

An Insight into the Insurance Sector: Post Privatisation with Special Reference to Motor Insurance

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Abstract

Growth of insurance sector has contributed to the GDP, has also attracted foreign companies to invest in India. Rising percentage of young Indians, with more personal disposable income, more inclination towards motor vehicles, usage of technologies, have paved way for a rapid growth in the Indian insurance sector. Spurt of private players have changed the level playing ground for the Insurance sector. Thanks to the smooth and fair regulatory role of IRDA, insurance sector has witnessed rapid growth. The increasing rate of accidental deaths, have attracted the attention of the policy makers to make motor insurance mandatory. This has been the attraction for the author to peep into the motor insurance sector. This paper outlines the growth of insurance industry in the post liberalisation period, initiatives taken by IRDA and some insights into motor insurance.

Introduction

A well-developed insurance sector is a boon to a country like India, as it provides funds for the economic growth and infrastructural development. It improves the saving thrift among the citizens and also increases their risk orientation, preparing them to take up their unexpected challenges in life. Number of factors contribute to the growth of insurance sectors is the untapped latent potential and the fair regulatory environment that aims to create stability and fair play in the market. (www.ey.com)

The IRDA recently allowed life insurance companies that have completed 10 years to raise capital through IPO. In 2015, government introduced the Pradhan Mandri Jeevan Jyothi Bima Yojna (PMJBY) and Pradhan Mantri Suraksha Bima Yojna(PMSBY) to bring more people under the insurance cover. PWC in collaboration with CII has outlined the prospects for the insurance sector as increased levels of literacy, increase in domestic savings, rising per capita income, the connected world, internet of things, rising use of digital technologies. Increase in the life expectancy, favourable savings, and greater employment opportunities in private sector are expected to increase the demand for pension plans. Strong growth in the automobile industry over the next decade will be a key driver for the motor insurance. As per IBEF report in the year 2015-2016, the

market share of various general insurance , motor insurance tops the list with 44%, health insurance with 29% and fire and marine with 9% and 3% respectively and others with 15%. Post liberalisation the insurance industry has recorded significant growth, envisaged by the solid economic growth and higher personal disposable income. (India Insurance Perspective www.pwc.in)

Measure of insurance penetration and density reflects the level of development of insurance sector in a country. Penetration is the percentage of insurance premium to GDP. Density refers to the ratio of premium to population ie per capita premium. As per the IRDA annual report 2016-17, over the last 10 years, the penetration of non life insurance sector has remained steady in the range of 0.5 to 0.8%. Its density has gone up from us \$ 2.4 in 2001 to us \$ 13.2 in 2016.

In an article entitled “15 Years of insurance industry after privatisation, the tech edge” by Ms. Saraswathy jan 29, 2015 businessstandard.com, mentioned that after the inception of IRDA in the year 2000, the insurance industry has witnessed drastic changes, from customer’s point of view, reduction in waiting time, availability of information, simplified procedure for payment and renewal of policies, storage of documents and premium reminders. Availability of host of websites for comparing the various offers for insurance schemes have empowered insurance customers with enormous useful information. The article also highlights the following comparison

Details	Year 2000	Year 2015
Number of insurer	22 (11 life, and 10 non-life, 1 re-insurance)	53 (24 life, 28 non-life, 1 re insurance) 2017 62 (24 life, 23 non-life, 9 re insurance)
Maximum FDI	26%	49%
Private sector market share in life insurance by annual premium	0.02%	24.61%

Source: business standard.com

From the IRDA website, report for the month of September, 2017, it was found that the market share of LIC though very high at the 72% during 2016-17, was one percent less than the previous year. While the market share of private sector has increased from 27% to 28% in 2016-2017. Out of 24 life insurance companies, 18 companies reported profit. With respect to the general insurance business, public sector registered a growth rate of 26%, while private sector witnessed a growth rate of 36%.

Motor Insurance

Motor insurance is of two types, motor own damage, third party liability. Motor own damage gives protection to the vehicle owner against damages to his/her vehicle. Sum insured under a motor own damage is based on the value of the vehicle, after considering the manufacturer’s present value, depreciation and the age of the vehicle. Motor third party liability is a statutory requirement, and is determined as per the law against the owner of the vehicle.

“Driving a vehicle without insurance is a punishable offence”

Motor Vehicles Act, 1988

In the year 2016-17, the contribution of insurance is 39% of the total premium collected by General insurance companies. Motor insurance has become significant, as it is mandatory. The interesting thing about motor insurance is that 5 states, Tamilnadu, Maharastra, Uttar Pradesh, Karnataka, Kerala contribute to 50% of motor insurance policies. In the year 2015 -2016, 25% of policies were new policies, 70% of policies are associated with insured motor vehicles less than 6 years. IRDAI journal –September 2017

India's demographic advantage could be offset by the increasing road accidents in the recent years, at the average rate of 17 lives every hour due to road accidents, Since 2000, road networks has increased by 39% compared to 158% increase in the number of motor vehicles plying Indian roads. GBD 2013 mortality and causes of Death collaborations 2015, listed top 10 leading causes of death in India in 2013, in the age group of 15-49 road injuries rank 4th and in 5-14 age group its 5th rank, overall 8th rank competing among other infectious diseases.

