Prize Winning Essay in S. K. Desai Memorial Essay Writing Competition

Building Profitability in AUTO Insurance

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ABSTRACT

Motor Insurance is the branch of insurance that most directly affects the general public. With over 55 million vehicles on Indian roads and a legal requirement for insurance for every vehicle on road, it is easy to mark why this portfolio plays such a major role in insurance services. Though it appears to be simplest of all insurances yet it is experiencing most difficult time in India. The performance of Indian market in motor-portfolio during the last decade has been anything but satisfactory. It generates huge amounts of premium income but it also produces frequent losses that have now reached new dimensions. It is least attractive market for the new players. Public-sector companies have experienced continuous trend of payouts and cost far exceeding the collected premium. Negative results of this segment are fuelled by increased severity of claims, brutal competition, regulation, increased frequency of law suits, high jury awards, inflation, increase in auto thefts and improper fraud management that all are contributing substantially to make the bottom lines red for insurers.

Underwriters are scrutinising their accounts more closely than any other time in recent past to drive their auto insurance portfolio in right direction towards profitability. *During the soft market, a lot of things happened- underwriting got loosened up and companies concentrated exclusively on growth with little control on processes and practices that sensible underwriting would permit. The claims severity worsened and underwriting losses became a regular feature for the insurers. This has now started hurting. One thing that is essential in this critical hour is careful underwriting and adoption of sound business practices. Days are gone when other portfolios subsidised the losses of*

this portfolio. The Regulator now keeps watch on business practices of insurers and the cross-subsidisation in different classes is not permitted, as the insurers are required to file class-wise statement of solvency margin every year. Hike in rates is also not the solution. Even on demise of the tariff, the competitive forces will not allow insurers to balance their portfolio in this way. Remedy left, in such a scenario is to learn from the adversities that the insurers are facing from their own style of business practices and to overhaul their underwriting and claim practices to set the balance right.

On this premise, an attempt has been made in this research paper to find what has gone wrong with auto insurance market and how to generate profit from this portfolio-in-trouble.

There is a saying in business, " Companies don't go broke during bad times: they go broke during good times" The challenge of building profitability in auto insurance is complex but surely not an impossible achievement. Sound business practices world over have shown encouraging results. The article addresses ***the driving factors that can put auto insurance in India on the roads of success and shows the ways how to keep driving even through the bumpy areas.***

MOTOR INSURANCE-AN OVERVIEW

Motor insurance is the biggest and fastest growing general insurance portfolio in the Indian market. It accounts for more than 42% of the cash flow of general insurers. The total non-life business in 2001-02 was Rs.7583.26 crores and the share of motor-segment was Rs.3188.06 crores. The Rs.25 crores motor market at the time of nationalisation has attained this stature and volume due to explosive growth of the automobile industry. This class has attained the status of major portfolio in the non-life sector. The business done in first 10 months of 2002-03 in this segment is as under:

Table 1 - Motor Insurance in India

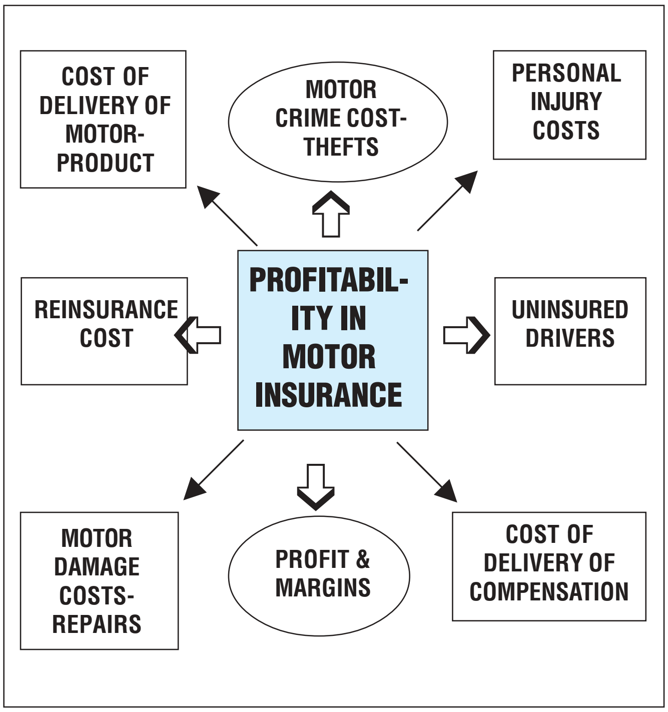
Sr. No.	Insurer	Motor Premium Rs. in Lacs	No. of Policies issued	Motor as % of total business
1	Royal Sundaram	6487.96	158344	42.75%
2	Tata AIG	6233.72	65279	33.73%
3	Reliance	585.60	10432	03.5%
4	IFFCO-TOKIO	1902.90	81768	10.97%
5	New India	Break up not available		
6	Oriental Insurance	85122.12	4003939	35.87%
7	National Insurance	Break up not available		
8	United India	Break up not available		
9	ICICI Lombard	132.50	1041	00.76%
10	Bajaj Allianz	13612.61	549199	57.92%
11	Chola-manadalam	90.34	5813	14.19%
12	HDFC Chubb	392.36	6349	99.58%

Source: IRDA Journal-March 2003.

The vehicle population in the country has already crossed 55 million mark and 2.5 million vehicles are added every year. From the infrastructure point of view there were 300000 vehicles on a road-network of 400000 kms in 1951. This number has gone up nearly by 170-times by 2000 whereas the road-network in the country has expanded by 9-times only causing serious traffic congestion, pollution and increasing number of road accidents in the country. The road accident rate is almost 35-per-thousand, which is highest in the world, though it has only 1% of the total number of vehicles. It is cruel. As per a report published in the Hindustan Times, 220 persons are killed on roads everyday, and about 80,000 a year. It is like having two plane crashes everyday. Over 3,20,500 are injured. Number of accidents per thousand vehicles in India is 120 as against 10 in developed countries. While the average accidental death per-10000-vehicles were only two in the west, in India these were 55. ***These cold-blooded statistics assumes greater importance as it has a direct bearing on the performance & profitability of the motor-portfolio.***

The motor premium has grown constantly at a rate more than 20% in past few years, but the escalating loss ratio does not give any cause for celebration. GIC recorded a 22.12% rise in net premium in this sector in 2001-02 but its overall profit declined by 23.44%. Motor-Segment is the major contributor to the overall underwriting losses of the insurers. The average loss ratio is over 250% in third-party segment and the motor-portfolio as a whole is experiencing losses over 125%. These mounting losses come at a time when insurance companies are facing fall in investment incomes and reduction in premium accretion from low claim segments especially project and marine insurance.

Profitability is perhaps the most important issue in the debate on auto insurance crisis. Its components are:



Insurers point out that they shell out crores of rupees more in losses and expenses than they earn each year in premium; they incur huge inderwriting losses *(defined as net premium (-) incurred-claims (-) expenses).* Consumer activists counter that insurers take home crores of rupees in investment on policyholders' funds that result in excessive profits. Both sides, from their respective standpoints are not factually incorrect. ***Insurers do incur underwriting losses and earn investment income.***

Reasons of loss could be analysed in detail but one thing is sure that motor insurance is experiencing a difficult time in India.

Third party insurance is a pre-requisite to motoring on Indian roads. No-Fault law provides compensation to injury victims, regardless of fault. The rising loss curve in auto-insurance is mainly because of unlimited liability provisions of the MV Act. The TP awards are matter of distress to insurers and ***there remains a life size question as to the ability of insurers with limited capital resources to grant a cover that is unlimited in amounts.*** Due to liberal attitude of the courts, the revenue bleeding has become so severe that it has crossed the tolerance ratio of insurers. *For "Oriental Insurance" the motor TP incurred-claim ratio for 2001-02 was 337% as against 228% in 2000-01.*

An analysis of financial results of this company is depicted in following table:

Table 2 - Motor Portfolio an analysis

Sr. No.	Particulars	Compnay's Perform-ance	Motor Port-folio	%	Remarks
1	Premium	Rs.2498.63 lacs	Rs.929.56	37.20	Maximum
2	No. of Claims reported	6,65,483	4,21,451	63.33	Highest
3	No. of Claims settled	6,38,381	3,88,997	60.93	Highest
4	No. of Claims outstanding	3,12,264	2,70,603	86.65	Highest
5	Total incurred-claim ratio	93.43%	167.45%		Highest

Note: Out of 2.70 lacs outstanding claims the suit claims are 2.18 lacs. **The incurred-claim ratio (167.45%) comprises 79% OD-claims and 337% TP-claims)**

The statistics noticeably point toward "poor", "worsening" & "disappointing" results. ***They also indicate that motor-portfolio is the key contributor in building the brand and corporate image of any insurer.*** It deals with the largest customer-base.

The result of other insurers also tells a similar story. Net loss in motor business for "New India" for 2001-02 was Rs.582.19 crores as against a loss of Rs.429.49 in 2000-01. The incurred-claims ratio in motor-segment for this largest public-sector company was 118.85%. The incurred-claim ratio of "National Insurance" for motor-OD was 78.68% and for motor-TP it was 275.08% in the year 2001-02. "United India" registered a loss of Rs.272.57 crores & its incurred-claim ratio was 133.72% in motor-segment in that year.

Looking to these trends the new private companies have shown a cautious approach. They are unwilling to insure commercial and old vehicles and have preferred to stay away from this segment. Auto-insurance market is least attractive for them. During the financial year 2001-02, six companies underwrote motor premium in private sector. The gross premium underwritten by them in 2001-02 was only Rs.465.77 crore i.e. a meager 3.74% of total market. The net incurred-claim ratio of the private sector was 38.72% **but the fact remains that all the 6 private insurers too have booked underwriting losses in motor-segment.** Motor claims particularly the TP claims take a while to develop and these companies cannot know the real effects of writing motor premium until 2-3 years down the road.

