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Infrastructure Expenses *An Unrealistic Expense of Motor Dealers Paid by General Insurance Companies*

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ABSTRACT

Motor Insurance in India was detariffing from 1.4.2007. Motor liability insurance premium being revised every year based on ICR whereas own damage premium not revised till.

Now the insurance companies entered into MOU with motor dealer/manufacturer to procure motor premium. Insurers are paying infra expenses to the dealers. Actually the insurers

worked out the infra expenses based on outgo which includes detariff discount & infra expenses. The dealers never offer discount on the tariff instead the claim full outgo from the insurers. This is clear cut cheating of premium paid by the insured.

The regulator who has to regulate the unhealthy practice followed by the insurer / motor dealer has become the mute spectator in this issue.

The article will gives the detailed input on motor insurance, premium calculation, how it has become the dealer centric & infra expenses are misused by the dealer, regulators inaction and remedy/solution to stop this unethical practice by the motor dealer/manufacturer.

KEYWORDS :

Introduction

The insurance companies in India are categorized as (1) Life Insurance Companies (2) General Insurance Companies (3) Specialized Insurance Companies (4) Stand alone Health Insurance Companies and (5) Re-insurance Company.

As per IRDA, there are 53 registered insurance companies in India as on 30.09.2015 Out of 53 companies, 28 companies are permitted to transact General Insurance Business.

The General Insurance companies business has been broadly classified as (1) Fire Insurance (3) Marine Insurance and (3) Miscellaneous Insurance. The Miscellaneous Insurance portfolio includes (a) Motor insurance (b) Health Insurance which is contributing more than 50% of entire business of the general insurance companies.

After de-tariff of Motor Insurance during 2007, the Motor insurance has grown tremendously and which is ever growing portfolio of general insurance companies due to increase household income, availability of loan facility, availability of motor vehicles at reasonable cost and availability of Indian made and Foreign vehicles in India .

Two tariff governs the motor insurance Own damage and Liability only. Liability insurance premium changes every year, based on previous year loss experience. The changed premium notified by IRDA and effective from 1st April of every year. But the Tariff for Own Damage section never changed till now. The rates were prescribed by Indian Motor Tariff. However the insurers offering discount on the tariff premium apart from other discounts as per IMT.

All the insurers are tied with one or other motor dealer/manufactures for motor insurance premium. Because of stiff competition, every insurer has to follow the rules manufacturer/dealer to procure the motor business. Dealer becomes the ruler to fix the motor insurance premium within the tariff limit. The insurer fix the outgo at a certain percentage on total Own damage premium which includes discount and infra expenses. But the dealers never share the discount to the insured and always trying to grab the entire amount allowed by the insurers. Till last month the regulator watched this entire episode as mute spectator.

So this paper is one of the initiatives to bring to the knowledge of general public especially the motor insured how they are finically cheated by motor dealer while calculating their motor insurance premium and the silence maintained by insurer and IRDA on their part about this issue.

Company wise gross direct premium income in India and Operating expenses & Motor premium

