

Motor Insurance

Results of a CCM study

20th December 2010



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I. Introduction and summary of results

- 1.1 The CCM received an allegation that major insurance companies were colluding to fix the price of car insurance premiums and excess levels. As is its normal practice when in receipt of a complaint that seems to reflect a possible breach of the Competition Act, the CCM carried out informal inquiries to determine whether there were reasonable grounds to launch a formal investigation.
- 1.2 One possible indication that companies are colluding could be provided by identical pricing or identical patterns of prices (although this is by no means conclusive, as competition itself should result in competing companies offering similar prices for similar products). The CCM therefore undertook a ‘mystery shopping’ exercise in June 2010, in which CCM staff called several insurance companies for quotes. In each case, we presented exactly the same information – about the car and the potential policy-holder – then recorded the premium quoted, and the level of excess.
- 1.3 We found that prices offered for motor insurance seem to vary quite widely. Given this price pattern, and in the absence of any evidence of communication between insurance companies to fix prices, the Executive Director closed the case with no further action. The market seems to have a very competitive structure - consumers can make competition work for them by shopping around.
- 1.4 We are publishing the results of this mystery shopping exercise here, together with other background extracts from our internal enquiry report, in the interests of greater transparency about the CCM’s work, but also to alert consumers to the savings to be gained from ‘shopping around’.
- 1.5 For example:
 - For **comprehensive cover** for a reconditioned 2007 Nissan March, the premium quoted varied from 3.5% to 5.0% of the value. The 1.5% difference, for a car costing Rs 450,000, would be worth around Rs 6,750 per year.
 - For **comprehensive cover** for a new BMW320e, the premium quoted varied from 3.0% to 5.0% of the value. The 2% difference, for a car costing Rs 2,200,000, would be worth around Rs 44,000 per year;
 - For **third-party** cover for a 2001 Peugeot 307, the premium quoted varied from under Rs 4000 to over Rs 10,000, a difference of more than Rs 6000 per year.
 - The excess on **comprehensive cover** for identical cars varied from Rs 5000 to Rs 15,000 or from Rs 8,000 to Rs 20,000 (and higher excess values were unrelated to higher premium rates).
- 1.6 The prices quoted to our ‘mystery shoppers’ reported here should not be taken as a guide to the best deals available, as prices can change. The companies we found to be cheapest last June might not be the cheapest today, or the cheapest for other car types. Furthermore,

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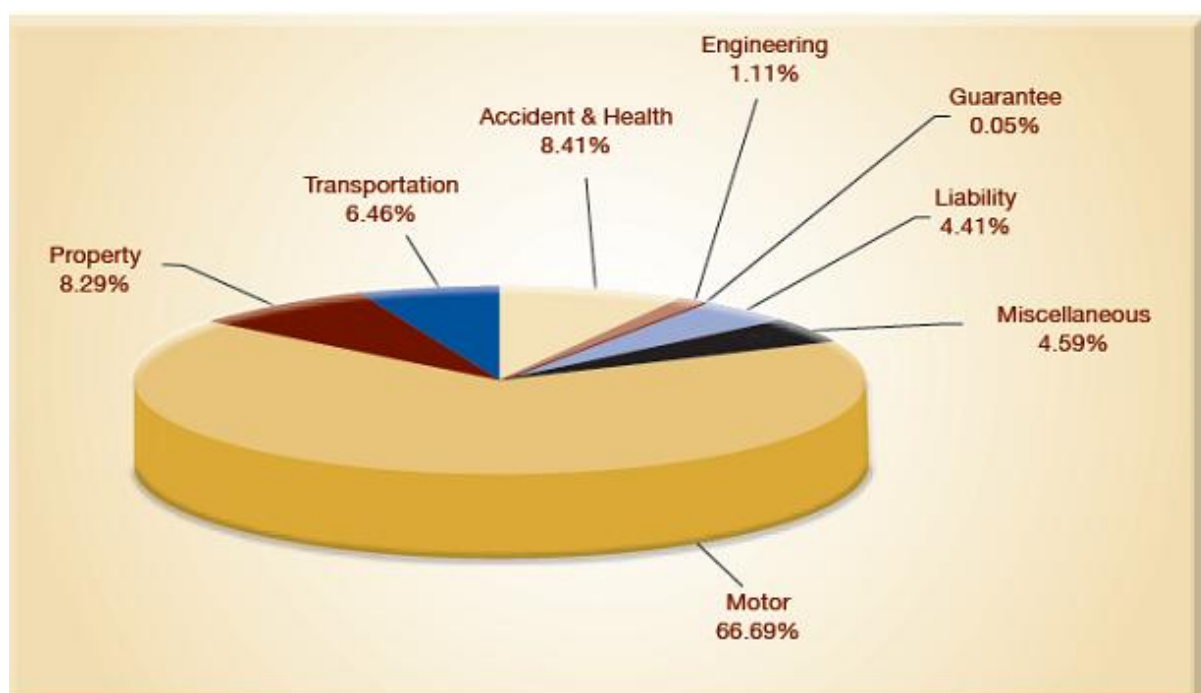
consumers should always bear in mind that the cheapest might not be best: the contract conditions and reputation of the company matter too. The message is that it is well worth taking half a day to call several or all of the insurance companies, to get the deal that best suits your needs.

