

Short Review of the Motor Vehicle Insurance Industry In Malaysia

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Abstract: Motor vehicle insurance (MVI), which is the most effective and widespread means of protecting personal property, has attracted a great deal of attention. It is crucial to understand the current development of Malaysia's motor vehicle insurance industry. Based on this context, this article examines the development model of the Malaysian motor insurance industry and its relationship with the Malaysian economic development. This article reviews ways to achieve targeted product promotion and customization of motor vehicle insurance (MVI) according to regional characteristics. The purpose of this article is to lay a solid foundation for promoting the development of the Malaysian automobile insurance industry and its relationship with motor production in Malaysia. The article investigates the MVI policy's effect on the economy and the production of car motors in Malaysia compared with other advanced countries. In addition to that, the article highlights the effect of COVID- 19 on the MVI industry.

Key-Words: - Motor vehicle insurance, Malaysia insurance industry, insurance economics, motor manufacturing.

Received: September 14, 2021. Revised: May 19, 2022. Accepted: June 11, 2022. Published: July 22, 2022.

1 Introduction

The insurance industry is very well spread nowadays. Motor vehicle insurance (MVI) is one of the most important branches in the non-life insurance category. In most countries, motor vehicle insurance is one of the most premium revenue earners and that includes Malaysia. Due to the increased number of motor vehicle production, the market for MVI is increasing rapidly [1][2]. Motor vehicle term is used usually in vehicle registration statutes and in financing which can be defined as a machine that is able to transport people from one place to another location and it is self-driven by electrical or mechanical power [3][4]. What makes motor insurance for vehicles different from other insurance is that it is mandatory in most countries' governments. MVI is related to all types of motor vehicles-motorcycles, cars, jeeps, commercial vehicles etc. it is mandatory by the government to guarantee the safety of the people [5][6][7]. Which is written in the law of MVI defined as follows:

“Motor Vehicle Insurance Law is any state law that addresses the manner in which third-party liability or first-party indemnity coverage must be offered, provided, or maintained with respect to a motor

vehicle (e.g., a financial responsibility, compulsory insurance, uninsured/underinsured motorists (UM/UIM), or personal injury protection (PIP) law). “[8]

2 Motor vehicle insurance in Malaysia

Motor insurance is compulsory for all vehicles in Malaysia when using Malaysian public roads under the Road Transport Act 1987 [9][10]. There are three types of motor insurance available and the law requires that every driver has a minimum coverage of third-party liability. At the purchase of the motor vehicle, it is required to buy an MVI [11][12][13]. The most common type of motor insurance in Malaysia are:

Act Cover: It is the minimum coverage that meets the requirements of the Road Transport Act 1987. The required coverage focuses on legal liability in the event of death or bodily harm to third parties (excluding passengers). This Policy is seldom drawn up by the Insurers [14].

Third-Party cover: This policy insures the owner against claims for personal injury or death by others

(known as the third party). Along with loss or damage to third-party property caused by your vehicle [15].

Third-Party, Fire and Theft cover: This policy provides insurance against claims of bodily harm and death, loss of property or damage caused by third parties. And loss or damage to your own vehicle as a result of fire or accidental robbery [16].

Comprehensive cover: it offers the widest coverage compared with the previous policies. Such as personal injury and death of third parties, loss or property damage of third parties, and loss or damage to your vehicle by accidental fire, theft or accident [17].

3 Motor insurance sales in Malaysia

Malaysian motor insurance is projected to grow from \$2.0bn in 2018 to \$2.4bn in 2023 according to Global Data. The growth in terms of Net Earned Premium (NEP). Since motor insurance is compulsory in Malaysian law, at the end of 2018 it reported a contraction of 56% of the total general insurance NEP, which is more than half of the insurance NEP in Malaysia. It can be seen from Figure 1 the Malaysian motor insurance earned premium from 2014 until 2023 is growing steadily [18] [19].

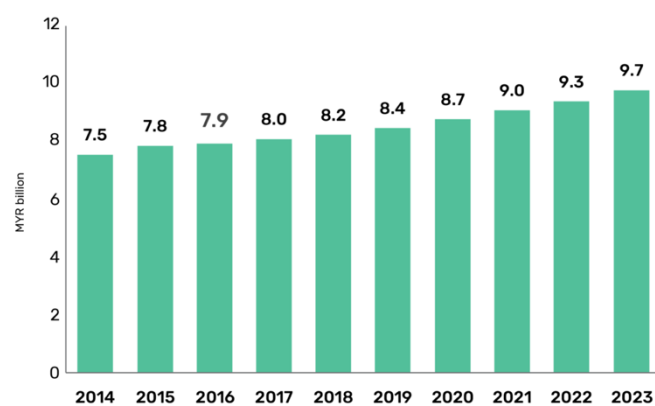


Fig.1 Malaysia motor insurance net earned premiums, 2014 -2023

In general, the insurance industry has recorded a growth of 1.5% in 2018 from its two largest insurance industries in motor and fire. The amount of gross written premium is RM 17.92 billion. Which makes the motor insurance industry the largest class in the insurance industry. The growth of motor insurance recorded gross is 1.8% supported by the increase in new vehicle sales in both private and commercial vehicle segments. Close to 600,000 new vehicles

were sold in 2018 compared to 580,000 in 2017 as a result of increased demand during the tax-free months from June to August 2018. For the Motor class, the general insurance industry paid out claims amounting to RM 5.45 billion in 2018 [20] [21].