COMPANY	Total Premium in Crs			Operating expenses		Motor premium	
GOVERNMENT	2012-13*	2013-14*	2014-15@	2013-14*	2014-15	2012-13*	2013-14*
National	9165.73	10222.88	11282.63	1928.94	2695.69	4293.58	4838.97
New India	10037.95	11540.06	15480.35	2699.90	3059.75	3796.20	4604.61
Oriental	6552.40	7127.84	7407.96	1775.43	2347.47	2403.73	2638.63
United India	9266.04	9708.93	9708.93	2111.23	2048.57	3389.87	3709.85
PRIVATE							
Bajaj Allianz	4001.40	4516.45	5301.00	836.27	943.31	2399.23	2699.85
Bharti Axa	1218.43	1423.16	1457.06	299.23	473.74	866.38	1052.27
Cholamandalam	1620.89	1855.11	1890.00	378.49	425.83	1066.46	1249.71
Future Generali	1105.39	1262.56	1438.24	218.51	232.81	619.11	706.35
HDFC ERGO	2453.20	2906.99	3182.20	446.83	623.28	803.44	1004.06
ICICI Lombard	6133.99	6856.16	6677.79	1214.57	1385.27	2705.76	3213.80
IFFCO Tokyo	2565.03	2930.92	3329.96	502.03	618.33	1584.72	1761.73
L & T	182.07	253.78	331.71	181.80	159.79	96.63	137.53
Liberty Videocon	2.19	129.82	283.85	121.86	180.82	0	97.01
Magma HDI	94.97	424.93	N.A.	89.78	NA	87.26	388.49
Reheja QBE	21.30	23.24	29.03	13.45	13.74	0.42	0.65
Reliance	2010.01	2388.82	2715.83	462.31	540.67	1291.68	1444.65
Royal Sundaram	1560.00	1437.04	1569.19	357.48	426.17	1105.67	1022.46
SBI General	770.85	1187.57	1516.90	277.09	369.75	267.43	465.33
Shriram	1541.38	1510.59	1496.51	119.57	129.58	1517.34	1481.04
TATA AIG	2135.08	2362.71	2714.13	164.59	571.64	1044.18	1074.85
Universal	534.35	540.45	701.11	150.19	177.78	290.72	231.75

Source: *IRDA – Annual Reports & public disclosures.

NA – not available @ public disclosure of the company

An analysis of Infra expenses with Public Disclosures by the general insurance companies

As per public disclosure, each and every registered insurer in India has to disclose their performance for general public in their website. The Author visited the entire insurer website and downloaded the relevant public disclosure details for analysis It is observed that there is no uniformity in providing the details under public disclosure by the insurers.

Most of the companies provided the details on major portfolio wise such as (1) Fire (2) Marine (3) Miscellaneous with respect to Premium – NL4; Incurred claims –NL5 ; Commission / Brokerage – NL-6 and expenses related to insurance business – NL-7. Few companies only provided the Miscellaneous portfolio into different segments such as Motor own damage, motor TP, Health, Liability, Personal Accident etc. This detailed disclosure help the public, insured and analyst to analyze the each segments thoroughly and effectively.

Because of non-availability of required details by all the insurers, the author was unable to analyze and report the actual expenses incurred by all insurers as infra expenses for the last 3 years. Moreover, accounting the expenses towards infra also not in a standard headings which also prevented the author to analyze the data in depth.

How the motor premium calculated

The motor premium calculated based on the age, location and cubic capacity / carrying capacity of the vehicle. A private cat motor vehicle premium is worked below to understand the motor rating.

Age of vehicle	new	OD premium	3191.00
Cubic capacity	1000 cc	TP Premium	1598.00
Zone	Metro	Total	4789.00
Value of the vehicle	1,00,000	Service tax 14.5%	670.00
Applicable OD rate	3.191%	Total premium	5459.00

Discounts & Loadings on Motor Own damage premium

1. **Discounts** – Detariff discount, NCB, Automobile membership, anti-theft device and voluntary deductable.
2. **Loadings** – Adverse claim loading, CNG/LPG, Electronic/electrical equipment and fiber fuel tank.

Procurement expenses for Motor Insurance premium

The following expenses incurred by the insurers as procurement expenses apart from other management expenses such as salary, office running expenses etc.

1. Commission to Individual Agents @10%
2. Brokerage to Brokers @15%
3. Infra expenses –up to 65% to dealer inclusive/exclusive of detarrif discount
4. Marketing expenses to Vehicle manufacturers – 5-15%

Who has to decide the insurer?

Who has to decide the insurer of the vehicle? Dealer, financier, or insured? This is million dollar question. In most of the new vehicles, dealer only decide the insurer considering his commission and high payout. In few cases financiers like banks \ financial institution are deciding the insurers. It is common and evident that the insured lost to decide his insurer. Where the government agencies like consumer forum or competition controller gone? Who will curb the monopoly of dealers/manufacturers?