2. Background

The insurance business in Mauritius

- 2.1 Subject to **Section 4 of the Insurance Act 2005**, insurance business means the business of undertaking liability, by way of insurance or reinsurance, under **long term insurance policies** or **general insurance policies**, as the case may be, and includes external insurance business and the business of a professional reinsurer.
- 2.2 In Mauritius, according to the FSC, there are 19 active insurance companies in Mauritius of which ten are composite (both general and life), five engaged only in general insurance and four only in life insurance.
- 2.3 Following the schema of the Insurance Act 2005, the general insurance business is broken down into eight classes. The breakdowns of general insurance policies are shown:

Chart I: Breakdown of the General Insurance Market



Source: FSC Annual Report 2009

- 2.4 Motor insurance has the greatest share of the general insurance market at 66.69%, followed by property at 8.29% and transportation at 6.46%.

Motor insurance

- 2.5 Motor insurance refers to insurance cover purchased for cars, trucks, taxis, buses and other vehicles. Its primary use is to provide protection against losses incurred as a result of traffic accidents and against liability that could be incurred in an accident.

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2.6 There are two types of insurance cover: comprehensive and third-party

Comprehensive Cover

2.7 This refers to coverage which pays to repair or replace the policy owner's vehicle and personal property inside of it if it was damaged or lost due to other agents, such as fire, theft, flood, or vandalism. In simple terms, it gives full risks cover to the owner of the car, it means that you claim for any damage caused to your vehicle by any means.

2.8 To obtain either type of insurance coverage, the policyholder is charged a certain amount referred as the **insurance premium**. This is the periodic payment made on an insurance policy. When the premium is not mandated by the government, it is usually derived from the calculations of an actuary based on statistical data. The premium can vary depending on many factors that are believed to have an impact on the expected cost of future claims. The insurance premium is normally determined by various factors such as:

- Age
- Driving history (Number and costs of accident made)
- Insurance History
- Value of the car
- Brand and car specification of the car (accessories)
- Driving experience
- Purposes for which the Motor Vehicle will be used and whether it will be kept in a garage.

2.9 The higher the risk of incurring a loss, the higher will be the premium.

2.10 For vehicles under the comprehensive cover, there is also an **excess value** involved. An **Excess** is the first amount of a claim which the Policyholder has to bear. It is applicable in respect of claims pertaining to loss or damage to the car and does not therefore concern Third party claims. It is applicable irrespective of whether the Policyholder is at fault for the damage to his car or not. Excess value could normally be expected to vary across companies.

Third Party

2.11 This refers to liability cover purchased by an insured (the first party) from an insurer (the second party) for protection against the claims of another (the third) party. The first party is responsible for its own damages or losses whether caused by itself or the third party. For example, if Mr X was to crash into another car and the accident was deemed to be his fault, then his liability to the driver of the other car would be covered, although he would not be able to claim for damage to his own.

3. Mystery shopping exercise

3.1 As part of its assessment of the allegation that insurance companies are fixing prices of motor insurance, the CCM conducted a mystery shopping exercise, in which CCM staff obtained quotes for identical situations from multiple insurance companies.

3.2 The CCM drew up a list of 10 car types, seven of them new cars and three reconditioned. Mystery shopping was mostly carried out through telephone calls, although in a few cases there was a need to appear physically in insurance companies' offices.

The data set

3.3 Analysis is based on the 12 general insurance companies namely: CIM insurance (Albatross), Phoenix (Ceylinco Stella), GFA, IOGA, La Prudence, Mauritian Eagle, LAMCO, Mauritius Union, New India, SICOM, SUN and Swan.

3.4 Island General Insurance and BAI were not included since:

- La Prudence Mauricienne Ltd has acquired the Island General Insurance.
- BAI as an insurance company does not offer motor insurance policy but through Britam LTD. BAI was therefore not included in our analysis.

