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# Role of Motor Insurance in Non-Life Insurance – Current Scenario & The Road Ahead

KEYWORDS: Motor Insurance, Non-life Insurance, De-tarrification, Insurer, IRDA, Pricing, Premium, Underwriting

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**ABSTRACT** *The problem facing insurance business markets today is not a shortage of goods but a shortage of customers. Insurance is "PEOPLE'S BUSINESS". Insurers are dealing with people who are their policyholders, claimants, intermediaries, beneficiaries and even employees. Insurance is sold and seldom brought. Insurance selling is complex & difficult. All over the world Insurance is sold through intermediaries only. There is thus, a dire need for "our People" to be well-trained & professional so that the interest of policyholders is protected under the insurance contract and full benefits available to the customer. Instead of OVER PROMISE & UNDER DELIVERY" the motto should be "UNDER PROMISE & OVER DELIVERY". This has not been an easy period for insurance companies. The cultural, operational and general along with the specialized role of insurers in the market and market challenges are converging; thus shifting the overall market landscape and forcing insurers to re-examine how they should conduct their business. Objective of this research paper is to have an overview of motor insurance as a branch of insurance and study the effects of changing environment after detarrification and privatization. Source of data collection for study is secondary data.*

**Introduction:**
Insurance sector in India was privatised in the year 2000, to publicise insurance products. The next important step taken was the removal of tariffs on the non-life insurance products with effect from January 1, 2007. Before the introduction of de-tariffication almost 70% of the business of the non-life sector was driven by various tariffs prescribed by the Tariff Advisory Committee (TAC). The TAC was established under the Insurance Act, 1938, to control and regulate the rates, terms, conditions of general insurance business. The introduction of the free price regime has provided an impetus to the non-life sector insurers to design new and innovative suitable products to sustain in the competitive market. The public sector insurance companies enjoyed the monopoly status as a result they lacked flexibility and were not much concerned with profitability. This resulted in erosion of underwriting skills and income of the public sector insurance companies.

In the wake of detariffing and consequent reduction in rates in all sectors by insurers in order to maintain an edge over their competitors' w. e. f. 01-01-2007, the rates have crashed all around. The main portfolio affected has been the once profitable Fire & Engineering portfolio where the premiums have dropped by over 75%. The result of this decline is evident from the overall growth rate which came down to 9.09% as at 31$^{st}$ March 2009 with the industry's premium pegged at Rs. 30,601 crores. For the year ending 31-03-2008, the growth rate was about 12%, whilst on 31$^{st}$ March 2007 the growth rate was about 22%. In the latest figures announced by IRDA, the non-life insurance industry underwrote total premium of Rs. 84,684 crores in India for the year 2014-15 as against Rs. 77,554 crores in 2013-14, registering a growth of 9.19 per cent as against an increase of 12.13 per cent recorded in the previous year.

**Motor Insurance – an overview:**
Motor comprises over 43% of the total Non-life Premium in the country. It is also one of the fastest growing portfolios and will continue to be so for the next twenty years along with Health Insurance. The Gross Motor Premium underwritten by the Non-Life Insurers in 2009-2010 (Motor O.D. & T. P.) as per IRDAI figures amounted to Rs. 15,129.87 crores i.e. 43.53% of the total underwritten premium. Over 60% of all policies issued as also 60% of claims reported pertain to motor. Motor is responsible for year-long liquidity & investments of the Non-life Insurance companies. The business from large corporate offices being confined to only some months of the year; the insurer therefore cannot do without motor business. They have to underwrite this portfolio in order to have a Pan India presence. Most of the insurance offices will close down if they stop underwriting motor business.

The motor business continued to be the largest non-life insurance segment with a share of 44.14% (43.61% in 2013-14). It reported growth rate of 10.52% (14.15 % in 2013-14). The premium collection in health segment continued to surge ahead at Rs. 22,636 crores in 2014-15 from Rs. 19,634 crores of 2013-14, registering growth of 15.29%. However, the market share of health segment which is 26.73 % has slightly increased from previous year which was 25.32%. The premium collection from fire increased by 9.42% and for marine segments it has decreased by 4.48% in 2014-15 whereas for the previous year the growth rate in the fire and marine segments were 11.04 and 4.13 respectively.

**Table- I Premium (within India) underwritten by Non-life Insurers – Segment wise**

(Rs. In Crores)

| Department | 2013-14 | | 2014-15 | |
|---|---|---|---|---|
| | Rs. | % | Rs. | % |
| Fire | 7363 | 9.49 | 8057 | 9.51 |
| Marine | 3162 | 4.08 | 3020 | 3.57 |
| Motor | 33823 | 43.61 | 37379 | 44.14 |
| Health | 19634 | 25.32 | 22636 | 26.73 |
| Others | 13572 | 17.50 | 13592 | 16.05 |
| **Total Premium** | **77554** | **100** | **84684** | **100** |

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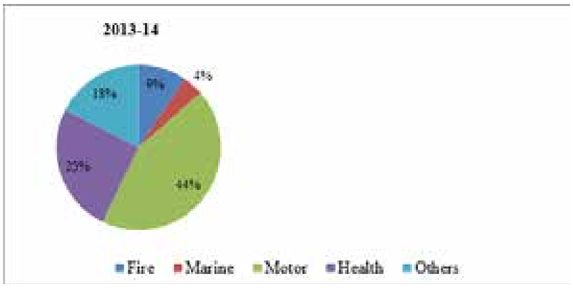
(**Note:** Above figures include premium of Specialized Insurers and Standalone Health Insurers)




**Pricing of a Policy:**
There is a complex inter-relationship between operational objectives and the security objectives which together constitute the operational strategies of the Insurers like Policy Design, Method of Distribution, Underwriting, Claim Management & Pricing. Determining the operational objectives and resulting prices is known as the Pricing Process. Pricing process has two aspects: i) Establishing sound rates; ii) Deciding the prices to be actually charged.