What is mean by tie-up with Motor Dealer

The motor dealer / manufacturer tie-up means, serving the motor owners either for policy issuing or extending the cash less facility to repair the accidental insured vehicle. The present day motor insurance becomes either dealer centric or manufacturer centric instead of insured centric who is paying the premium for his vehicle.

Manufacturer Centric

Every motor vehicle manufacturer have preferred motor insurer in their fold. They have tied up with some insurers. It is understood that Maruti is having maximum insurer in their net work since there premium is about Rs.5000 crores. The manufacturer / dealer will enter into MOU with the preferred insurer for their new vehicle and renewal of old vehicles. The MOU decide the percentage of total outgo of the insurer including / excluding commission. Policies are generated either through the manufacturer portal / broker's portal.

If broker involved, he will get the brokerage, dealer will get the infrastructure expenses and Manufacturer get the Marketing expenses. The insured get the policy across the counter and easy cash less facility at the time of accidental claims.

The dealers place the business as per his convenience and experience with the one or more preferred insurer as list provided by manufacturer. There is no hard and fast rule to give the business equally to the preferred insurers or only to select insurer, which is dealer's discretion.

Dealer Centric

Dealer locally tied-up with the insurers as preferred insurer. Different dealers of the single manufacturer will tie up with different insurers locally. Their infra expenses patterns will vary among dealers. Some dealer offer discount and others will not. Dealer employees have the agency license of the preferred insurers. Dealer will get the commission and infra expenses. Online portal will be provided by the insurer for generation of policy and claim registration.

Insured Centric

The insured can get the policy through insurer's online portal, visiting insurance company's office and through agents. Insurer's incurring only agency commission and small amount towards expenses. The insured get maximum discount on premium

List of preferred insurers

List of manufacturers given below as on date are illustrative and not exhaustive.

1. **Toyota** - Bharti Axa, Reliance, Chola, Iffco, SBI general, United
2. **Maruti** - National, ICICI. Bharti Axa, Iffco
3. **Tata** - National, Tata AIG, New India, Oriental, Bharti Axa, Reliance
4. **Hyundai** - Bharti Axa, SBI general
5. **TVS two** - Oriental, Iffco, Bharti Axa,
6. **Bajaj Two** - Oriental
7. **Hero Honda** - National, Oriental

What is mean by infrastructure expense?

In simple, the expenses incurred to sell the motor insurance at the dealer point by using the dealer's facility. Because of internet and advancement in technology the insurance companies started selling their insurance products including motor insurance through the web portals such as Agents portal, bankers' portal, on line purchase through company's website, dealer portal & broker's portal.

These portals are used for new and with certain conditions for renewal motor insurance. The insurance company uses these intermediaries' places to sell their products without incurring any expenses towards rent for premises, staff salary, stationery, equipment etc. Because of this, insurance companies started to pay a reasonable amount to the intermediaries to meet out their expenses incurred on behalf of them. Initially the insurance companies paid the amount based on the volume of business but now days the dealers and manufactures decide the same.

Origin of Infrastructures expenses

Before IRDA, the entire business was controlled and monitored by the Insurance Act, 1938 which has clearly spelt out what is the maximum amount payable towards commission/brokerage and other expenses. The motor Own Damage commission is 10% or Brokerage is 15%. The maximum out go as per the Act, fixed at 30%. Accordingly the insurance companies started paying infra expenses in the range of 7.5% to 12.5%, in addition to commission / brokerage. Upto 5% of the premium procured paid towards sales / promotion expenses. Al together the expenses was maintained within 30% of the motor Own damage premium. But to-day there is no limit to pay infra expenses even in some cases, it exceeds 60% (including discount portion).

How the infra expenses are calculated

We have reproduced details mentioned under Sl. No.6 of table no.4 and added further details to arrive the detaiff discount infra expenses payable. Consider the insurance company has offered 60% as out go of motor premium procured by them (inclusive of 30% discount on own damage premium).