While the insurers felt the full impact of adverse results in recent years, a review of past experience indicates that the trend towards higher losses began in 1989 after amendment in the Motor Vehicle Act, 1988. Wide coverage (unlimited liability) without corresponding rate increases, general inflation in claim cost, unchecked repair costs, increased claim consciousness, increased frequency in auto thefts & failure to manage frauds resulted in alarming adverse results. **The time has come for insurers now to do introspection as to how to trim down the losses and to reposition this vital and primary segment back to profitability.**

MOTOR INSURANCE CYCLE

An insurance cycle is similar to the cycles experienced in many industries when times are good and companies make lot of profits, more and more providers of capital want a slice of the action. When the increased competition reduces premium income to unprofitable levels, *some companies pull out of the market or start declining some risks.* Lower competition, as a result, leads to higher premium and a return to profitability and so on. The companies that survive the lean times and those who can call on solvency margin they have built up in happy times create new success stories. Despite regular underwriting losses in motor-segment since 1989 the solvency margin of all public-sector companies is quite adequate. The reason is investment profits and profits in project and fire segment. The trend of huge losses, however, cannot be left unchecked for a long time and prompt action is required to come out of this reverse drift. *The private players have not seen those happy days and they are straight venturing into difficult cycle.*

The underwriting cycle for auto-insurance is similar to a slide wave. Collectively insurers find themselves in the trough of the wave, beginning the journey upward. When they get to the top, they slide back down the other side. That much is beyond their control. But there is much that they can control and with the memory of the last slide still in their mind insurers today are trying to figure out how to prevent or minimize the next downward curve. The loss trend started in this segment in late eighties has substantially squeezed the margins of the insurers.

Generally each cycle has its time. In UK motor insurance is the most deregulated market but it took 6-7 years to arrest the downtrend. The latest FSA returns show that in 2001 the motor loss ratio came down from 87% to 76%. The expense ratio remained unchanged at 28%. The market's combined ratio improved from 114% to just 104% and is expected to improve further and it will push motor underwriting into the black in 2002 for the first time in 7 years.

In USA, the period of loss trend continued for more than 8-9 years before the loss ratio came down to 76.2%. Commercial auto participants now feel like making underwriting profit in this segment. Japan & Singapore are still passing through a bad phase. ***Globally, the motor results are not impressive. This sector accounts for 46.5% of damages premium. In India auto claims takes more than 51% of total non-life claims while the sector generates 42% of the premium revenue.***

The lean period of losses in this portfolio has taken more than considerable time. The nascent private companies are not keen to enter in this segment without understanding the reasons of its poor performance. To come out of bad cycle, insurers must act pro-actively on sound underwriting of business and better loss-prevention techniques.

PRESENT TRENDS

As the problems have escalated in motor-segment, pressure has grown on insurers to examine key issues to find ***where they lost their way and to find out the solutions that can aid auto insurance crisis.***

Before turning to these key issues and addressing their solutions an attempt has been made in this paper to observe the present market scenario in motor-segment.

1. **Cash-Flow Underwriting** was the corporate philosophy and the strategy of the public-sector companies prior to 2002. They emphasised premium growth rather than profitability. Now the concept of profitability is the focus in the commercial thinking of the insurers.

2. **Lack of control** particularly in respect of underwriting i.e. acceptance of risk is one of the causes of high claim ratio. The analysis made from the sample data study of 5 divisional offices of different public-sector companies reveals that 7% of total reported third party cases were of close-proximity nature (a claim that is reported within 5 days of its underwriting is a close-proximity case). As these cases were not fit for compromise, settlement was delayed till the award was pronounced. ***The interest amount in more than 71% cases exceeded the principal amount.*** Thus, the poor underwriting exposed underwriters not only to doubtful risks but also to very high claim costs.

Table 3: Analysis of Close Proximity cases

Sample data of TP Claims	Close Proxi-mity cases	% of close proxi-mity cases to total cases	Compro-mised cases	Award recei-ved	Inte-rest more than 100% of prin-cipal	Inte-rest more than 75% of prin-cipal	Inte-rest more than 50% of prin-cipal
300	21	7%	None (0%)	7 (100 %)	15 (71 %)	3 (14.5 %)	3 (14.5 %)

3. **High acquisition cost and soaring management expenses** contribute at least one-third of the outgo cost of motor-portfolio. The agents mainly sell this product. Despite a large force of development officers, the public-sector insurers have failed to promote motor insurance by direct underwriting. ***Instead the dummy agencies have mushroomed to put extra cost burden on the portfolio.*** It is worth to mention here that in UK direct-writers like **"Direct Line" and "Churchill"** have captured a sizeable market share by directly underwriting the motor business without incurring any distribution costs on account of commission.

4. The new generation vehicles have a ***very high repair and replacement schedule.*** **It is understood that insurers are not getting adequate premium commensurate with the risk exposure on new technology vehicles.** A report on **"Volvo-Make"** vehicles revealed that the entire spare-parts cost of these vehicles works out to 3 to 4 times of its original sale price. The insurers have practically no control on the rising repair schedules. Workshops & repairers keep increasing their charges. There is no practice of agreed repair schedule. The loss experience, however, is not similar at different centres, as the operating conditions are not same. The trends vary to such an extent that it raises curiosity to probe further to find out reasons for the variance. The following table depicts the own-damage claim ratio of the worst performing divisions in some cities. It raises doubts about ineffective control on workshop malpractices and possible involvement of their own people and loss-assessors.

5. **The frequency of theft of automobiles** has been at its peak in the last few years.

6. Lenient attitudes of the court, casual approach of the employees and exaggeration of the disability percentage in ***bodily injuries*** has hit profitability severely.

7. Inflated and sometimes outright ***fraudulent claims*** have also contributed to overall claim cost. Insurers do not have effective fraud management system in place. 'After-event' investigative system is all that is available in the vigilance department of the insurers.

Table 4: Own-Damage Ratio of Worst Performing Divisions

A Distorted Reality

Delhi	Jaipur	Indore	Pune	Lucknow
193%	79%	68%	59%	135%

Source: Review book of a public-sector company 2001-02)

8. Motor insurance is a ***regulated business.*** The insurers have failed to generate adequate database to enable actuarial calculations for risk assessment and rating of different groups of vehicles.

9. Motor tariff, to-date, doesn't address significant issues like **scientific rating. Rates are not based on the risk exposure.** Even Chairman TAC urged members of Ansari Committee, while considering the revision in the rates of motor premium, to consider issues such as:

   a) How to reward a good driver?

   b) Rating of a good quality vehicle vis-a-vis an inferior one.

   c) Rating of a well-maintained vehicle vis-a-vis a poorly maintained one.

KEY ISSUES

Having had a look on the present market condition, this paper addresses the key issues that touch the success of the motor-portfolio. An effort has been made to deal with these topics in light of international practices.

Learning from own mistakes and learning from others is the mantra for rationalisation and revitalisation.

DE-TARIFFING - NOW OR LATER

To go off the tariff is the key issue in liberalised environment, but it is equally imperative to consider ***whether the motor-market is mature enough for detariffing?***

Pricing is an important factor in marketing of any product or service & its overall profitability. Motor insurance market is highly regulated and insurers till-date have very little to do in this regard. Considerable losses have resulted, with no prospect of a turnaround but the insurers have not succeeded to push rate increases necessary to offset claims costs. ***There is general apprehension that if insurers are not permitted to charge adequate rate based on their experience and exposure, this one segment will erode their bottom line and could even lead to a level of insolvency.***

Generally the countries that maintain a tariff and ones that have a controlled market, tend to have higher premium than those that of the free-market. A market-driven rating is better for the consumers, enabling the careful driver to be rewarded with competitive premium and a wider range of products to choose from. ***In India however the situation is different. The motor premium rates are among the lowest in the world. The average motor premium here ranges from 2 to 3% as compared to 6 to 8% in western countries.***

If one looks, historically, over the last decade, what happened is that loss ratio is climbing at a rapid speed and even the investment profits are falling short to fill the gap. The liability cover is very cheap and insurers that have commercial interest in their operations cannot serve the market on these rates. New players feel that the villains of the financial piece have been the truckers and other commercial vehicles. They are wary of bringing this segment to their kitty because *they do not want the exposure that has given serious and continuous blows in the last decade.* Public-sector companies have also started being cautious of these risks. **The state of market place right now is really unsettled for commercial vehicle segment.** There are more and more uninsured vehicles on Indian road and this opens another areas of possible fraud.

IRDA is working to de-tariff motor portfolio, which is regulated since 1971. ***Liberalisation and tariffs conceptually do not go hand in hand and if not today, in the near future, Indian market will have to move towards a non-tariff regime.*** This initiative of regulator has come as a surprise to motor insurance market. The insurers, private and public, are not prepared for this situation. They fear that the sudden demise of the tariff may cause turbulence in the market. This may put pressure to reduce rates, which in turn will make the business further unviable. ***They have an example. When the marine business was detariffed, the premium rates crashed.*** Today, much of the marine business is offered at throwaway prices. Industry as yet has no clue as to how the market will react to detariffing with a price war. It does not have the competence, right now, to operate in an uncontrolled market with each player setting its own benchmarks at corporate level. Besides, it must be noted that (as observed by the Malhotra Committee) tariff is a feature of even the advanced markets. A tariff methodically drafted & implemented is a very useful tool in providing strength to the portfolio and ensures long-term viability. Further, unless there is a fundamental paradigm shift from 'growth' to 'profitability' in the corporate philosophy, a detariffed regime is a recipe for disaster.