3.5 Each mystery shopper sought quotes for **comprehensive cover** for a different car, ten in all, as follows:

Car	Assumed price
<i>New cars</i>	
Toyota - Corolla 1.6	Rs 1,250,450
Toyota - Yaris Sedan	Rs 883,950
Kia - Picanto	Rs 499,000
New Mitsubishi Lancer EX GLX 1.5, Model CY2ASNSHR (E16)	Rs 870,000
Mazda 3 1.6 S Grade	Rs 975,000
BMW 320i	Rs 2,209,000
Volkswagen Polo 5 Doors 1.21 - 1200cc	Rs 775,000
<i>Reconditioned cars</i>	
Toyota Vitz- 2007	Rs 490,000
Nissan March - AK12-2007	Rs 455,000
Honda Fit-2007	Rs 500,000

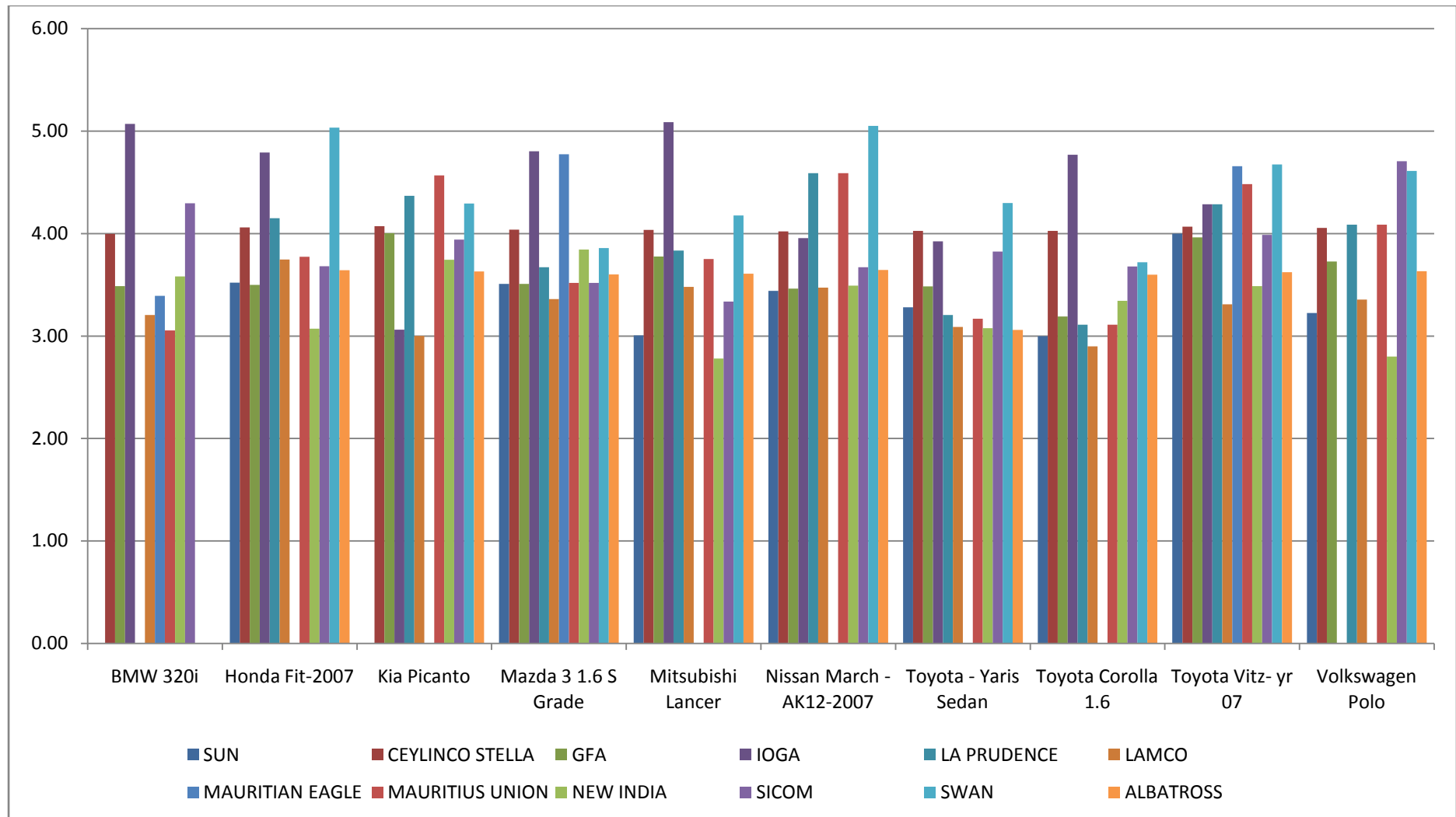
3.6 The results have been divided into two sections: the motor insurance premium and the excess value.

