COMPULSORY MOTOR INSURANCE IN THAILAND

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Abstract

In most countries and for most classes of business, insurance is voluntary not compulsory. There are often two exceptions: workman's compensation and third party motor insurance. This paper describes the legal compulsion in Thailand for vehicle owners to insure for compulsory third party death and injury risks, and the legal obligation of motor insurers to accept all applications for this cover.

The compulsory motor insurance system came into effect in October 1993, and enough time has elapsed to make an evaluation of the scheme. It is state controlled but not state funded, vehicle owners having to buy insurance from private insurers. The premiums are set by the government's Insurance Commissioner, as are the limits of compensation. No commission may be paid to intermediaries. In addition, there is a Victims Compensation Fund, administered by the Department of Insurance, for the benefit of road accident victims where the vehicle is untraceable, stolen, or otherwise uninsured. Important sections of the Motor Vehicle Accident Victims Act are described, and statistics are provided for growth and loss ratios.

Despite the very low individual premiums, the early fears of insurers that they would make huge losses have been disproved, and the scheme is profitable to the extent that many insurers actively seek this business, and pay commission. Insurers also view the compulsory scheme as a means of persuading motorists to pay more for the wider voluntary cover. The exception to profitability is motor cycle business. Not all those who must be insured are insured: evasion by vehicle owners is common, especially motorcyclists, and fraudulent certificates of insurance can be bought.

Thailand's culture, which is strongly hierarchical and non-confrontational, deters many claimants. Thailand is a non-litigious country, although there are signs that this is changing. The Insurance Commissioner has used radio and other media to inform the public of their rights, and has

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established 76 provincial bureaux to help claimants (funded by motor insurers). Nevertheless, the Victims Compensation Fund is under-used.

The Motor Insurance Context in Thailand

Most of the 1990s saw huge economic growth in Thailand, along with other South East Asian economies. This came to an abrupt end in 1997, but has been reviving since 2001, with the first half of 2004 showing excellent economic results. Insurance, always sensitive to the economy, followed the growth, downturn and subsequent recovery. Motor insurance has long accounted for two-thirds of the general (i.e. non-life) premium income, a dominance found in many countries.

The motor insurance market in Thailand has 69 active insurers. It is a mix of international and local insurers. Some local insurers are family owned, others are subsidiaries of Banks. Some have foreign shareholders, the number having greatly increased since 1997 because of the need for more capital and because of the liberalisation-globalisation process (Lawrence, 2001b). There is wide disparity between insurers in their volume of motor business, many deliberately being small players, and others deliberate giants. Motor insurance is highly competitive in Thailand because of the attraction of so many customers, the regular cash-flow of premiums, and the very small need for reinsurance. In March 2003 the Prime Minister stated that there were too many general insurers, and asked the Department of Insurance to plan legislation which would provide incentives for company mergers. This is aimed at curbing the proliferation of small local insurers. The distribution of motor insurance is dominated by vehicle dealers and finance companies, but cover can also be bought direct, over the counter from insurers who have branches, and via the internet.

The non-life insurance industry is governed by the General Insurance Law of 1992. This law also authorises the government to make regulations specifying details. Within the Ministry of Commerce is the Department of Insurance, whose head is the Director-General (also known as the Insurance Commissioner). There is a government tariff system for motor insurance, which controls premium rates, policy cover, and commission. The tightest control is exercised over compulsory third-party insurance.

The government tariff system for voluntary cover provides a standard motor insurance policy to be used by all insurers. The minimum cover is third party risks: legal liability for injury to third parties (including passengers) and damage to property. Fire and theft risks can be added. The widest cover is comprehensive, which includes accidental damage to the insured vehicle. There is a premium tariff, a new sophisticated rating structure having been introduced in 2000. As in many countries, the motor loss ratio (for voluntary insurance) in Thailand is higher than for any other class of general business (Lawrence, 2001).