Before lifting the control over the rates fundamental changes are required in the structure of this portfolio. One such critical area is to move towards scientific pricing linking motor insurance with driver, his driving behaviour, his life style as well as the make of the vehicle instead of considering cubic-capacity & zones only. ***All these factors play a significant role in creating damage history.*** At present a 70-year-old person (who drives his vehicle to temple or market twice a week) is charged the same premium that a 28-year businessman (who drives his vehicle everyday and often on the highway) pays. These risks are different but our tariff does not recognise them that way. This fact was also observed in analysis of claims carried out by ***'AON Motor Accident Management",*** the UK's largest accident management company handling over 60,000 commercial business claims. It revealed that the 26-35-year age group is the most vulnerable to car accidents compared to the mature driver (56-65 years old) who is involved in just 5% of all accidents. The 26-35 age bracket is also responsible for the highest number of cars being completely written off (37%) and 41% of all claims for personal injury. However, it is the younger age group (17-21 years) whose vehicle damage costs insurance companies most to repair. It costs 24% more to repair these age groups vehicles than the 26-35 year old group. The analysis has also shown men are responsible for 79% of all cars being completely written off. Men make more chaims on personal injury 68% compared to 32% of woman drivers. An identical research in India may generate similar results.

In Japan, the insurers have flexibility to differentiate on the basis of the risk insured, the rates, forms and distribution of products. Their direct response system *(Tsushin-Hanbai)* for automobile insurance works on differentiated rates outside the banded rates based on risk factors like age, sex, driving history, usage (commercial, personal), pattern of use (e.g. mileage-per-year), geographical (by region), vehicle type, vehicle safety features, multi car ownership.

In United Kingdom, the rating system is based on a low-speed crash test conducted by Thatcham Research Center. All the makes of private car are assigned to one of a series of 20-groups for insurance rating purposes. To achieve this, a formula is applied to each model, on the basis of following components:

- The cost of parts to return the vehicle to its pre-accident condition following a 15 km/h impact.

- The repair times associated with the reinstatement of the vehicle following a 15 km/h impact.
- The new car price.
- The vehicle performance.
- The availability of a body shell.
- The effectiveness of the vehicle's own lock systems and standard security devices.

Following the low-speed impact, Thatcham engineers produce a detailed damage assessment report for both the offside front and rear impact, listing the items for repair or replacement. The cost of replacement parts is calculated using manufacturers' retail pricing information. In addition, a note is made of undamaged but vulnerable items that are situated close to the point of impact. A slight variation of impact can damage these vulnerable items. They also provide advice on under-bonnet-packaging, bumper performance and other general energy management techniques that would eventually ensure the lowest possible grouping and lesser premium rates for their vehicles. Since 1992 these groupings are working fine in U.K. and manufacturers have taken cognisance of the group rating system, and have designed their vehicles for optimum low speed impact performance. ***This has not only given a right base for pricing motor product but also improved security features of the vehicles that can meet crash performance standards in real accident situations.*** Motor Insurance Rating is practiced in other markets of the world as under:

Table 5: International Rating Practices

COUNTRY	PRICING AND REGULATION FEATURES
CANADA	Insurance Regulators are involved with automobile insurance- only the mandatory coverage.
UNITED KINGDOM	Neutral network technology- integrating technical rates with market practices using price-elasticity models.
JAPAN	Japan abolished tariffs in 1998. 'Non-Life Rating Organisation' offers only reference risk premium rates for 'Compulsory Automobile Liability Insurance'
CHINA	No tariffs but approval of government is required.
SOUTH AFRICA	Third party auto insurance is funded by a fuel levy.
THAILAND	Tariffs are applicable & motor-insurance is compulsory class of business.
INDONESIA	Motor tariff is not mandatory. Insurers are free to determine rates.
AUSTRALIA	Insurers are free to have their own rates.
SINGAPORE	No tariffs. Up to 1999 'rate-freeze' agreement prevailed. The professional standard agreement prevented one insurer to undercut another company's rate without advising him.
MALAYSIA	Tariffs are applicable.

(Source: International Survey on rate making principles- 'CAS Committee' and IRDA Journal)

Actuarial competence is the fundamental issue that needs proper address before price-liberalisation. **Is it possible to determine right premium rate without practicing actuarial science? Do insurers worldwide determine rates commensurate with risks without actuarial workings?** In USA, Canada, Australia, Switzerland and UK actuaries play a significant role in data gathering and rate making. In Norway non-life companies are required by law to have an appointed actuary. In Japan rating functions are not necessarily done exclusively by admitted actuaries, but those who engage in such operations are practically expected to have some actuarial knowledge. **Actuaries are involved with accident compensation organisation and rate setting process in almost all liberalised markets.** At present data for motor premium pricing is neither authentic nor properly designed & mapped. Before setting the market free, the role of actuaries should be well defined in data gathering and design of statistics required for rating purpose. Only after putting proper database in place and analyzing it definite answers are possible. Insurers may use data designed & developed by actuaries as base data instead of relying on their own unscientific data. Actuaries may also utilise **CAS Rate making principles** or the **ASB standards of practice** as used in Japan or may use some methods like **Thomas-Mack-Chain-Ladder-Method** as used by actuaries in UK to generate perfect rates commensurate with the risk.Insurers in developed countries adopt most professional and actuarial practices for any price increase or decrease and the same is not based on debates or subjective opinions. Recently the 26% price increase made by UK motor insurers was explained as under:

Table-6 Fundamentals of Rate increase

Fall in discount rate in Ogden-Table from 4.5% to 2.5%	5%
Conditional-fees arrangement (no win no fees contingency practice in UK)	5%
Law Commission Reforms (Pain and Suffering)	3%
Civil Justice Reforms (The Woolf-Report) Time table for completing investigation	2%
Recovery of National Health Service Charges (medical cost)	1%
Personal injuries claim inflation compared to retail price index	10%
MIB (Motor Insurance Bureau)- Uninsured and Untraced motorists liability	1%
Lower interest environment (reduction in investment income)	1%
Total price increase	28%

(Source: Motor business statistics- Insurance newsnet)

Detariffing is the way for any liberalised market to grow but it should take a scientific approach. **At this stage when it is not sure whether detariffing will protect the bottom line or will constrain the marketing of motor insurance, tariff should not be abandoned in a hurry. It may lead to market chaos.** It happened in Australia when motor business was detariffed without adequate steps. Premiums dropped by 30% and insurers were saddled with about A$30-40 million losses. Freedom should be enjoyed with responsibility.

There are many things that Indian market has to do before phasing out of the administered pricing.

CAP ON LIABILITY- TORT REFORMS FOR ECONOMIC JUSTICE

Victims of road accident are compensated in different parts of the world as per the legal framework of those nations. In India section 147 of MV Act specifies that liability of insurers to third parties sustaining bodily-injury or death arising out of use of insured motor vehicle is unlimited and the cover is compulsory in nature. This is a cause for concern.

A contract may never be balanced if the operator has his income determined but fails to know the extent of his expenses. To address this key issue properly it is desirable to take a fresh look at the developments in other countries and to put a case before the tort reform authorities so that viability of motor business is not threatened. If not then in times to come, the insurers will either be forced to hike the premium rates much beyond the paying capacities of the drivers or will have to come out of business. Legislatures world-over ensure that the victims of road accidents get adequate compensation when they are injured, especially when injuries result from the negligent operation of the motor vehicle. In most of the countries legislation require all motorists to acquire liability insurance, as a prerequisite to registration of their vehicle but the compulsion of the insurance and the quantum of liability is not unlimited like that in India. Personal-injury liability is limited up to the threshold determined by the law in most of the states of the USA, in Germany, Japan, South Korea, most of the Provincial and territorial governments in Canada, in all nine states of Australia, in Nepal, Bhutan, Sweden, Switzerland, Austria, Philippines, France, Greece, Indonesia, Kuwait, Denmark, Afghanistan and Italy. In New York & New Jersey the auto insurance has personal injury protection of $15000 against medical expenses & $250000 for permanent severe injuries. A cap on compensation is provided in some legal systems sometimes as a trade off for no-fault liability. In Israel, for example, in the event of a 'road-accident' compensation for loss of earning is capped as a multiple of the average national wage. As per laws of Dubai the compensation for Death is restricted to Dhs.1,50,000 that is called 'Diya-Money' irrespective of person's income or social standard. As per Shariat law this amount is fixed. In Japan limit of claim amount for loss of earnings or any other loss is provided in government ordinance and the same is limited. Automobile owners, in Japan generally purchase voluntary automobile cover in excess of compulsory automobile liability insurance. There is no 'Act' compulsion for third party liabilities in Russia. In China the automobile liability is not compulsory countrywide though some provinces make provisions for unlimited cover and in such provinces the insurers put a cap of RMB 1,0000,000; for higher limits the insured has to negotiate with the insurers. In Bolivia, Ethiopia, Liberia, Oman, Lebanon, Saudi Arabia, Ecuador, Peru, Venezuela, Kiribati and Yemen the auto liability is not compulsory. In New Zealand all accidents (road, rail, industrial etc) have been put on an equal footing with limited liability provisions.Like India, United Kingdom, Pakistan, Sri Lanka, Belgium, Egypt, Ireland, Malaysia, Luxembourg, Mauritius, Cyprus, Burma, Singapore, Ghana, Kenya and Nigeria have, however, the provisions of unlimited liability against the bodily injuries. **For uniformity & fairness in the personal injury awards UK has a prescribed system based on 'Book-Of-Quantum' that effectively values the pains & sufferings associated with a particular injury. Under this structured compensation widely known as 'Ogden-Table' there is little point in plaintiffs engaging in protracted legal battles to increase compensation levels unless there is an issue on liability.** The lump-sum compensation is further discounted to arrive at net present value of the compensation and now days the discount rate applicable is 2.5%. '**Structured-Tables' after removal of arithmetical inaccuracies, as suggested by Supreme Court in UP Roadways case may be introduced in India with an upper-cap on liability. This ceiling on compensation awards may be linked to RBI-Index to consider inflationary trend as well as to avoid re-reference to the Parliament.** Review of the global compensation system against the bodily injuries suggests that even if the compensation is unlimited the compulsion is not enforced and the motorists can opt for voluntary liability covers. In India the victims of other unfortunate misfortunes like industrial accident, rail mishaps or air crashes also get limited compensation. **To put all accidents on equal footing it may not be somewhat ambitious to suggest the Indian Legislature that matters should not be different in India only for road accident victims and there should be a cap on the liability for road victims'.**

