysfunction and tests or treatment related to impotence or sterilisation. 9. Hospitalisation primarily for investigatory purposes, diagnosis, X-ray examination, general physical or medical examinations, not incidental to treatment or diagnosis of a covered Disability or any treatment which is not Medically Necessary and any preventive treatments, preventive medicines or examinations carried out by a Physician, and treatments specifically for weight reduction or gain. 10. Suicide, attempted suicide or intentionally self-inflicted injury while sane or insane. 11. War or any act of war, declared or undeclared, criminal or terrorist activities, active duty in any armed forces, direct participation in strikes, riots and civil commotion or insurrection. 12. Ionising radiation or contamination by radioactivity from any nuclear fuel or nuclear waste from process of nuclear fission or from any nuclear weapons material. 13.

Expenses incurred for donation of any body organ by the Life Assured and costs of acquisition of the organ including all costs incurred by the donor during organ transplant and its complications. 14. Investigation and treatment of sleep and snoring disorders, hormone replacement therapy and alternative therapies such as treatment, medical service or supplies, including but not limited to chiropractic services, acupuncture, acupressure, reflexology, bone setting, herbalist treatment, massage or aroma therapy or other alternative treatments. 15. Care or treatment for which payment is not required or to the extent which is payable by any other insurance or indemnity covering the Insured and Disabilities arising out of duties of employment or profession that is covered under a Workman's Compensation Insurance Contract. 16. Psychotic, mental or nervous disorders (including any neuroses and their physiological or psychosomatic manifestations). 17. Costs / expenses of services of a non-medical nature, such as television, telephones, telex services, radios or similar facilities, admission kit / pack and other ineligible nonmedical items. 18. Sickness or Injury arising from racing of any kind (except foot racing), hazardous sports such as but not limited to skydiving, water skiing, underwater activities requiring breathing apparatus, winter sports, professional sports and illegal activities. 19. Private flying other than as a fare-paying passenger in any commercial scheduled airlines licensed to carry passengers over established routes. 20. Expenses incurred for sex changes.(Information taken from respective health insurance company’s product brochure.)Insurer may excludes certain benefits and coverage to reduce administrator costs, capital costs, moral hazard and adverse selection, for example, AIA excluded benefits coverage of overseas treatment over 90 consecutive days and overseas protection of foreigners. KurniaAIAPrudentialGreat Eastern

Overseas treatment if Insured Person resides or travels outside Malaysia for more than 90 consecutive days

-

Excluded

-

-

Overseas protection if Insured is a foreigner

-

Excluded

-

-

(Information taken from respective health insurance company's product brochure.)

1. 6 Interview Session

An interview has been conducted with a Great Eastern Life Insurance agent, Mr. Lim Yong Zhuang.

1. 6. 1 Interview Case Example

Case 1- Deductible and Policy Limit

Hospitalized with room below RM200. 00.

John is hospitalized (panel hospital of Great Eastern) in injured (covered by the policy). He purchased Great Eastern Smart Medic insurance policy (medical card with room and board RM200) start from five years ago. The hospital room costs RM150 per day. The hospitalized stay does not subject to deductible for those who hold medical card and provided insured benefit up to RM200 per day. John is responsible to pay for 10% coinsurance of the hospital bills. The maximum cap of coinsurance is RM500. Hospital room cost (<180 days)RM 150. 00 per dayDeductible0. 00Insured benefit (RM 200. 00)RM135. 00John payRM 15. 00

Case 2- Deductible and Coinsurance

Surgical fees

Molly was operated (panel hospital of Great Eastern) caused by accident (covered by the policy). She purchased Great Eastern Smart Medic insurance policy (medical card with room and board RM200) start from four year ago. The total surgical cost was RM4, 000. Molly does not subject to deductible, as she is a medical cardholder. Molly is responsible to pay for 10% coinsurance of the remaining bill. The maximum cap of coinsurance is RM500. Surgical costRM4, 000. 00Deductible0. 00Remaining bill4, 000. 00Molly pays 10% of remaining bill400. 00Great Eastern pays 90% of remaining bill3, 600. 00Molly total costRM400. 00

1. 6. 2 Interview Questions

The following are the questions conducted during the interview.