Sundar committee 2007, pointed out that cover was not available for the vehicle /affected party to cover the medical expenses, a fund can be created for this purpose. It was also suggested that the accident record of the driver can be linked with the premium, in order to provide an incentive for safe driving.

Flip Side of the Motor Insurance Sector

Prevalence of corruption

Penalty for non-compliance is less than the premium

These flip sides can be overcome by adopting innovative, technology based practices. For example in Telengana, e-vahan bima, traffic challans are issued for persons driving without insurance by just video recording vehicles at prominent places, traffic junctions, petrol pumps, parking spaces. Efforts can be taken to sensitise potential consumers, like campaigning in schools and colleges. Coordinating various departments can help proper enforcement.

Insurance Information Bureau of India

It was promoted by IRDA in the year 2009, to support the insurance industry with sector level data to enable data based and scientific decision making for pricing and for framing business strategies.

The unique feature of IIBI is that it provides information about any vehicle to the competent authorities, automatically, with no loss of time and paper, a paperless service, either by way of SMS, or call centres, web mode. Information provided encompasses stolen vehicles, insured vehicles, and recovered vehicles. In case a vehicle is stolen, the police personnel can search the insurance directory or call the toll free number 1800 425 4734, by giving the registration no, engine number and chasis number. Once the information is found out the result is shared with the police officer, then the same is circulated to the insurance companies. Similarly in case of accidents, the insurance database is verified and if possible the information is mapped and an acknowledgement is sent to the police officer concerned, and if not mapped the information of the vehicle involved in the accident is sent to the insurance companies.

Initiatives taken by IRDA to promote insurance sector in India

Post privatisation has enabled the insurance sector to be omnipresent in all districts. With the help of the reports by IRDA, state wise penetration of private GIC offices as at 31-3-2017, Tamil nadu has the highest penetration of 1203 offices, Maharastra 1175, Uttar Pradesh 1001. Goa, Andhra Pradesh, there is no district without GIC presence. Tamil nadu there are only 5 districts without private insurance but public GIC is present in all districts.

With the regulatory role of IRDA, and the presence of private insurers, in the product front, many new types of insurance schemes have been introduced even at micro level, thanks to the stiff competition. Also in the place of distribution, corporate agents, insurance agent, web aggregators, and insurance marketing firms have eased the procedure for taking a policy.

Consumer Protection

IRDA with a view to protect policy holders, have taken various initiatives.

- It gives a word of caution to public about spurious calls regarding policies.
- Advertisements should not be misleading, should give fair information, so that they can take informed decision.
- IRDA has issued distance marketing guidelines, at the time of offer, negotiation, and conclusion of sale.
- If insurers want to introduce any product, the specimen policy bond, proposal form, sales literature, financial projections. The same procedure has to be followed for revision in terms and conditions.
- IRDA stipulates that if an insurance company wants to withdraw any product, it has to get prior permission from IRDA.
- Only approved products are to be sold to public
- The web portals of insurance companies should adhere to transparency and disclosure norms.
- With regard to grievance redressal for insurance policy holders, IRDA has directed that every insurance company should have a board approved grievance redressal officer, at senior management level at corporate office/Head office. Every branch should constitute a policy holder protection committee. Automated Grievance Handling procedure has to be followed by insurance companies, which facilitates online tracking of grievance handling and the adherence of timeline for various steps in grievance handling. IRDAI portal also has the toll free number and the email, for redressal of grievances. It has also directed all insurance companies, to include the grievance handling mechanism in their web sites.

Conclusion

After the inception of IRDA, the insurance sector has taken a predominant role in the country by penetrating its products to the nook and corner of the country through both private and public sector insurance companies. The regulations by IRDA coupled with the tremendous usage of technology, availability of information to the consumers, even before they understand a need, increase in the income and job opportunities in private sector, removal of pension benefits even to government employees have made consumers to go for insurance policies. The alarming increase in the number of road accidents have made the policy makers to make motor insurance mandatory, at the time of purchase of new vehicles. But this effort is futile if the subsequent insurance is not stipulated by the Act. Proper enforcement of the renewal of insurance policies particularly with regard to motor insurance, will benefit the policy holders and also the injured or affected person's family members in case of fatality. This paper is intended to create awareness among motorist and also request government to use innovative techniques to enforce motor insurance.

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