DISTRIBUTION COST

A lesson in 'Competitive-Excellence' suggests that when options of product differentiation & price strategies are minimum the answer to any dynamic profit strategy is the **cost-leadership**. In present regulated environment with stiff legal restraints the success of any insurer, private or public, will depend upon its **capabilities to differentiate the resources**.Operating and distribution cost is the one area where the insurers may feel the most competitive stress. In UK and US markets the most recent entry of direct-writers has created a huge dislocation to what were previously quite stable markets. In particular, in UK, the relatively new entry of insurers such as 'Direct Line' and 'Churchill' has resulted in a substantial move away from agent and broker driven business. In Australia too direct writers underwrite more than 80% of the personal line insurances. **This trend reflects a previously unmet need for cost reduction and a perception amongst some consumers that agents or brokers did not add value commensurate with their cost.** Profit generation of 15-20% or more arising from the cost savings generated from the elimination of agent or broker commission together with capacity of insurers to enhance the relationship by dealing directly with their ultimate customers may create a win-win situation. The key to success, especially for state-sector companies, will be their ability to significantly reduce distribution costs by elimination of double handling through the agent or newly introduced brokers. This in turn may result in the ability to underwrite business at more competitive rates. Public-sector companies have a large brigade of development officers that can be directed to write motor business directly without involvement of intermediaries. It has been two years since the Indian Insurance market has opened up and the new entrants into the market have set up their shop in every major city. Touch point with motor customers that are densely populated in major cities have been the development officers and agents and the role played by them is critical. These distributors are trusted risk advisors for clients and a shift of distribution strategy away from them will be a substantial shift in auto insurance but changes need to echo international trends. Worldwide, insurance products move along a continuum from pure service product to pure commodity product so that they could be sold at low cost through the medical shops, groceries, and novelty stores. Once these services are transformed as commodity products, the auto-insurance products also can move to remote channels such as television and direct mail. In U.K. retailers **Mark & Spencer** sells auto insurance products.A new distribution model that has appeared recently in market is the **invisible insurer**. In this model insurance company is not the entity marketing the product. The insurance cover is sold by an automobile company as an add-on product tied with the brand of the auto manufacturer. Insurance company that underwrites it carries the risk. The new players are also attempting this model. The venture of Maruti Udhyog into insurance by setting two subsidiaries MIDS and MIBC to sell automobile insurance is a case in point. These firms largely arrange insurance covers for Maruti's captive base. MIDS has an exclusive arrangement with "Bajaj Allianz" while MIBI is linked up with "National Insurance". Though commission cost is an element in this model, but other procurement costs nation-wide are minimised and business in bulk assures economies in scale.At present the general observation is that insurers especially the State-Run Companies are " Fat-Cats" that have had excessive freedom in running up exorbitant expenses, which they try to pass to consumers in form of high premium. This high acquisition cost is an important factor and when added to claim cost makes the portfolio highly loss prone. **In the drive to reduce costs and make premium competitive and portfolio profitable, insurers will have to reset their distribution strategies and expenditure habits.** Public-sector companies have just reset the business cost norms for their development force ranging from 7 to 10% but they still market motor-product with 15% commission. If notional 10% administrative expenses are added to this cost the business procurement & management cost itself comes to a tune of 35% **and to stay profitable, the claim cost (personal injury + damage claims) should not exceed 65%.** Some of the public-sector companies have now stopped incurring commission cost against the commercial vehicles and the agents are not allowed to market this business. Direct marketing force now writes such business observing strict underwriting norms. Direct underwriting not only brings efficiency but it promotes economy.

If 2/3rd of the personal auto insurance market can be captured by direct writers in UK at low cost so can it be done in India. Insurers should practice to explore this low-priced mode of distribution in their effort to make the auto insurance profitable.

KAIZEN IN MOTOR UNDERWRITING

Kaizen is a compound word "Kai" means change & "Zen" means better. It is Japanese philosophy for continuous improvement (usually but not always applied to improve manufacturing performance) through the elimination of waste. Japanese insurers have steadily applied this philosophy in production of insurance services at little or no cost and results are significant and meaningful. In past Indian insurers keep accepting bad business because of overemphasis on growth. Naturally the impact on quality was adverse on their bottom line. Private players won't do business in their way and **doing the business differently will provide them a competitive edge.** Disciplined and imaginative underwriting is the need of the hour especially for the public-sector insurers if they are serious to bring profitability back to motor-portfolio. The motor-portfolio is very sensitive and underwriting particularly in TP-section should be done cautiously. The skill and experience of motor underwriters is most critical at the point of underwriting. Underwriters should closely monitor the quality of business by reviewing new and renewal of policies on continuous basis to ensure that the operators of the business seriously follow the corporate underwriting guidelines. It is right time that they should shed their business growth obsession. The statistics obtained from 10 Divisional Offices of Public-Sector Companies mainly operating in northern India reveals a gloomy picture as how insurers are losing money on their passion for cash flow underwriting.

Table: 7– Business results of Key Financers & Distributors in Automobiles

Segment	Share in total auto-premium	Own Damage Claim ratio	Replacement cost of parts as % of OD loss	Repair cost as % of OD loss	Commission & business acquisition cost	Total cost (Excluding bodily injuries)
Financers	25%	82%	65%	35%	25%	107%
Distributors	35%	93%	88%	12%	25%	118%

- ➢ The own-damage cost in 3 divisions was more than 100%. 194% in one divisional office in Delhi.
- ➢ The photographs showed that even for small impacts replacements were considered- the business appears more accommodating than commercial.
- ➢ The replacement cost of parts was more for distributors that have their own service stations than the financers.
- ➢ Growth obsession and acquiring the preeminent market-share appear to be the major factors to continue with these portfolios.
- ➢ Commission 15% for new business – 7% permitted cost for development officers and 3% for other costs like stationery etc has been added. Office rents, salaries of claim processing staff & other administrative expenses are not included in the cost.
- ➢ The data against bodily injuries was not available. If added, it will prove that these accounts were highly loss making.

After the hard knocks the insurers must now understand that the growth obsession not supported by profits is not commercially viable in long term. It is suggested that there should be a continuous review of the major accounts and the claim practices in such loss making offices to understand trend and reasons of high claim ratio. The loss ratios are adverse more on account of the poor claim practices and if corrected there is possibility to get improved results. To unearth the malpractices data in following format may be called on monthly basis to review & arrest unwarranted trends.

Table 8: Claim trend- an analysis

Insured	Vehicle Particulars	Cause of Accident	Repairer	Surveyor	Estimated Amount	Recommended Amount	Settled Amount

Undue repeat appearance of surveyors and repairers and job to particular surveyors for specific workshops may be analysed by special audit teams. **The special audits of these offices have nothing to do with vouching and other routine procedures but the factors that need review and probe are trends, chances of collusion between surveyors and workshops etc.** The special audit team may comprise of technical expert of insurers and two consultants - a surveyor and a repairer of repute preferably from another city. The report of these experts should concentrate more on remedial measures than in postmortem of the accounts. The accounts that remain loss making despite corrective steps may be dropped in larger interest of the organisation. **Other measures that can be adopted to improve underwriting are:**

(a) "First-Coverage" should always be granted after obtaining a complete proposal form.

(b) Operating offices that are situated in the RTO area where the vehicles are registered should normally do insurance of those vehicles.

(c) Inspection of the vehicle must be insisted where there is change in scope, change of insurer, break in cover or when the vehicle is registered in a different city.

(d) The agents should not market liability covers. The office should write such business in office hours only, without the usage of cover notes, observing the prudent underwriting practices.

(e) Proposal-form should have a specific question to know whether the vehicle has been considered for cash loss or for major repairs earlier.

(f) If claim ratio is high and premium cannot be loaded due to tariff compulsions at least 'policy-excess' may be imposed where possible. List of such high loss accounts should be circulated so as to increase "caution levels" in handling claims reported by such accounts.

SOLUTIONS TO INFLATED REPAIR COSTS

In present scenario another key issue related to profitability in auto insurance is the competence to manage the own-damage claim cost. Motor damage accounts for approximately 70% of OD-claims cost. The cost of motor damage repairs, replacement of parts and cost of labour is significantly expensive. As repair costs represent the largest part of the overall cost it represents a fertile area for attempting to reduce the same and to make the portfolio profitable. After opening of the market, the pressure remains both on private and public insurers to cut the repair cost of damaged vehicles as well as to ensure the quality of repairs. It should also be noted here that dissatisfied customers are quick to return seeking rectification of damage in one way or the other. Inadequate repair standards therefore add to overall cost and reduce customer satisfaction. World-over insurers have found that the lowest cost repair is not necessarily the best solution in longer term. The challenge, as such, for every insurer is to balance cost management. Insurers are experimenting with a variety of methods for managing their own-damage segment.

