EIA MTC Initiative Fair Competition vs Aggressive Competition in Motor Insurance

Wednesday 29/09/2021

Virtual Conference

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With the participation of 200 insurance experts from 10 Arab, European and Asian countries, the Car Conference was held, which was organized by the Emirates Insurance Association in cooperation with the Technical Committee for Car Insurance in the Association on Wednesday, 29/9/2021 under the slogan:

"Fair competition versus intense competition in auto insurance"

<u>This conference resulted in the following recommendations:</u>

- After the implementation of the unified auto policy in 2017, the amount of premiums in the industry increased. However, since then tariffs have been decreasing over the years. The comprehensive vehicle insurance tariff decreased by 50% from 2021 to the second quarter from its maximum level in 2017, while the civil liability vehicle insurance tariff decreased by 46%. Comprehensive motor vehicle insurance and civil liability motor vehicle insurance claims costs also decreased progressively during the period with the largest decrease occurring during the shutdown in 2020 - Q2. However, as activity returns to normal levels, the costs of these two types of insurances are also increasing to pre-Covid levels. Loss rates increased by 16%-17% in 2021 compared to 2020, driven by reduced tariffs and a return to normal activity levels. This has resulted in the combined ratios being just under 100% for comprehensive motor insurance and above 100% for civil liability vehicle insurance.

- The high vehicle loss ratios in the UAE are partly due to simplified pricing approaches. These methods consider a limited number of classification factors and ignore the correlations and interactions within them. This exposes the insurance company to the risk of non-choice and business mix. Firms in the market are encouraged to adopt more sophisticated pricing methodologies such as GLM (Generalized Linear Models). These methodologies can lead to more risk dependent pricing which can ensure long term sustainable profits for the car insurance companies in the UAE.

- The use of information and communication technologies and pay-as-you-go products can enable insurance companies to target better risks in a highly competitive market at very low rates. Technological advances have enabled smartphones to replace standalone black boxes, but the cost of storing and processing the vast amounts of data generated must be taken into account.

- To achieve a strong position in the highly competitive UAE auto market, insurance companies must learn to navigate the playing field through optimal claims management, data-driven pricing and exposure monitoring. It is critical to an insurer's optimum profitability that its underwriting and claims management decisions are supported by powerful data analytics, so the actuaries and the insurance agent must work together to enhance existing data capture and analytics capabilities and develop insights into new rating factors that are combined together to provide more useful information about the basic risks.

- We emphasize the fact that while the policy of cross-support in pricing is not perfect, given that the regulator has implemented price limits, it is important that cross-support is managed appropriately by monitoring exposure and risk profile.

- Amendments to the standard formula for car insurance have changed a number of advantages, and this needs to be taken into account by underwriting teams in product pricing.

- Policies issued by insurance companies should reflect the revised terms and benefits.

- Digital as a distribution channel can act as an enabler in market penetration and help improve underwriting.

- Consolidated claims data can help insurers reduce internal claims fraud and access to a broader data pool also helps improve underwriting/pricing.