4 COVID-19 effect on the MVI industry

The Motor Insurance industry has a strong relationship with the sales of cars. Based on the data released from the Malaysian Automotive Association (MMA) on the production of cars in 2020 and 2021 presented in Table 1 and the sales of the motor car presented in table 2. It can be seen from Table 1 that the production variance of Commercial vehicles is 1.40 comparing the production in 2021 with 2020 however for passenger vehicles PV is less than one due to the drop in production of PV in 2021. The sales variance in table 2 of PV is also less than 1 due to the reduction in production. However, for a CV it is more than one. although the crisis of the COVID-19 has affected most sectors in the market, car sales did not decline. Due to the exemption from the SST the buyers still requesting care which is expected to last until 31 December. It is projected by the MMA that the sales are going to increase given that the production of vehicles is ramping up worldwide [22][23][24].

Table 1 Production of motor cars in Malaysia [22]

segment	Year		
	2020	2021	variance
PV (passenger Vehicles)	299,881	281,621	0.94
CV (Commercial vehicles)	15,982	22,375	1.40
Total	315,863	303,996	0.96

Table 2 Sales of the motor car in Malaysia [22]

segment	Year		
	2020	2021	variance
PV (passenger Vehicles)	312,427	282,992	0.91
CV (Commercial vehicles)	31,592	35,882	1.14
Total	344,019	318,874	0.93

Due to the lockdown restriction in Malaysia in 2020 and 2021, it was expected a drop 2.2% in the Malaysian general insurance industry. Due to low economic activity and weak demand from the consumer. Malaysia's general insurance business is expected to grow at a compound annual growth rate (CAGR) of 2.4% from 2019 to 2024 compared to the earlier forecast growth of 4.9%.

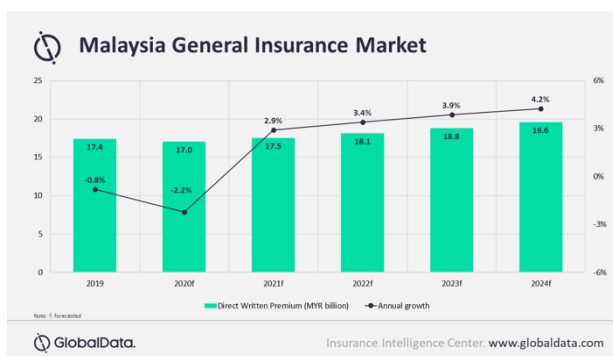


Figure 2 Malaysia General Insurance Market

According to MAA 48.3% of the insurance industry is from the motor insurance class reported in 2019. Due to this big share in the insurance industry, the decline in the sales of PV cars in 2020 has affected the insurance industry by 2.2%. the growth of the insurance market gets back to its normal rate in 2021. The decline in the insurance industry is not only due to MVI it is also affected by property insurance which recorded a 31.5% decline in the first half of 2020 [23][24].

5 Discussion

The auto insurance industry in Malaysia started as old as the 1930s when it was required legal by the government for the vehicle driver to have insurance that covers any liability caused by their car [25]. This explains how this insurance has grown to be the largest sector in the general insurance market [26]. In general insurance industry have a great influence on economic stability. It has been proven that insurance hardly falls in times of economic crisis [27]. The previous data demonstrated in Figure 2 exhibit that motor insurance has not been affected by the crisis of COVID-19 from 2019 until 2021 Malaysia's motor insurance have earned around 26.1 billion and the market is growing steadily [28][29]. The only drop was in the insurance market in general in the first half of 2020 recording a Premiums written reduced by

3.6% in general insurance later on the growth of the market recovered.

Many factors influence the growth of the motor insurance industry [30][31]. Such as the Government made it mandatory for anyone driving a car on Malaysian roads to own an MVI. On the other hand, the motor insurance industry policies evolve every year giving the insurance industry flexibility to come up with new products every year to sell to the consumers. In 2020, the value of gross written premiums in the motor insurance sector in Malaysia reach the amount of RM 8.4 billion. When comparing the motor insurance sector to other sectors in the Malaysian market it will still be the dominating one.

6 Conclusion

In the insurance industry in Malaysia, there are four sectors that dominate the insurance market the largest sector is the one with the highest premium contributions which is the MVI. The MVI has the main contribution to the general insurance industry taking 54% of the total net premium contribution in the general insurance market, this average was reported until 2009. However, no matter what is the change in the market MVI remains the highest dominating the insurance industry. Due to the fact it is compulsory by the Malaysian Government for every driver who drives a car on Malaysian roads. A correlation between the Motor insurance industry and car sales and production in Malaysia was presented in the review. The sales of auto vehicles affect the motor insurance industry's growth. The research shows that motor insurance provides stability to the market due to its consistency in growth even under economic crises.

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Contribution of individual authors to the creation of a scientific article

Abdullah E M F Alrashidi carried out the writing and research of the article, Waleed Fekry Faris worked on the editing of the review paper, and Ahmad M S Arafat was responsible for the Statistics.