APPROVED REPAIRER NETWORK

World-over Insurers are entering into relationship business with repairers. **Preferred repairers Schemes** that entail selection of a number of 'approved repairers' who agree to adopt certain high standards of repair in return for a steady supply of work are becoming popular day by day. These approved repairers ensure that costs are managed and kept to an appropriate level.In **Australia** NRMA Insurance is experimenting with a centralised repair distribution scheme in Wollongong. It evaluates repair costs through this facility by adopting quality standards. This process offers the insurer an opportunity to exercise better control over the repair process and provides opportunity to provide enhanced customer service. Some insurers in Australia are also trying their own repair facilities. These facilities are intended through managed work volumes to maximise efficient use of capital reducing overall repair costs while maintaining repair quality. The cost saving in own repair facilities is much more than investment cost in repair infrastructure. These insurers have been able to reduce their own damage claim costs substantially. In Ireland, insurers have made remarkable progress in controlling the escalating labour cost burden. They have managed, against significant customer opposition to push more repair work through approved repairers network where the costs are under more control. It has also contributed greatly to the reduction of fraud in motor claims. In Singapore, some insurers have backed the creation of a vehicle assessment centre by taking small strategic stakes in the **Vicom Assessment Centre** (VAC). The major shareholder of this company is Vicom Limited that is a vehicle inspection company. VAC helps insurers by screening fraudulent claims and ensuring that only necessary repairs are made. To induce motorists to use its services, VAC provides after repair checks to make sure the vehicle is properly repaired. Insurers achieve significant savings in claims since they pay only for repairs to the actual damage resulting from the accident and not for 'aggravated damages' that might be inflicted by unscrupulous mechanics. Malaysian insurers are practicing the approved repairer scheme since 1983. Repairers apply for their inclusion in the scheme. Members of Malaysian Insurance Trade Association, through a secret ballot system nominate or veto workshops to be included in the scheme annually. Insurers have option to use only repairers listed in the scheme. They are however, required to make known to their policy holders at the time of issue of the cover that they shall only be permitted to send their vehicles to these panels of workshops for repairs in the event of accident, failing which the insured shall not be eligible for the indemnity of repair cost. The condition makes it attractive to repairers to perform well and remain in the scheme or seek entry to it. The scheme provides insurers an effective control mechanism as repairers can be blacklisted if they are found involved in fraudulent practices.

PROFITABILITY THROUGH CASH-LESS REPAIRS

As approved repair schemes are successfully practiced world-over insurers can try it in India with local blending. They can include the willing repairers in their network who agree to provide efficient, economical and trouble free repairs. Repairers on the network can also offer certain discounts to attract the customers. Those who produce impressive results can further be graded as 'Certified-Repairers' for Cash-Less repairs. At these certified network repair workshops the vehicle owners may not require to pay against the accidental repairs. The moment any accidental vehicle is brought to such workshop, the service provider may contact the approved panel of the surveyors or the insurers for the survey. Repairs may be done according to the pre-repair acceptance note. The insured may require paying only the depreciation cost or the improvements he orders. If practiced in right spirit and with proper controls, the approved repair scheme will not only build relations between the repairers and insurers but will also reduce the repair costs considerably.

STANDARDISATION OF MOTOR CLAIMS

In developed countries the liability is assessed by electronic mode utilising the specially designed software packages that evaluate the liability on the basis of cause of accident and digital photographs taken of damaged vehicle. This enables insurers to settle claims in much faster pace and for reasonable amounts. **Standardised labour, repair times and pricing minimises subjectivity in repair estimation and claim approval.** Non-Life Insurers in Japan set up an institution called the 'Jiken-Centre' in 1973 to carry out research on improved repair techniques and tools. This Institute studies repair costs for the purpose of standardisation of repairs. The 'Motor Insurance Repair Research Centre' at Thatcham, UK is a front-runner in development of new repair techniques. **It is the technique leader in developing the repair of fiber and plastic parts.** 'Allianz-Centre', Germany do lot of research on repair techniques with support of country's major insurers. **In the US, insurers rely on computerised estimates rather on adjusters proficiency**. In India, insurers do not practice these kinds of settlements. No efforts have been made to develop standardised claim settlement. Even data has not been gathered and analysed to standardise patterns & cost. Research associates of NIA Pune, however, have conducted some research on few models of automobiles. One such research report of NIA on commercial goods vehicle discloses that General Insurance Companies are paying more than Rs. 100 crores extra in own damage claims alone.

Table: 9- Accident wise comparison between Estimate/Assessment/Actual payable

Company/ Zone Wise Analysis	Average estimate	Average Assess-ment	Percentage of Estimate	Actual amount payable	% Inflation in assess-ment
New India	96148.81	38966.7	37.55725	35500.1	9.46911
National Insurance	118014.5	53963.3	42.74668	48401.17	11.49171
Oriental Insurance	107292.0	37941.2	33.95468	34855.3	13.10032
United India	122249.7	49853.4	37.68038	46277.8	11.74656
Central zone	115509.1	42543.4	36.99000	39272.0	10.53116
Eastern zone	95464.59	37526.3	36.11735	34366.5	18.33690
Northern zone	116826.8	59747.0	41.68769	51925.7	18.21298
Southern zone	113534.6	48846.8	40.55642	45595.0	9.982383
Western Zone	116593.2	40435.7	35.98325	37073.5	12.32992
INDUSTRY TOTAL	111537.5	46192.58	38.58843	42140.4	13.52097

(Source: Standardisation of Motor Claims for Commercial Goods Vehicle (Tata) by N.C.Das-1997)

- The report discloses that percentage inflation in assessment is more than bigger claims.
- Average assessment for motor claims for the industry as a whole is nearly 40% (38.588%) to estimate provided. This shows the way repair estimates are produced before the insurers.
- The inflationary trend in assessed amount and the actual claim payable as per the research report is around 13.5%. In 1995-96 GIC's OD-incurred-claim was Rs. 814 crores; with the same inflationary trends GIC might have paid Rs.110 crores extra towards accommodated spares.
- In zone-wise analysis the trends of northern and eastern zones are alarming.
- Highest number of accommodation of single parts were as under:

Name of Part	Percentage	Name of Part	Percentage
Engine Foundation	6.31%	Steering wheel	5.33%
Thermostat	4.36%	Kingpin rep kit	4.36%
Steering worm	4.04%	Sector Shaft	3.88%
Steering Spindle	2.75%	Draglink rod assembly	2.75%
Removing/refit of steering	2.75%	Tie rod assembly	2.42%

The above report gives food for thought that practices at workshop largely go unchecked in India and there is a need that the claim-handling officers should have a fair idea of the repair mechanism. Insurers should focus in empowering and enriching the job profile of claim-dealing officials by skill development training programme. They should be well versed with the latest type of technology of repair and replacement. If the dealing officers are trained to have a fair idea of cause and impact and function and failure of few critical components they can check the deceitful assessments and thus reduce the claim costs considerably. One more gray area of inflated repair costs is generic parts that auto repair shops refit to the damaged vehicles but they charge the "original equipment manufacturer cost" that are many times costlier than the generic parts. The following table shows a price comparison of generic vs. manufacturers price list.

Table: 7-Generic Vs. Fiat India Automobile Price list

Amount in Rs.

PART	ORIGINAL EQUIPMENT MANUFA-CTURER COST	GENERIC EQUIPMENT COST	% GENERIC PART LOWER TO ORIGINAL EQUIPMENT MANUFA CTURER
Panel Assembly	14067	9565	32%
Rear Fender	5902	4130	30%
Radiator	8958	3760	58%
Fender Assembly	2000	1500	25%
Door	16592	12000	28%
Windshield	4067	3000	26%

- For other manufacturers also the generic parts are available in abundance.

CONTROL MEASURES

Proper handling of claims can improve the trends in motor OD losses. The following control measures may prove helpful to arrest the trend of increasing claims.

(a) Insurance Officials should visit the garages either along with surveyor or on their own before repairs or at random during repairs. At times they can visit the workshops to check job-card even after completion of repairs. Offices that are practicing these methods have produced good results in controlling OD losses.

(b) Surveyors may be advised to submit 3-sets of photographs to substantiate their assessment: (1) Pre-repair condition; (2) During repairs in pre-painted condition; (3) After repairs with salvage.

(c) For replacement of parts costing more than Rs.10, 000 surveyors should specifically mention 'why repair was not possible?'

(d) Re-inspection report should comment as to whether the parts replaced are generic local brand or manufacturers original part.

(e) Surveyors should record the manufacturers' serial number or fix stickers or put some paint mark on major parts considered for replacement, to avoid pilferage at salvage collection/verification stage.

(f) It should be ensured that in case of total-loss, important spares are not removed from vehicles. Battery, radiator, AC Condenser, tyres at times have been found substituted from vehicles that become a total-loss in their early life stage.

(g) Wherever surveyor recommends settlement on cash-loss, they must also submit their recommendation on total-loss and settlement on repair-basis. Second surveyor, if any should not give opinion by just looking at the file but rather should inspect the vehicle and should submit his independent opinion. Report of 1st surveyor should not be passed on to him.

(h) Cash-loss settlements should be preferred only in exceptional cases. Vehicles settled on cash-loss basis should be hot branded or crushed in metal presses to avoid use of such damaged vehicles for fictitious claims from other offices/insurers. Data on cash-loss/ total-loss should invariably be shared among insurers or at least internally within the company.

