FitchRatings

Fitch Ratings: Growth in Sri Lankan Motor Premiums to Slow on Vehicle Taxes

Fitch Ratings-Colombo/Hong Kong-21 March 2019: The increase in taxes on imported vehicles in Sri Lanka is likely to cause the growth in motor insurance policy premiums to slow in the near term, says Fitch Ratings. The government's 2019 budget presented in March increased excise duties on imports of fuel-powered and hybrid passenger-motor vehicles based on their engine capacities. The government also introduced a luxury tax on vehicles with a cost, insurance and freight value exceeding LKR3.5 million, LKR4.0 million and LKR6.0 million for fuel, hybrid and electric vehicles, respectively.

Fitch expects these measures to further reduce new vehicle registrations and cause a slowdown in the new business growth of the motor insurance segment, which accounted for around 60% of the overall gross written premiums (GWP) of non-life insurers in the past three years. The government has in recent years increased taxes on vehicle imports, mainly to curtail the outflow of foreign exchange and reduce motor traffic congestion in the cities. The number of registrations of brand-new and pre-owned motor cars and three-wheelers was subdued over the past 12-24 months due to the higher import duties and the cut in the upper band of loan-to-value ratios associated with vehicle leases. The growth in motor insurance premiums slowed considerably as a result, to 13.7% in 2017 from 19.1% in 2015.

Fitch believes the likely rise in motor premiums due to the larger sum insured values, after factoring in the increased import duties, will be insufficient to fully offset the impact from lower import volumes. In addition, we expect the lag in the repricing of existing motor insurance policies to further hurt growth as import volumes decline. Nevertheless, we believe the motor insurance class will remain the largest contributor to non-life GWP in the medium term due to sustained consumer preference for comprehensive motor insurance policies amid the increasing frequency of road traffic accidents in Sri Lanka and the mandatory requirement for vehicle owners to obtain at least a third-party motor insurance policy.

We also believe in the longer term the non-motor segments such as property, engineering, health and micro insurance will benefit from the government's proposed initiatives to support start-ups and SMEs through the granting of loans on concessionary terms and broad measures to improve exports and proposed investments in several social and economic infrastructure facilities.

Non-motor insurance policies' contribution to overall GWP rose marginally in 2017 to 40% from 38% in 2016. The government's move, in its recent budget, to increase its premium contribution to the National Natural Disaster Insurance Scheme, managed by the National Insurance Trust Fund Board (National Insurer Financial Strength Rating: AA-(lka)/Stable), by LKR1.0 billion to LKR1.5 billion, will contribute towards the growth of the non-motor insurance class in addition to supporting the viability of the scheme.

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