Sound rates meet the insurers' long term objectives. They are based on sound insurance principles and keep in mind the portfolio being written by the insurer as also the changing social economic, legislative and technological environment. The prices actually charged take account of company's market share objective and its competitive environment. These prices may vary from time to time with the state of the market and with the expectation of management and shareholders.

In sound rates, insurers need to charge premiums which are adequate and are reasonably equitable between policy holders. These premiums should be adequate to meet the cost of claims plus reasonable operating expenses and to provide a suitable margin of profit. The concept of sound rates is independent of market forces. There should be a distinction between setting and taking commercial decisions and set actual prices. Ultimately, strategy should include not only the sound rates but also the prices & policy conditions of competitors in the market.

**Underwriting of a Policy:**
This business, however, has to be underwritten with care. Whilst motor is the easiest to underwrite, it is the most difficult to manage. The Indian market is a classic example of this where year after year - right from 1985 onwards, this portfolio has been bleeding. The basic reason for this is the nexus between insurer, customer and surveyor. Unless the insurers are able to break this nexus, things would not improve. A new dimension to this is the coming up of a new breed- the Dealer. Does it not surprise that the only area where the Dealers are making money is in repairs, their margins in all other activities are being eroded. Yet no corrective action is being taken by Insurers. WHY? Another area where Insurers need to concentrate is underwriting. Amongst a host of underwriting factors, the following would be critical for adoption by Insurers:

**Vehicle related:** Make & model, Engine power, Age of the vehicle, Licensed carrying capacity, Safety features, Repair & Replacement cost

**Driver or owner related:** Age, Driving experience, Driving record, Health & Habits

**Use related:** Annual Mileage run, Geographical location, Personal, Commercial, Private, Commercial for hire, Type of goods transported

**Other Rating Factors:** Theft proneness of the vehicle, frequency & nature of accidents, Named driver, Occupation of owner, Traffic conviction record, Special driving education, Safety training, Membership of Automobile Associations.

In a De-tariff Market, insurers need to move from Rule Based Underwriting to Risk Based Decision Making. Risks need be rated purely on merits without involvement of extraneous factors. They also need to be selective with regard to an office which has a large motor portfolio. The best officers should be posted as head of motor divisions / branches. Currently, it is just the reverse, since motor is the bread & butter business of insurance companies they need to select the Officers / Incharges carefully.

**Top priorities for today's Insurers**
To increase customer retention and loyalty and to ensure company's growth. In order to achieve this, insurers must prioritise the task of improving custom experience across all channels and particular in the contact centre.

Increasing competition from many of the new internet-driven insurance providers is resulting in driving several of the old insurance companies towards a direct-to-consumer business model. This brings forth ownership of and control over customer relationships and marketing activities, access to customer data and cost reduction.

Traditionally, insurers are in the business of risk retention, risk identification and risk control – not mastering customer relationship. Hence it will require radical change of mindset and totally different skills, not least of which is the ability to provide a personal service through impersonal channels like E-mails, SMSs, Internet, WHATSAPP, social media and so on and this make available a consistent customer experience across all channels.

We have to keep in mind that companies have to be managed differently and they need to innovate and improve the quality of its products and services through flexibility and rapid change.

Today's fast moving and fast-changing business environment in insurance demands that companies be well organized technically as also administratively and be also a department in understanding the employees' basic needs and behaviour in the work place.

Gaining commitment, nurturing talent and ensuring that people are motivated, productive and committed requires open and free communication and trust between various levels.

There is a need for all insurers to keep themselves up-to-date with the changes occurring and be aware of the Bigger Picture. It is easy to get caught in the day-to-day routine of their own job, but by being aware of the fact that working practice is changing globally, they can deal more effectively with the changes that are taking place and also maintain a longer-term vision of where they and their organization are headed. By doing this, insurers can play an active part in moving towards the outcomes that are need-

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ed in the second and third decades of the 21st century.

**Conclusion:**
Motor business in India has a bright future. It will continue to be the largest percentage of an insurer's portfolio on the non-life side. Insurers will be required to collect data & statistics, evaluate the same periodically, take actuarial inputs and then price their products for the benefit of their customers & policy holders. Last but not the least; they also need to weed out corruption and nexus in this portfolio.

With proper selection of officers / in-charges in operating units coupled with involvement of automobile engineers in key centred, this portfolio can still generate profits. What is needed is commitment, knowledge of the local market, persistence and hard work. The credibility of non-life insurers will depend upon how effectively they play this role in a liberalised, sensitive and competitive environment.

Lokhande M.A. (2015) : The investment avenues ranked by the respondents indicated their preference for the various investments options. Bank deposits were given the first rank by the investors. They explained that nearby banks were easily accessible and they felt that their deposits were safe and liquid in the banks. In addition, bank deposits supported their creditworthiness. The second rank was given to gold and jewellery, which indicates that the yellow metal is still very popular as in investment option among the rural investors. They perceived that holding gold and jewellery was a status symbol and these were also liquid assets. Rural investors ranked real estate as Rank No.3 and postal schemes were ranked No.4. Insurance was given Rank No.5 by the respondents. As per an estimations, insurance cover in rural areas is hardly for 10% of the rural population because of lower reach of the insurance companies. Mostly, life insurance policies were preferred by salaried and business persons. Mutual funds, shares and debentures were ranked No.6 and 7, and No.8 respectively by the respondents, which indicates that the rural investors were not comfortable while investing in securities.

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