Private car rated without detariff discount		Private car rated without detariff discount	
Own damage premium	3191.00	Own damage premium	3191.00
Less : Detariff discount @ 30%	957.00	Less : Detariff discount	0.00
Premium payable	2234.00	Premium payable	3191.00

Less : Commission @10%	223.00	Less : Commission @10%	319.00
Available OD premium	2011.00	Available OD premium	2872.00
Infra expense payable @ 30% on Rs.2011	603.00	Infra expense payable @ 60% on Rs.2872	1723.00
Net OD premium retained by the insurer	1408.00	Net OD premium retained by the insurer	1149.00

In nutshell as per above table if the insured approach the insurance company directly his motor own damage premium (before ST) for car is Rs.3191/-whereas if he place the business through the dealer point, his premium (before ST) for car is Rs.3191/-.

REPAIRS AT DEALER POINT

If the insurance company has national tie up or individual tie-up with the dealer, the accidental repair will be carried out any one of the authorized dealer point. In that time, the insurers always have little soft corner towards dealer while processing the claim considering the market and business potential of the said dealer. Always the dealer hand on upper side.

Loss/Gain on motor dealer tie up

1. **Agents** - No gains only loss to him – loss of his loyal and land standing customers due to tie up
2. **Brokers** – No loss but only gain ie brokerage
3. **Motor dealers** – No loss. Only gain - commission, infra, repairing accidental vehicle
4. **Manufacturers** – No loss. Gain – ex. Marketing expenses & control on insurers
5. **Insurer** – Gain – sizable premium. Loss – increased ICR and loyal customers
6. **Insured** – Gain – Policy and claim services at door step. Loss – No detariff discount

IRDA Regulation on Protection of Policyholders' interest – *whether it is really protect the motor insured from the motor dealer /manufacturer?*

IRDA has brought out a regulation ***"Insurance Regulatory and Development Authority (Protection of Policyholders' Interests) Regulations, 2002*** *wef 16.10.2002 to protect the interest of policy holders.*

The regulation defines the duty of insurer, agents, brokers, intermediaries and the surveyors. It protects the insured from these agencies from unethical practices. But has failed in motor dealer business as detailed below:

1. Insist to buy the insurance from them or else delayed delivery. Never gives the premium working to the insured
2. In most of the cases never allows detariff- discount
3. No consent from insured for add on covers.
4. Always try to replace the parts of accidental damages if the vehicle is insured instead of repairing.
5. It is understand, IRDA has not visited dealer point till now.
6. IRDA COMMITTEE ON MOTOR DEALER PAYOUT

On 13.11.2015 the IRDA constituted a committee namely "Motor ***Dealer Payouts on Motor Insurance Business"*** under the Chairmanship of Mr. Suresh Mathur, SJD (NL), and IRDI. The committee consist of one from public sector insurer, two from private insurer, and one from Brokers and from Motor dealer and Mr. R.K. Sharma, JD, IRDA. But there is no participation of dealer, consumer activist/forum and less representation from government companies.

Reforms of reference of the committee:

1. To study the existing practices in the Industry on the payouts (called in different names like infrastructure expenses etc) made to the motor dealers on motor insurance business
2. To examine the deviations from the existing norms
3. To align with the Insurance Act, regulations, guidelines on the provisions for expenses of management, outsourcing, etc.
4. To bring transparency and uniformity in such activities
5. To design standard formats for agreements (between insurers and dealers) on outsourcing.
6. Recommendations on draft guidelines

Report will be submitted within two months from its formation.

CONCLUSION

The motor insurance is a major portfolio of any general insurance companies. After incurring heavy and unreasonable payout to the motor dealers/manufacturers, still all the insurers are within the safer zone on motor own damage ICR with little profit.

IRDAs paramount task is to protect the insured from all the insurance intermediaries since the insured his layman before the eyes laws. IRDA has not so far taken very stringent steps against motor dealer tie-up which is ruining the insurer revenue and insured.

The committee constituted by the IRDA on "***Motor Dealer Payouts on Motor Insurance Business",*** let study the pros and cons of motor dealer/manufacturer tie-up, payout and impact on such tie-up on insured and insurer and to bring stringent regulations without any biased among the stack-holders of motor insurance to protect the interest of insured.