(i) The assessment of proper salvage value in case of total-loss should start from initial stages of claim process so that proper value may be procured at the time of settlement. Insured may publish a tender-notice to find out reasonable sale value of the salvage/ vehicle in 'as-it-is-condition' before settlement of claim and insurers may reimburse the tender cost. The process must be completed speedily; otherwise salvage value realized may go down with each passing day.

(j) Storage of salvage at insurers' godown should be regularly monitored.

(k) Spot surveyors should not submit any report prefixed with terms like 'may be' or 'seems to be' rather, the damages should be specifically reported. All-important assemblies prone to accommodation like radiator, condenser, battery, fuel-pump, differential housing, tyres etc must invariably form part of spot-report, indicating whether these parts are intact or damaged.

(l) Spot surveyor should always check all vehicular documents.Spot reports are helpful as they lay down the outer periphery of damages. These reports may not be given to final surveyor to have fair and independent opinion. It can check the moral hazard of final surveyor and repairers to some extent.

(m) Surveyors must invariably examine 'doctrine of cause of accident' that reads ' there is always a direct relationship between cause of accident and damages caused to vehicle out of particular reason.' It depends on circumstances of accident, intensity of impact-load and jerk-loads, absorption of these load-waves at different points by the chassis and the structure of the vehicle. There is a tendency among the surveyors to narrate cause of accident, ' as described in claim form' which should not be permitted as it leaves scope of manipulation by the dishonest claimant.

(n) Estimates prepared by professional estimate makers not having their own garages should not be considered.

(o) Salvage of total-loss vehicles should be disposed off without RC and RC should be surrendered for cancellation.

SOLUTION TO ESCALATING AUTO CRIMES

Escalating auto crime is another key issue insurers are facing. The country is experiencing the worst vehicle crime in Asia. Private cars are the main targets. The report in Economic times suggests that motor vehicle theft in 2001 accounted for one property crime in ten. This is one of the few crimes that have increased significantly in recent years. An analysis of OD-claims discloses that approximately 20% of such claims were on account of theft or attempted thefts in the metropolitan cities. Claims for stolen components were 12% of total auto crime claims. There are reports of gangs of anti social elements operating in a very organised way. To help them, unfortunately, no standard in-built vehicle safety mechanism is found in most of the automobiles and after-market anti-theft devices are of poor quality. These vehicles are virtually unprotected from the professional thief. Most of the vehicles stolen from one State are registered in an organised way in the other States. In Delhi, in particular it has been observed that FR is issued against the reported car crime and the selfsame vehicle keep running on the roads of Delhi. The insurers, from time to time, get traffic infringement challans against those vehicles against which the claim has been settled and RC has been transferred in their name. No efforts have been made by insurers to recover even those vehicles. The lucrative market for criminals is now expanding in form of **'highway vanishing trick'**; instead of reaching their lawful destinations in various parts of the country, many goods vehicle disappear forever into a virtual maze of criminal networks and are lost to commerce and their rightful owners. A vehicle can be stolen while its driver is having a quick snack in a roadside café. It is believed that many of stolen vehicles end up in scrap-graveyard where their valuable component are stripped out for resale to illicit outlets. Insurers can do a lot to prevent or at least reduce the impact of vehicle theft losses on the own-damage portfolio but till date no serious efforts have been made in this regard. They have not made any serious call to vehicle manufacturers to provide standard security features. Not only this, even the efforts attempted to trace the stolen-vehicles are minimal. One can notice a huge number of untraced vehicles lying in different police stations for want of trace of owners. Liaison with police authorities and registration authorities is non-existent. The auto crime is a universal problem but in some countries the insurers have played proactive and lead role to reduce these car crimes. The best example that can be cited here is the one practiced by British Insurers.

A Solution to Escalating Car Crime in United Kingdom:

In 1992 vehicle theft in the UK reached the epidemic proportions with over 578,000 theft claims costing in excess of 673 million pounds. Private cars were the main target with over 4,09,000 claims costing 450 million pounds. This represented overall theft claims of over 30 per thousand vehicles insured, costing 16.22% of total motor claims costs. Vehicle manufacturers were not at all bothered about the security features of the cars and it was very easy to pick any vehicle for 'Joy-riding'. Over 25% of the criminal offences reported to police involved car crime and **it was ultimately the insurers who were footing the bill.** Clearly something had to be done and the British insurance companies turned to Thatcham for an answer to this growing problem. After several high-level discussions with the British insurers and consultation with other international research centres, Thatcham published the vehicle security criteria that specified details of safety requirements, component location, immobiliser and alarm system functionability, details for setting and unsetting, and specifications for wiring and power supply. After-market alarms and immobilisers available at that time were of poor quality and many were unreliable. Having established the security criteria Thatcham started providing installation and attack tests in which the security system of the vehicle was subjected to a series of attack tests in order to replicate any criminal activity to which the system may be subjected in the field. After testing, a certificate of compliance was issued to the manufacturer and the device was included in the compliance listing issued by Thatcham. On Thatcham's recommendations discounts between 5% and 20% were offered to those policyholders who fitted a compliant aftermarket system. Fitment of a compliant security device was only half of the solution to theft; the other half related to the system installation. As everyone knows, poor installation of a security device can render it impotent and therefore totally useless. More worrying was the possibility of the device interfering with other vehicle safety systems, with obvious and disastrous results. In order to ensure the satisfactory fitment of aftermarket security devices, Thatcham played an important role in setting up the Vehicle Security Installation Board, a body that is now responsible for overseeing the standard of fitment for aftermarket security devices. Utilising the same stringent criteria and test specifications, the scheme was extended in 1994 to include the security devices designed and fitted by the car manufacturers themselves. Thatcham then undertook a security assessment on all new vehicles as part of the rating process. The car manufacturers responded well because they recognised the advantage of a competitive insurance group for their product. Now 95% of new vehicles in UK are fitted with an electronic immobiliser as minimum protection, and many have improved their door/ignition locking systems. The scheme was modified and expanded to include Light Commercial Vehicles from 1996 and Heavy Commercial Vehicles from 1997.Security systems that are available in European models to fight against crooks in crime trade are:

- Tracker-Vehicle-Tracking-System: uses an electronic 'homing' device to locate a stolen-vehicle while on the road to a secret hiding place.
- Guardsman-200-Immobiliser: can be activated from dashboard cigar lighter to put electronic circuit out of use if tampered.
- Trak-Bak: advises control system base of vehicle movement and location.
- Simba-Automatic-Brake-Lock: air-brake immobilization, alarm & sentinel-digital-pulse-immobiliser.

After five years of activity by Thatcham, the results speak for themselves. The overall theft claims have reduced by 34%. These solution milestones created in vehicle security scheme in UK can also be tried in India. This may not only reduce the vehicle crime in the country but may also reduce the claim cost of the insurers.

COMBATING MOTOR FRAUDS

One of the problem motor insurers facing in India and world-over is that of inflated and occasionally complete fake claims. Fraud in underwriting, collection of premium and settlement of claims has caused serious strain on the profits of the insurers. Insurance fraud is as broad and complex as insurance itself. It is apparently an object of criminal exploitation world-over and unlike bad debts or conventional property crimes such as burglary, is unfortunately not self-disclosing. Therefore any attempt at determining of the extent of motor insurance fraud would be speculative. **Fraud is most likely to occur where there is opportunity, motive and people of questionable integrity**. It is not easy to detect. For many it is an easy road to riches.**Accenture Survey in US** finds that cost of fraud in the US in property damages and casualty claims is approximately $ 24 billion that represents 10% of total claims payment in USA. This survey revealed that one fourth of Americans says it's acceptable to defraud insurance companies. Overstating the value of claims to insurance company is standard practice that is acceptable too. 39% of respondents' linked insurance fraud to the offenders need for money, while nearly 24% said they believe that fraud is committed as people pay too much to get insurance cover. 20% said they believe that the offenders commit fraud to compensate for the claims deductibles they have to pay. If similar survey is conducted in India the results, more or less, will be the same. Though the precise effect of motor fraud can't be quantified but if we believe the reports on corrupt practices in India as compared to other parts of the world than the song **" Sabsey Agai Hongey Hindustani.."** fits impeccably here.Fraud is a growing concern for insurers, whose aging technology and inefficient processes often prevent them from detecting fraudulent claims, which in turn hurts their profitability. Those committing crimes are becoming more technical, sophisticated and advanced in their methods. Claim papers in such cases are perfect and can easily pass through the standard practices.Looking at the burden caused by the frauds insurers should ensure that:

- **They have right people at right places.**
- **They have proper tools and technologies.**
- **They have upgraded skills to combat frauds.**
- **They utilise right kind of surveyors and advocates.**

