

Jordan:Sector handicapped by motor insurance losses - JOIF

By Osama Noor (/Authors/AuthorsDetails/id/70) | 31 Jan 2018



The increase in motor insurance prices over the past two decades has failed to help operators deal with the increased losses in this line as well as the overarching impact on the sector's overall results. There are moves towards floating motor premium rates but the Kingdom's economic conditions could thwart these endeavours.

Despite increasing motor insurance premium rates since 2000, insurers continue to suffer from the large losses caused by motor third party liability (TPL) insurance as these have reached over JOD250 million between 2000 and 2017 (US\$353 million), said Mr Maher Al-Hussein, Director General of Jordan Insurance Federation (JOIF), in a meeting held with representatives from the Parliament earlier this month. "The main reason for such high losses is that the tariffs set by the government are not commensurate with the terms of compensation (which are also set by the government). There is wide discrepancy between the two sides," he said.

The meeting with the MPs was held as insurers voiced serious concerns over the sector's results. It was also to explore better means to end the longstanding issue of motor insurance losses. Operators for too long have been demanding that the motor tariff system be liberalised so they would be able to set prices in accordance with the risk they bear. The government, however, fears that such a move would increase premiums. "We have repeatedly explained to the concerned parties that (floating the tariffs) would not increase prices," said Mr Al-Hussein.

He pointed out that there are 1.55 million vehicles in Jordan, while the number of accidents ranges between 120,000 and 130,000 per annum, which means that less than 10% of motorists are involved in motor accidents. "This also means that 90% of motorists are unfairly paying for the cost of accidents. The intention is to impose higher premium rates on those who cause accidents or have a poor driving record."

He pointed out that the 2010 Insurance Law amendments have granted insurance companies the right to increase motor insurance rates by up to 50% in case of material damages and 100% for bodily injuries. However, he added, the problem is that the law does not take into account drivers who repeatedly cause accidents. He said:“A better formula is to apply increases in stages starting, for example, with a 20% increase for the first incident and then imposing higher increases with each subsequent incident.” He added that another problem facing insurers is medical reports which exaggerate bodily injuries.

Floating rates

In Jordan, motor TPL is handled through JOIF’s Unified Insurance Office (UIO) which allocates business on a rotational basis where insurers have no right to reject or accept covering certain vehicles. Due to the large imbalance between tariffs and amounts of compensation, providers have demanded for several years to have a say in setting prices and proper underwriting standards for motor insurance business.

MPs have recently shown understanding of the companies’ demands and might push for floating motor insurance prices, according to some media reports. Yet, it is uncertain whether this development would materialise because the cost of living has been rising as the government has been increasing prices for basic commodities in the past 12 months, including energy and food items, and would think twice before deciding to withdraw from setting the tariffs. Therefore, economic analysts have ruled out that the government would take this step—for the moment at least.

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