Question 1:

If the maximum claim limit is RM200. 00 and my hospitalization fees is RM150. 00. Can I claim the full maximum amount of RM200. 00?

Answer:

No, policyholder can’t claim the maximum amount. Base on this situation, policyholder can claim RM 150 of his or her hospitalization fees and has to pay RM15. 00 for 10% of coinsurance.

Question 2:

What happen if individual lies about their health condition before purchase the policy?

Answer:

The policy of this individual will be terminated immediately.

Question 3:

If an insurer helps a policyholder not to disclose his or her health condition, what are the actions the insurance company will take?

Answer:

Insurance company will investigate that insurer and terminated his or her insurance license.

Question 4:

If I am a foreigner and already purchase insurance in my home country, is it covered in foreign country?

Answer:

It depends on the condition issued by insurance company.

Question 5:

I purchase my insurance policy in Malaysia and after four years I migrate to United States. Does the policy covered in United States?

Answer:

Policy owner will not be covered by his/her health insurance anymore.

1. 7 Conclusion

In the nutshell, contractual provisions protect the insurer from high claim cost and reduce the administrative costs and capital costs. The moral hazard and adverse selection problems are reduced through the elements of contractual provisions; deductibles, coinsurance, policy limits, and exclusions.

2. Automobile Insurance

Nowadays, the economy of Malaysia is growing and a highly open economy, people tend to purchase the luxury product, car is the one of the productivity industry. For the directly factors, automobile insurance sector in Malaysia able to stimulate our economic but also arising out of several unsympathetic factors. Increasing trend of awards given by High Court in cases of deaths or disabilities arising from motor accidents. In a study commissioned by PIAM, court awards for various types of injuries in 1980-1982 were almost 111% higher than those in the 1960s. Increasing number of vehicles on the road which results in a sharp increase in number of accidents, case of steal and hence, increasing the number of insurance claims. The number of the factor like administrative and capital loss, correlated losses, parameter uncertainty, moral hazard, and adverse selection, limit the extent to which risk exposures are insured. Contractual provision is the way to limit the amount of coverage.

2. 1 Deductibles

Deductibles reduce premiums and limit amount of coverage by eliminating small claims or losses. With the real practice of automobile insurance, the clerical expenses of processing a loss claim are different in proportionately between a small losses in accident like a small dent at car body and for severe body damage.

Excess

Excess also known as a ‘ deductible’. This is the amount of loss you have to liable and contribute before insurer will pay for the balance of policyholder vehicle losses claim. Most of insurance plan have an excess fixed rate and the amount that policyholders are require to pay as per the policy terms & conditions which stated in contract in details of each and every claim payable. The cost and expenditure incurred by the insurance company to conduct, defence and settlement of claim for the loss or damage to your vehicle, and damage to third party property resulted from the accident arising out of the use of your vehicle for liability to third parties (roadtax.

com. my, " Claims - Frequently Asked Questions") in addition to any other excess that may be related. The types of excess applicable are as follows: Compulsory excess of RM400 –vehicle is driven by a person not named in your policy ora person named in your policy that is under the age of 21, the holder of a provisional (L) driving license or full driving license of less than two years. Other excess –applicable at the discretion of your insurance company and in some cases, no excess is imposed. Policy holder can negotiate with your insurance company on this excess. Actually, when there is a claim, a higher excess amount which selected by policyholder can be decreased the amount of the premium which they pay every month. Especially for the younger drivers, they need to pay a higher excess amount, but their premiums can be reduced significantly. However premium to be pay is lower, but higher claim happened in an accident will occurs higher excess amount need to pay.