Most of the problem is taken care of by judicious utilisation of employees and intermediaries keeping in view their overall professional competence and integrity. Attacking a problem after it has occurred is time-consuming, frustrating and costly as evidence is difficult to obtain. The best solution is to implement effective fraud management system. Fraud management is a balance between cost of preventing, identifying and investigating fraud and the contribution of fraud to overall claims costs. Inflated repair cost is major component of motor losses. One can find many shark and sharpies among insurers' employees, loss-assessors, repairers and claimants. There are many parts that are included in the estimate to accommodate the inflated claims. These losses can be checked but the difficulty is there to combat frauds of loss-assessors and employees having questionable integrity. Data management is an effective tool to curb fraudulent practices. If it is created and managed efficiently it can provide significant information to curb frauds. The contents of claims after an accepted threshold may be loaded on to the database. The system may then search its records automatically and if details of search match with any claim already recorded (**cash-loss, total-loss- net-of-salvage, major repair**) insurers may probe into the matter. This allows insurers to investigate only a few claims thoroughly, and if success is achieved it sends out a strong message to other perpetrators. To deal with fraud certain countries pool these kinds of information in a centralised database. It has proved quite successful in U.K., Germany and Holland. In his research paper 'Motor Insurance Fraud' Yee Wah Chin discloses that in Germany, 30% of insurance fraud cases are solved with the aid of database. In Norway, the number of inquiries made to the centralised database each year is about 7,00,000. One may think that such a system would incur high start up, administration and maintenance costs. In fact for Holland, the expenditure for member companies is less than 0.0001% of the total premium. France, Sweden, Belgium, Netherlands, USA, Australia, Norway and Canada have jointly set up an institute known as 'Insurance Fraud Bureau' to deal with motor frauds. Besides loss investigation this institute take on training on fraud & public relations work including coordination with criminal investigation authorities. This kind of institute may be set up in India too. To battle fraud insurers in certain countries have set up reward schemes to encourage public to report fraud perpetrators. The Arson Reward Scheme, operated by the Insurance Council of Australia Limited (ICA) is one such scheme that provides a reward with an upper limit of A$25,000 for information ' 'leading to the conviction of any person for destroying or damaging property in the State, insured by a participant in the scheme, through an act of arson' This kind of scheme can be operated by motor insurers individually or though a centrally controlled and funded agency. Motor insurance fraud is a growing problem that can go out of proportion if not controlled. What is needed is a commitment to tackle the problem. The insurers should be proactive instead of reactive to deal with motor fraud. No matter which combinations are adopted, management should dedicate adequate resources and personnel to check financial crimes. Concept of fraud auditing may be introduced to check motives and opportunities of people of questionable integrity. A separate watchdog can also be instituted at industry level to deal with insurance frauds. Once strategies are developed and implemented, results should be closely monitored so that necessary changes can be made, where warranted and thus bringing the organisation closer to its objective of bringing profitability in motor operations.

WHAT HAS GONE WRONG WITH PERSONAL-INJURY CLAIMS?

In present circumstances and within the current legal framework the core competence of insurers is their ability to manage TP-claims that have crossed world-beating levels of compensation together with huge costs of delivering that compensation. Insurers turned as '**Practitioners-Of-Time-Base-Competition'** can dream profitability in this troubled portfolio. They should evaluate the cost of **one-day delay** in personal injury claims **(PIC's)** and if they can create new competencies by putting new discipline and time-based targets then profit in motor-portfolio may not remain a dream but may become a reality. Time has come to ponder critically about personal-injury-claims, as it is the single biggest cost-component driving the auto insurance to significant financial losses.

There is steep increase in the quantum awarded by courts. Except where a point has been decided by Supreme Court there is vast variance in awards pronounced by Courts & Tribunals. The law provides a large degree of discretion to the judiciary in determining the quantum of awards. The Supreme Court has given various liberal interpretations in favour of the road accident victims. It ruled that the rights of third party would not be affected even subsequent to cancellation of insurance policy on ground of dishonour of cheques towards payment of premium. (**New India Vs. Rula II; Oriental Vs Indrajeet Kaur).** In National Insurance Vs. Seema Malhotra it held that insurance company would continue to be liable for TP-liabilities, but in OD-claims the company has no liability. These decisions reversed the Apex Court's earlier view in United India Vs Ayub Mohammad wherein it was held that the fact of dishonoured cheques is within the knowledge of the insured and no special notice is required. To have a better understanding of Third Party Segment the paper discusses the legal situation and practices prevailing in our country.

LEGAL SITUATION & PRACTICES IN THIRD PARTY CLAIMS

1. India is a Common Law Country. Any one who has suffered injuries or damage through the negligence of vehicle owner or driver can be brought before the law courts for an action to recover damages for sufferings sustained.
2. It is not usual for the claims to be lodged against the insurers in the first instance and to go to the court only in the event of the dispute. There is no bar, however, to compromise dispute out-of-court.
3. The third party insurance is a compulsory class of insurance. Section 146 of the MV Act provides that no vehicle shall ply in a public place without a valid insurance.
4. Unlike victims of industrial-accidents, rail-accidents or air-crashes, the automobile liability against personal-injury is **unlimited by law.**
5. The liability system is a mixed system of **Add-On-No-Fault**. No-fault scheme provides compensation

Rs. 50,000 & Rs.25,000 respectively for death or permanent disablement respectively. **The Claimant is entitled to seek additional compensation on fault basis.** The amount paid under Sec. 140, however, is deducted from such compensation.

6. Sec. 163-A of MV Act gives a right to the claimant to prefer a claim against the owner or insurer of the vehicle. There is no need to prove the negligence on the part of the driver. The compensation payable shall be as per the Schedule II of the Act. Permanent compensation is ascertained from the provisions of WC Act for the purpose of compensation under this section. Recently in a judgment the Gujrat High Court has cited that the Section 163-A has been introduced to take care where the No-fault liability under section 140 is not upto the expectations.

7. The time limit for filing the application for compensation by road victims has been deleted under the MV [Amendment] Act 1994.

8. Section 166 deals with application for 'compensation-on-fault-basis' and this application can be made to any of the following tribunals:

   [a] Within whose jurisdiction the accident occurred.

   [b] Within whose jurisdiction the claimant resides or carries on his business.

   [c] Within whose jurisdiction the defendant resides.

9. Sec. 173 provides that any party aggrieved by an award of a Claim Tribunal may within 90 days from the date of award prefer an appeal to the High Court but at the same time as per the new clause 168 [2]&[3] of the MV Act there is statutory obligation to satisfy the Award within 30 days from the date of such reward. Tribunals are empowered to recover the award from the insurers through attachment of their bank account after 30 days from the date of award. Though this practice is not universal but wherever it is followed it restricts the rights of the insurers.

10. The defenses available to the insurance companies U/S 149 [2] are limited. **Insurer has no right to defend the claim on merits i.e. quantum, negligence etc.** Defenses available to insurers are:

    [a] Vehicle used in breach of its permit to use

    [b] Vehicle used by unlicensed driver

    [c] War, Civil War, Riot and Civil Commotion.

    [d] Policy obtained by non-disclosure or misrepresentation of a material fact.

11. Above and beyond the specific defenses U/S 149 in case of non-cooperation from the side of insured and his driver, Insurers have further defenses U/S 170 of MV Act **but for this an application has to be filed seeking permission of the Tribunal and if so permitted then only the insurers can prefer an appeal in the High Court taking defense available U/S 170.**

12. There is no set blueprint that addresses the quantum of compensation. While precedent is important, there is significant arbitrary element from case to case. There is no formal process of standardising awards and some court circuits are believed to be more open-handed and generous than others.

13. Practicing on 'contingency-fee' system by advocates and showing the attraction of large compensation has further encouraged litigation. The major portion of the award is going in the kit of advocates as contingency fee. This has encouraged nefarious practices like touting. Judges knowing that this happens sometimes unofficially take this into account in fixing damages and this result in excessive awards. This system defeats the purpose of the award, since the amount left in the hand of the victims becomes sometimes inadequate to serve the needs for which the compensation was assessed and awarded.

Taking cognisance of the extremely adverse claim experience in compulsory portion, insurers, both in public and private sector, have now started avoiding the commercial vehicle insurance-the known villain in this segment. This is not a healthy sign. **Is declining the risk only alternative or we have some better options to improve the performance of portfolio-in-trouble?** In order to understand the operations in TP-segment and their impact on profitability, working of one of the insurance company was studied and the observations are shown in following report card.

REPORT CARD

1. There is a regional malady in region-and-zone-wise performance of third-party insurance. The incurred-claim ratio of one regional office was as low as 185% and was as high as 1538% in another regional office. It indicates weak internal-management at some places. This issue should immediately be addressed. **Right man at right place can generate extraordinary results.**

2. There are inadequate controls and procedures at some places that create enough doubts about the provisioning of TP-Claims. The average of **claims-paid** per fatal/injury claim has vast variance from that of average of fatal/injury **claim-outstanding** at same place. There are instances of provisions at 100% even when other vehicle involved in accident is charge-sheeted or claims appearing as outstanding in books even when bank accounts are attached or claims are

settled otherwise. No-Fault compensation and appeal amounts paid are found unreduced from the claim provision. In such situation authenticity of consolidated accounts has been questioned at many forums. Insurers can't present a case of adverse underwriting experience based on these figures to urge for upward revision in rates.

3. The present channels of conciliation are not adequate & the publicity is also not proper to popularise the efforts of insurers to settle Personal-Injury-Claims out-of-court through their various schemes.

4. There is no system to catch the inhibiting factor that hinders insurers from settling a TP-claim in its early stage. Is it more the non-availability of documents or the petitioner's advocate's reluctance to such a quicker settlement for obvious reasons. It was found in one of the divisions that 35% of the cases were fit for settlement but were still pending. In 25% of the cases, the documents were not obtained even after the expiry of 6 months from the date of receipt of summons. There was no reminder in most of the cases to pursue these important documents. Payment of awards was not deposited in time in many cases causing huge additional penal interest burden.

5. There is no check & supervision to ensure that advocates appear well prepared on listed date to contest the case in most efficient manner. Insurers' officials don't witness these proceedings. Their presence may improve the way cases are presented before the judges (LIC has such a system in place).

6. Advocates are not appointed on consideration of point-of-law. Senior advocates deal with files where there is no dispute on liability of driver or the only issue is the amount of damages whereas the novice advocates deal with cases involving complex legal issues. Favouritism in appointment of advocated was also noticed.

7. There is no way to find out whether two different claims have been filed arising out of one accident against two different companies insuring two vehicles involved in that accident.