3.7 Mystery shoppers also sought quotes for **third-party cover** for 12 older cars, as follows:

Car	Year
Nissan AK11	1998
Nissan Micra	1994
Suzuki-Maruti Alto	1995
Toyota Starlet	1992
Toyota Vitz	2000
BMW E46	2000
Citroen Saxo	2002
Mazda Familia	1999
Nissan N16	2003
Peugeot 307	2001
Proton Wira	1999
Volkswagen Polo	1996

Comprehensive cover: premium

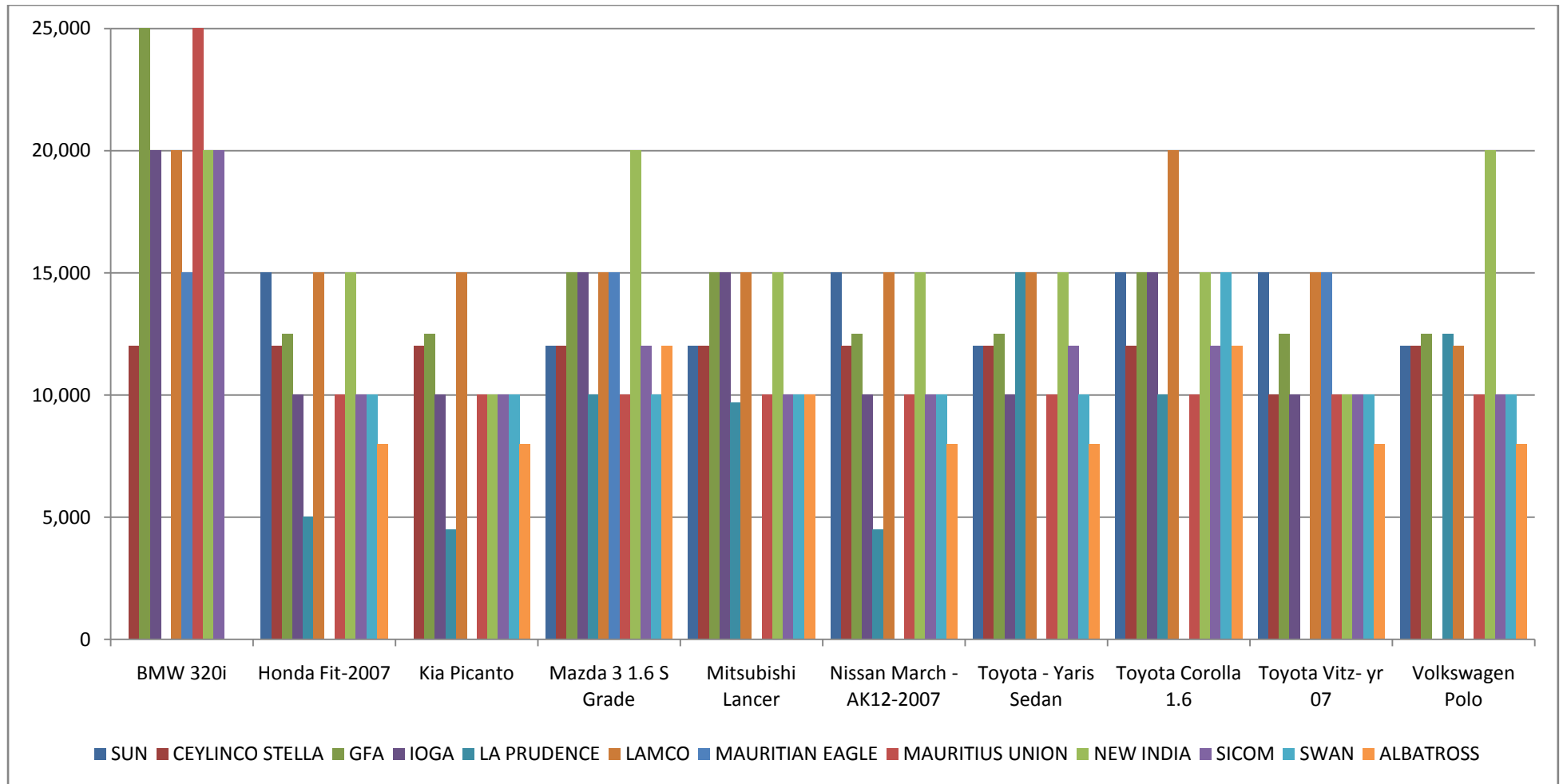
Chart 2: Premium rate (%) for comprehensive cover



Comprehensive cover: excess value

3.8 Excess value offers clustered around multiples of Rs5000 but there was still considerable variation between insurance companies for identical cars.