2. 1. 1 Deductibles and claims processing costs

One of the reasons that policies have deductibles is to reduce the cost of small claim that occurs relatively frequently. No Claim Discount (NCD) is a discount given to the policyholders on renewal of their automobile insurance if no claim is made or arises from the policy for a continuous coverage period of 12 months in each of following instances. NCD for Private Car

Period of Insurance

Discount

After the first year of insurance25%After the second year of insurance30%After the third year of insurance38. 33%After the fourth year of insurance45%After five or more years of insurance55%*The discount given is based on a fixed rate provided by PersatuanInsurans Am Malaysia (PIAM) Motor Tariff. NCD is one of the deductible benefit to decrease the premium which policyholder need to pay. That is different NCD rates are stated for different classes of vehicles (car age, capacity, model and etc). On the other hand, NCD can exclude those small claims from policyholder and reduce claim processing expenses. On the side of policyholder, their premiums will reduce and remain the coverage." People are often too petrified to file a claim because they think they won't be able to afford a premium increase," says Eric Tyson, author of " Personal Finance for Dummies." We all want to be accident-free, but " it's important to remember that filing an insurance claim isn't necessarily bad," he says. " Insurance is there to protect you, and it makes good financial sense to use it when necessary." However the claims processing costs make insuring a small claim that occurs reducing of discount rate of premium have to pay but knowing well of the insurance plan and how is the claim filing in the incident of a large loss is the way to save on insurance premiums policyholder pay. By understanding logically of NCD, policyholder with well financial sense will not claim for a minor loss, because it is having a low deductible if filling claim proceeded. If policyholder is already willing to pay for a limit worth of damage out of own pocket, set away that limit of claim discount, period of insured, premium and increase the insurance deductible to match the limit. Increasing the deductible will result in lower insurance rates, and the insurer will cover the policyholder limitation costs of loss in the event of an accident.

2. 2Policy limits

Automobile insurance policy has its limits, contract will clearly determine the policy limitation with each package of insurance which designed with the minimum limits to satisfy the consumer need and issue to policyholder who purchased the insurance. These policies often limit the amount of coverage by placing an upper limit and scope of coverage which on the amount that the insurer will pay for the loss. Policyholder of automobile insurance can save the money with lowering limits to legal requirements with policy limit. They also can secure much protection with increase the policy limits offered from insurer. However it will costly but decrease the policyholder liability from the unforeseen events, including multiple vehicle crash or crash with uninsured motorist. In Malaysia, when an individual purchase an automobile he/she require to take the full coverage policy especially the automobile is purchased with taking loan from bank or finance company. In order to protect the finance companies financial collateral, the limits of the policy must be sufficient to cover the full cost of the vehicle. Some certain insurance companies limits will allow the drivers to pay cash in the event of accidents, a basic liability insurance policy serves the same purpose and is the standard for most companies. The minimum limit of basic liability coverage varies from company to company is different and designed to cover the minimum average financial loss in a vehicle-to-vehicle collision. Below is the example of four different Malaysia insurance company for term and conditions of automobile policy limit. Minimum Sum insuredMaximum sum insuredKURNIA INSURANCERM10kRM499kMAA TAKAFULRM12KRM499KETIQARM10KRM150kRHBRM10KRM200KFor car with

Sum insured more than maximum sum insured, need to get special approval first or buy special coverage.

2. 2. 1 Third Party Cover

insures policyholder against claims for bodily injuries or deaths caused to other persons (known as the third party), as well as loss or damage to third party property caused by policyholder’s vehicle. the minimum level of cover policyholder need to legally be able to drive on the roads. third parties can claim for damages from insurerpolicyholder cannot claim for damages to own vehicle in any accidents or any fire damage to own vehicle, or if vehicle is stolen, and is usually the cheapest insurance type available.

2. 2. 2 Third Party, Fire and Theft Cover

insurance against claims for third party bodily injury and death, third party property loss or damage, insurance against claims for loss or damage to policyholder own vehicle due to accidental fire or theft. coverage of damages from fire and theft of policyholder’svehicle.