8. Even after clear judgments of Supreme Court on certain issues the administrative guidelines have not been amended. Thereby cases that could have been otherwise compromised wait for pronouncement of awards. This is increasing the interest burden by approx 25%-to-30%. Appeals were preferred in many cases just on presumption or on investigators report without substantive evidence.

9. In most of the cases every facet of the claim is denied. The MACT New-Delhi observed in Fushi Lal vs Shiv Shankar that such obstruction of the courts by taking of pleas not based on facts amounts to contempt of court.

10. There is a way to reduce impact of uninsured claims on cost of insurance. The insurance companies have right of recovery against insured where the award has to be settled as per the MACT despite breach of policy terms & conditions. Such recoveries are seldom pursued.

11. The identification process of covernotes or polices is a time consuming exercise in public-sector companies. The document produced at times is illegible (that is a bad copy of its original) and many times without the address of the issuing office. It delays finalisation of WS and initiating proper defenses and finally results in huge interest burden. In many offices there is no practice of applying for better particulars before the MACT.

The above observation indicates that there are certain compulsions of legal frame-work beyond the control of insurers but the internal inefficiencies, as discussed above can surely be improved by working out a strong system to handle personal-injury-claims. Insurers should review TP-claims regularly and monitor the performance of advocates constantly. Here are few approaches that can bring some good results in TP-segment.

DIRECT SETTLEMENT- A NEW APPROACH TO PERSONAL INJURY CLAIMS

Insurers come to know of a personal-injury-claim when the summons is served upon them. By that time the things are already delayed. Even after the receipt of the summons no serious effort is put in to find out the facts and to gather the important documents material to decide the liability. In many cases even insured is not called for to submit detailed claim form and vehicular documents. In case of prima-facie liability of company 'consent-award' may be obtained at the earliest through 'Lok-Adalat'. Quick settlement through compromises not only improves the claim settlement in quantum and numbers but it also ensures reduced interest burden and thus profitability. Insurers should compete with the 'Ambulance-Chasers' so that before the road accident victims falls in the grip of advocates and touts practicing on contingency-fee system they can offer them fair and adequate compensation as a low-cost solution.Legal Services (Amendment) Act 2002 has created a new Dispute-Management Institution i.e. Permanent Lok Adalat **(PLA)**. This pre-litigation conciliation institute can be very helpful in faster settlements. Before moving a court any party to a dispute is entitled to raise the dispute before the PLA that shall attempt conciliation between the two parties. Insurers should make full efforts to popularise their schemes of direct settlement by way of publicity may it be their '**D**irect-**I**nter-**C**onciliatory-**C**ommittees' or their '**J**ald-**R**ahat-**Y**ojna'(injury-cases), so that people and advocates start approaching them directly instead of moving a Tribunal in the first instance. Insurers can also put a case before Lawmakers to amend the Act to do away with MACT-Courts (as they are in their present shape). The function of the MACT-Courts in their new-avtar may be of appellate nature. It may be incumbent upon the claimant then to first approach the insurers for personal-injury-claims. There may be timetable for settlement of these claims. If the claims are not settled within this time limit or claimants are dissatisfied with insurers' award they can approach Tribunal in its appellate capacity.

REGULAR CO-ORDINATION MEETS

Quicker settlements need the active co-operation of other agencies like police authorities and hospitals. Police authorities are required to pass on the reports of accident to insurers as per the provisions of Sec 158 (6) of MV Act but due to insensitive approach, over the years to their own rights, insurers do not get such reports. They should have regular meetings with the police authorities and should try to develop an information system to get information on accident immediately. It needs vigorous and meaningful follow-up with them. Insurers can also develop tie-up with hospitals to get the information on accident. Co-ordination meets with the judges are also relevant to show their concern. Insurers are custodian of public money and role of insurance is not to create but to redistribute wealth. No consumer can be made better off without making some other consumer worse off. **This condition of 'Pareto optimality' applies in TP claims and it is desirable for the welfare of the economy that fairness and equity is maintained in TP claims.** Some insurers at few places have arranged regular meetings with the judges to express their cause. They have also invited judges to express their expectation from insurers. These offices have changed their approach of filing the WS on feedback of these co-ordination meets. Specific denial of only material facts with sufficient proofs, fast response to settle claims has also changed the approach of judiciary about the insurers at these places. **Change in mindset can do wonders**. It has been observed that while other courts are awarding interest at 9% or even more these courts are awarding interest only at 6%. Besides, interest is not awarded for a period where the delay was not on the part of the insurers.

MANAGED-CARE IN AUTO INSURANCE

Like in developed countries insurers may attempt to introduce' Managed-Care' and 'Trauma-Care' concept for road accident victims. **It makes sense in India where we practice No-Fault law.** When fault is not to be established the cost in any case will fall upon insurers so why not an attempt be made to care for the victims of the road accidents by providing cash-less services? The police authorities seize the insurance documents at the spot and before the discharge of a road accident victim if the insurance particulars are provided the hospital can treat the patient and can bill the insurance company simply by taking certain consent papers. It is another noble way to check exaggerated claims and an approach for direct and fast settlement. For this insurers have to tie-up with hospitals where the emergencies are reported. This also requires co-ordination with police authorities.

BUSINESS PROCESSES OUTSOURCING

To set business processes outsourcing (BPO) to improve the efficiency of operations, while reducing simultaneously the time in claim settlement is an international practice that is emerging very fast. BPO has a future and to serve and manage more than 10-lac personal-injury-claims BPO operators may be introduced. They may take the challenge of accepting present outstanding liabilities at about 70-to-80% of the current provisions. Insurers can also introduce specialised third-party administrators (TPA's) to serve the sensitive TP segment. This may create adequate awareness among public for conciliatory service and direct settlements through TPA's. TPA's may operate on the latest computerised single window system to which the data of operating offices may be transferred via e-mail or any other e-format. They can provide 24-hours toll-free telephone facility to help victims of road accident. The fees and incentives based upon the results and claim experience will keep the service providers on their toe to provide better results.

QUICK INVESTIGATIONS & PROMPT DOCUMENTATION

Faster conciliation settlements need quick spot investigations to find the facts of the accident, age, occupation, income of road accident victim and details of his/her family members. It also requires prompt verification of the policy details; vehicular documents mainly the driving license and hospital records for post-mortem/ medical-investigation reports. Late investigations do affect the quality as the vital links associated with accident may go missing after the passage of time. Insurers may use their own employees; retired police investigators or fresh law graduates for this purpose. These investigators can also play important role in bringing the parties for out-of-court settlement.The cover notes should have a specific regional code pre-printed on it. Insurers should put this code on the Regional Office database before giving it to operating Office.

This database should be exchanged among all the Regional offices so that the identification of cover note/policy is possible immediately on its receipt and it takes minimum time to trace the policy issuing office. **Creation of risk-management culture and practice of sharing information is the mantra to keep the processes simple and fast.**

REFINEMENT IN THE PROCESS AND UPGRADATION OF SKILLS

At present the TP-claims are not dealt with in the manner the own-damage claims are dealt-with. On receipt of summons the case is marked to advocate and is left to them for its fate. For verification of documents, a letter is addressed to policy-issuing office and is rarely followed-up. The WS is signed in most casual way. Much to the annoyance of the judges even the established facts are denied just to deny the charges. Even the cases where liability is established and the documents are proved timely offers for compromise are not made. Permission of court is not sought to contest the claim on all available grounds under Section 170 if insured colludes with the petitioners or remains ex-parte. This delays the settlement and **delay per-day has its own cost.** Insurers need to change their approach to handle personal-injury-claims. These claims need day-to-day review. Now when their conciliatory committees are open for settlement everyday, when PLA is in place for speedy settlement, they should set timetables for verification of policy documents, driving licenses, completion of investigations and should invoke the control measures once the set standards fall short. Skills of the officers dealing with the personal-injury-claims should be upgraded. Leading advocates, retired judges and even sitting judges may be called in the workshops arranged to upgrade the skill of officials. Systematic tabs shall be confidentially kept on the integrity of the dealing officials and advocates.

CONCLUSION

The Indian insurance industry cannot continue its old practices in the motor-portfolio on which it has been operating since the nineties. Insurers in India have to keep pace with the changing times and innovations. They have to learn the Lessons Of Excellence from other countries where changes are occurring at a fast pace. The challenges are apparent before the insurers. It depends on them how they envision their own future. **Mind set of policy makers and their ability to think king-size will be the driving force that will turn this portfolio-in-trouble back to profitability.Demand in the motor market is growing at steady rate. More and more automobiles will hit the Indian roads, so the growth is assured. Product innovations and price differentiation will matter but not in immediate future till the portfolio remains in the tariff regime. Competition in motor insurance will therefore be for resources and competence in operations.**

In such scenario management discipline, strategic architecture and learning capabilities will require perfect alignment in a way that the results bring motor-portfolio to profitable conclusions. In this journey towards self-sufficient profits different milestones (tort reforms, introduction of approved repair scheme, cost-reforms, inter-company agreement on safety, data sharing and data-management, coordination with different authorities and effective fraud management) will have to be crossed. It is tough testing time. Nevertheless the crisis for this portfolio is not a cause for despair but an opportunity to transform the motor insurance market. One thing is sure that there is no convenient exit mechanism from this biggest portfolio and the only way left is to pull the levers to improve performance in all components of motor insurance to turn this business towards profitability. A combination of strong leadership and an equally strong culture is in the final analysis, the sure formula for success in any venture. This is true of the troubled motor-portfolio also.

Time is Precious

To realize the value of One Year Ask a student who has failed in his exam

To realize the value of One Month

Ask a mother who has given birth to a Pre-mature baby

To realize the value of ONE WEEK

Ask the editor of a weekly

To realize the value of ONE DAY

Ask a daily wage labour.