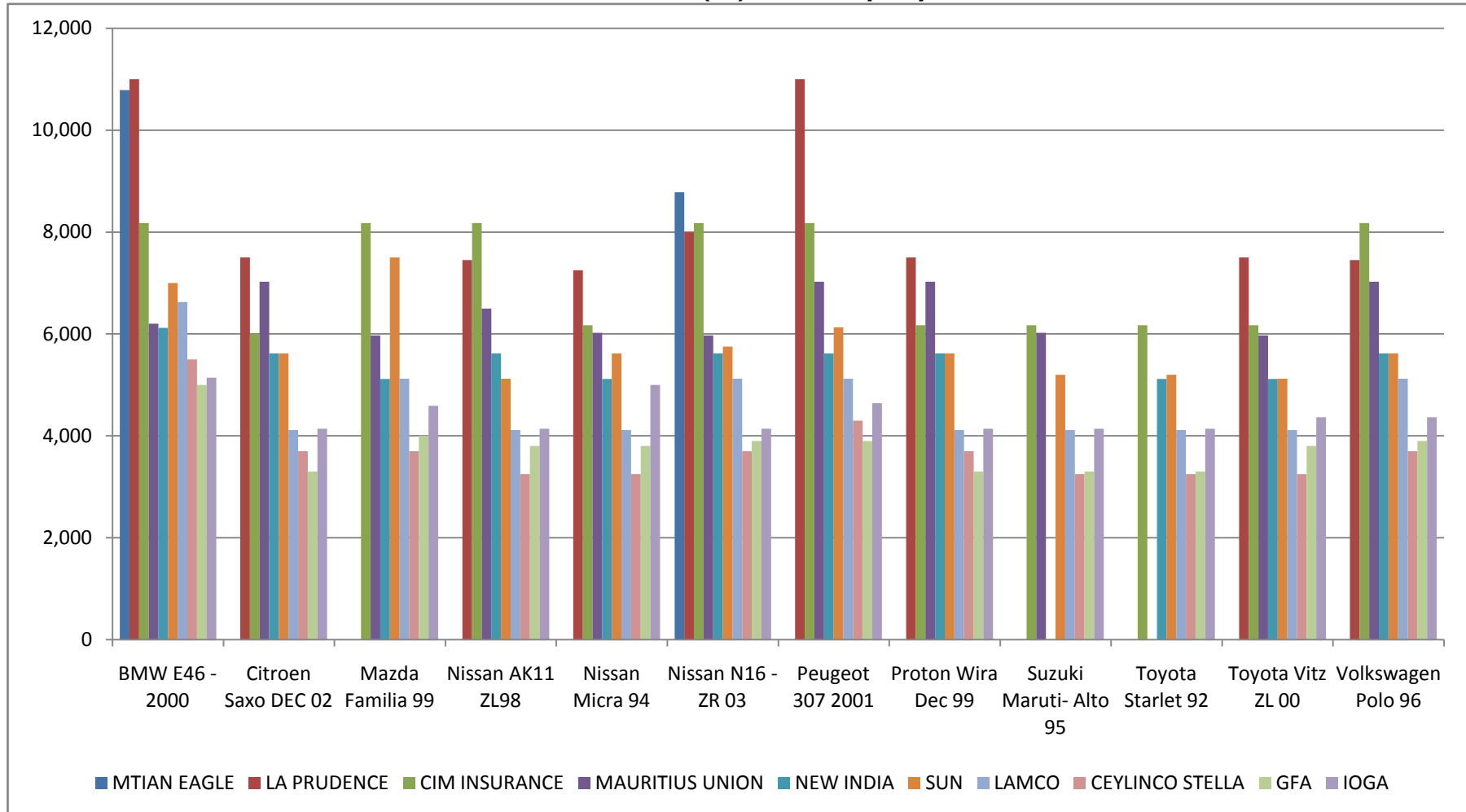
Chart 3: Excess Value (Rs) provided under comprehensive cover



Third-party cover: premium

3.9 Third-party cover is less costly than comprehensive cover, but the relative variation between the premiums charged was still high.

Chart 4: Premium (Rs) for third-party cover



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