

International Journal of Innovative Research in Science, Engineering and Technology

(A High Impact Factor, Monthly, Peer Reviewed Journal)

Visit: www.ijirset.com

Vol. 7, Issue 4, April 2018

Impact of De-Tariffing On the General Insurance A Case Study in Motor Private Segment

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ABSTRACT: Paper tries to evaluate the impact of de-tariffing on Private motor segment in three segments as per engine cc of vehicle. Research Paper tries to compare tariff pre and post de-tariffing. Three segments with respect to engine power in pvt. Motor car are analysed using descriptive design. Car insurance. This segment has two facets—own damage (when your vehicle is damaged in an accident) and third-party liability (when damage occurs to the other person's life and vehicle). The premiums charged on the former have fallen/risen as per segment, while they have increased for the latter. Also, now premiums will depend on the car, its age and no claim bonus. It is interesting to find that research conclusion is varying in different segments.

KEYWORDS: General insurance, De-Tariffing, Motor, Premium, Marketing, Free trade, ICICI, Dynamics

I.INTRODUCTION

De-Tariffing:

Insurers were lobbying for the past 3-4 years to decontrol fixed premium rates of fire and motor insurance, the last segments of general insurance that had fixed pricing. De-tariffing, which means free pricing of rates, started on 1 January 2007. Insurance companies are taking some time to rework their premium rates. So, has removing fixed pricing been beneficial only to the insurance players or has it helped the customer as well?

K.N. Bhandari, general secretary, General Insurance Council, says that de-tariffing has resulted in right-pricing of the various segments of general insurance. The healthcare portfolio, which was subsidized earlier, has seen a price correction while the fire segment has seen a fall in premiums.

On motor insurance, insurers were earlier reluctant to provide cover for trucks (prone to high claims). But with setting up of the motor insurance pool on 1 April 2007 this has been solved because, now, when a claim is made the insurance company dips into the common pool, instead of having to bear the costs itself. This has also resulted in a level-playing field in the insurance industry since earlier only public insurance companies insured trucks while private players kept away from them to avoid losses. General insurance business in the country was nationalized on January 1, 1973 by the merger and grouping of more than 107 non-life firms into four public sector companies.

The IRDA (Insurance Regulatory and Development Authority of India) Act, 1999, paved the way for the entry of private players into the insurance market, till then the preserve of the public sector. There are now 30 insurance companies in the market, of which 14 are in the general insurance business. The market share of the four PSU insurance companies stood at around 77 per cent as on March, 04, with the rest shared by the private companies. But the growth of the private companies has been strident in the recent past.

At present in the non-life insurance industry, Fire, Motor and Engineering are under the tariff regime. After liberalization of the industry and entry of private players it was expected that de-tariffing would be introduced across the board. In view of the continuous losses incurred by the industry in the past decade under the motor insurance, Insurance Regulatory and Development Authority (IRDA) had constituted the Justice Rangarajan Committee, followed by the S. V. Mony Committee to examine various issues in the Motor Insurance.

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As a follow up of the recommendations, the Authority proposed to de-tariff the Motor Owner Damage segment of the Motor Insurance Portfolio w.e.f. 1st January, 2007. IRDA on Dec 04, 2006 announced that insurance companies are free to fix premium from January 1, 2007, for fire, engineering, motor, workmen's compensation and other classes of business currently under tariffs, subject to the guidelines on 'File and Use' of General Insurance Products stipulated by the Authority. However, the Tariff general regulations, terms and conditions and wordings applicable to these lines would remain "until further orders".

The Tariff Advisory Committee decided that the rates, terms, conditions and regulations applicable to fire, engineering, motor; workmen's compensation and other classes of business currently under tariffs shall be withdrawn effective from January 1, 2007. Consequently, these would be now regulated by the IRDA from next calendar year. However, the rates of premium applicable to Motor Third Party insurance business have been set out by IRDA.

However, most of the insurers expressed the view that Motor OD segment alone should not be de-tariffed. They opine that either the entire motor portfolio should be de-tariffed or de-tariffing should be carried out in respect of all the segments currently under tariff. The argument put forward by the industry against partial de-tariffing is that it would lead to gross undercutting of rates resulting in cross subsidization and therefore substantial reduction in premium as was experienced when Marine Cargo Insurance was de-tariffed in 1994. On the other hand de-tariffing in one go may have an impact on the financial condition of the companies, at least in the short-term, though it may stabilize later on. The Authority is in the process of having deliberations with the industry on this issue.