2. 2. 3 Comprehensive Cover

This policy provides the widest coverage and most common type of insurance in Malaysia. third party bodily injury and death, third party property loss or damage and loss or damage to own vehicle due to accidental fire, theft or an accident are covered. good idea if car is worth more than RM30000(Hann Moneysaver (2012) " Car Insurance in Malaysia – A Beginners Guide") Please refer to appendix 1 to get the summary chartHowever, that is no included in these 3 type of policies for any liability to driver and passenger of own vehicle (bodily injury, property, death). But for individual who are likely to know whether policy limits is below the level of potential damages; like the limiting coverage for third party injury and death or damage to own vehicle in basic automobile insurance. Most of insurer are offering special coverage for driver and passenger of own vehicle. That is called an endorsement to the policy or with separate policy, for example " Driver & Passengers' Personal Accident Insurance" offered by Kurnia Insurances, Windscreen which covers the breakage of glass in windscreens, front, rear and side windows (NCD doesn’t affected after claim)Full coverage is usually just a blanket or overused term, and like other insurance terms, policyholder must always understand the terms and conditions in contract and policy. It is because even for some event is full coverage but it has a limit on the amount that will be paid out and is not fully coverage, it was depending on what coverage they buy. Full coverage insurance is actually comprised of three types of insurance coverage in one: liability, comprehensive and collision.•Liability insurance covers your financial responsibilities if you are involved in an accident with another person. This coverage only covers the other person’s injuries and property with zero coverage for yourself.•Collision insurance covers your vehicle as well as the other person’s vehicle in the event of a crash. It also provides medical coverage for anyone injured in the accident. Limit amounts vary depending on the policy that is selected.•Full coverage insurance typically covers you in any vehicle that you might drive; however, the insurance carried on that vehicle would pay out before your own policy would be enacted. It also covers others who would drive your car, provided that they are licensed drivers without any driving restrictions who have not been named on an exclusion list.

2. 4 Exclusions

General exclusions

A standard automobile insurance will not cover certain losses, such as policyholder own death or bodily injury due to a motor accident, own liability against claims from passengers in policyholder's vehicle (except for passengers of hired vehicles such as taxis and buses) and loss or damage arising from an act of nature, such as flood, storm and landslide. For damage or liability is caused by invasion, war (whether war be declared or not), warlike operation, acts of foreign enemies, hostilities, civil war, acts of terrorism, strike, riot, civil commotion, mutiny, rebellion, revolution, insurrection, military or usurped power or by any direct or indirect consequences of any of the said occurrences. For any accident loss damage or liability caused sustained or incurred outside of Malaysia, the Republic of Singapore and Negara Brunei Darussalam insurer will not pay any liability under this circumstances. However, if individual think that policy coverage is below the level of potential damages may pay additional premiums to extend policy to cover flood, landslide, and landslip as well as cover your passengers. It is important to check their contract provision in policy for the exclusions.

2. 5 Future potential practice in Malaysia Automobile insurance

Pay-As-You-Go insurance is anusage based insurance, also known as pay as you drive (PAYD) and pay how you drive (PHYD) and mile-based auto insurance. It is a type of automobile insurance which set the premium dependent upon type of vehicle used, measured against time, distance, behaviour and place. It is popular in those Europe country. This differs from traditional insurance which is practicing in Malaysia, tries to differentiate and reward " safe" drivers with offering those lower premiums and/or a no-claims bonus. The standard of investigate for the differentia is depending of history rather than presenting patterns of behaviour. It will reduce the contractual provision with the policyholder who have a long time safer pattern of driving and feed through into their policy premiums. We are even seeing some insurers investigate relatively new mature market technologies such as Pay-As-You-Go insurance. Given the importance of customer choice, allowing consumers to vary deductibles and change price is surprisingly uncommon in Asia. Insurance companies that offer these choices are often more profitable potentially because offering this level of sophistication often comes with a more granular rating structure or due to the reduction of small claims that comes with an increase in deductible.

Growth of the policy in insurance market

Health Insurance

Some disreputable insurers will offer coverage plans with absurdly low financial limitations, the majority of responsible and trustworthy insurers have very generous coverage limits typically ranging from RM3 to RM9. 5

million. This limitation often referred to as the Overall Maximum Benefit, represents the total amount that will be contributed by the insurer to maintain or restore an individual, family or group's total health within a specified amount of time or for a specific health condition. Coverage limitations come in three primary forms based on the review of the common limitations imposed on health insurance coverage plans in Malaysia. 1) Annual Limit - this sets a predetermined maximum amount of assistance to be offered on a single policy within one policy year for any treatments received to treat any covered injury or illness. 2) Lifetime Limit – this is the maximum amount of assistance available for the entire life of the policy. Typically, this is applied to multi-year coverage policies. 3) Per Condition Limit – in some cases, each health condition will have its own maximum coverage benefit for a single policy year. In recent growth of health insurance market, insurance companies started to realize the limitation for their health insurance coverage. As a result, they have come out with a new plan in Malaysia called Smart Early Payout Critical Care that will pays at the early stages of critical illness. Smart Early Payout Critical Care is designed with a unique investment-linked insurance rider, which pays upon early diagnosis of a critical illness covered under this plan, not when the illness has become more severe – as with most insurance plans. Smart Early Payout Critical Care gives insured the early payout protection you need so that they can focus on treatment and recovery. Smart Early Payout Critical Care allows for multiple claims for different critical illnesses or across severity levels within the same critical illness. Furthermore, insured will not have to wait in between submission of claims should their condition deteriorate to a more advanced stage. There are no limits to the number of critical illness conditions that insured can claim against, as long as the pre-defined conditions are fulfilled and the sum of claim payouts are within the sum assured limit. Usually, if a critical illness claim is made, it will be difficult to obtain new insurance cover, but with this new insurance plan with added protection with unique ' Buy Back' Option, insured now can depriving their loved ones of financial aid and extra financial protection at any time their loved ones needed it the most if anything unforeseen happen to them. With this option, insured can buy back the death benefit from selected insurance plan offered by the Company, up to the maximum sum assured. This means that insured still covered even after a full payout of critical illness claims has been made under Smart Early Payout Critical Care. With early payouts to provide for early treatments, insured not need to put off their other life plans should a critical illness occur. More importantly, insured do not have to feel to be financially burdened. The percentage of the lump sum paid may be used at insured discretion such as choosing to use it for medical treatments or therapy, medication or even to settle financial commitments. With the benefit given of early financial support from Smart Early Payout Critical Care, insured can focus solely on treatment and recovery

Automobile Insurance

In the recent growth of automobile insurance, telematics has started to take place inside one of provision that limit coverage in automobile insurance contract. Telematics also enjoyed enormous buzz in the auto insurance marketplace in recent years. The goal is to capture and analyze data about customers' actual driving to more effectively write usage-based (mileage) or pay-as-you-drive (mileage plus behavior) insurance. To accomplish this, telematics harnesses satellite or cellular technologies, along with a standalone device, the auto’s onboard computer and mechanics, or a mobile application. The outcome is that insurance rates, deductibles, and coverage features are tied directly to lower usage or safer driving practices, new territorial factors, and other indicators of reduced risk. At first glance, the advantages accrue to virtually all sides. Insurance companies benefit from matching premiums more closely with actual risk. Drivers benefit from the opportunity to lower their insurance rates by driving less or more safely. Society benefits from more thoughtful driving and more economical auto usage. However, telematics represents a disruptive technology. To date, it’s been largely driven by engineers and providers of telematics products and services, rather than insurance business strategists. Many questions remain to be answered. Major insurance carriers are scrambling to better understand telematics and its potential implications for their business overall, as well as for the future of personal auto insurance, underwriting and product development. Traditionally, insurers determined what premiums to charge individuals based on a number of factors, including driving record, credit record, education level, territory, and other demographic and biographic data found to be statistically predictive of drivers’ risk. After telematics was introduced to the Malaysia insurance market, rather than using data correlated to high-risk drivers, such as credit scores, insurers began to evaluate causal data, including actual usage and riskier driving behaviors, such as rush-hour commuting, high speed driving, or high-lateral-acceleration cornering. In this way, telematics began giving insurers actual data about individual driving habits to guide underwriting and pricing practices. Some insurers also used early telematics capabilities to encourage safer teen driving, a practice that has endured and has proven to be highly valued by parents. If insurance becomes unaffordable for certain individuals or certain classes of drivers due to cost shifting across the overall book of business, regulators such as usage based insurance may be likely to raise a red flag. Moreover, if telematics causes disproportionate impacts to particular social, ethnic or demographic groups, expect an outcry from consumers and consumer advocates that regulators may feel obligated to respond to. Sustainability issues may play an important role too. By setting premiums on a pay-as-you-drive basis, insurers in effect reward people who drive less. Further, when people realize that how they drive will likely directly impact their insurance costs, they tend to drive more carefully this could have positive social effects that could receive a warm reception from regulators.

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