II. LITERATURE SURVEY

Kamesh Goyal, CEO of Bajaj Allianz General Insurance Company is an alumnus of St Stephen's College, FMS & Law faculty (University of Delhi). He has worked in the insurance sector since 1988 in companies like New India, KPMG & Allianz Group Bajaj Allianz is a private general insurance company in Motor Insurance. The company pioneered several innovative services in Motor Insurance like tying up with motor manufacturers for distribution of motor insurance, cashless settlement of motor repair claims through its preferred workshops, on-line renewal and purchased of policies etc.

The company is still the only company in India to provide SMS alerts on Motor claim status for its customers. Bajaj Allianz was also able to reduce the TAT (Turn Around Time) in claim settlement by having specialized personnel from the automobile industry domain to assess and survey the motor claims.

The company has been making steady progress and in the year 2005-2006, the net profit of company rose to Rs. 52 crore, a growth of 117% and garnered premium income of Rs. 1,285 crore. In the current year, company is growing at over 50% Kamesh has been invited to present the Indian success story at several Allianz group companies worldwide. He was the only member from Asia Pacific to work on an international project undertaken by the Allianz Headquarters to share best practices and implement them in other operating countries.

The scenario is much different today and motor insurance gets its due importance. Motor insurance today constitutes 60% of the portfolio for most of the general insurance companies in the world. The trend would be the same in India also. In 5 years, the motor insurance is slated to increase from Rs. 8,000 crores to Rs. 20,000 crores. Currently, it is 41 % of the total general insurance business up from 36% five years back. The current state of motor insurance as prevailing today can at best be summarized as below –

1. Insurance has become the important driver for dealer profitability and customer satisfaction.
2. Motor insurance especially private cars, is an area which all insurers want to develop.
3. Continuous increase in cost and charges for labour & parts and higher awards for third party claims are pushing the claims ratio up

III. PROPOSED METHODOLOGY AND DISCUSSION

Research methodology is descriptive.

I am often asked what would be the impact of de-tariffing on the motor insurance portfolio, for which I have this standard answer - A known devil is better than the unknown. I would say that the actual impact can only be felt when it

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actually happens, as the depth of the water can only be felt when we swim in it. Nevertheless, some learning from other countries would help so that we can prepare for the eventuality. As experienced in other countries, the premium rates can plummet and sometimes unrealistically. When motor insurance is an additional and consistent revenue stream for the dealers, one can imagine the impact, which can be dreadful. So, I feel customer segmentation is the only way to survive in a price driven market.

Country like Italy, which was de-tariffed in mid-nineties, provides some good learning points. The size of the country would be smaller than any of an average Indian state; however, the country has been divided into 620 geographic risk zones for insurance rating purpose and insurance companies use up to 76 variables for rating. In contrast, India has only 2 zones so far. Further, there are no proper tariffs available.

One thing that is certain among all the uncertainties is that de-tariffing would change the scenario dramatically and may also impact the biggest profit driver for the dealer. Some of the changes that I foresee areas below -

Entire motor spectrum to be detariffed C. Shivkumar Bangalore, Aug 1

MOTOR insurance premiums are likely to be completely detariffed by the next fiscal in line with the demands made by public and private sector general insurers.

Sources said the initial proposals were to detariff only a small component of motor insurance - own damage. However, the sources said, that some of the major players were not prepared to accept this piecemeal detariffing.

Besides, the Insurance Regulatory and Development Authority (IRDA) is not opposed to detariffing. This is especially in a situation in which the motor insurance markets are expected to show big increases in the coming years in line with growth in automobile sales.

Motor insurance comprises at least 40 per cent of the overall volume of non-life business. This business has been growing at a rate of 20 per cent. Although there are at least 65 million vehicles registered with all the transport authorities in the country, only about 26 million are insured. This discrepancy is partially due to the PSU insurers tightening grip on high loss customers during the last two years.

Pvt. Insurers reluctant

Motor insurance is a high-loss risk business with claims to premiums collected ratio of over 150 per cent. For this reason, private sector insurers have been reluctant to enter the sector. Consequently, the public sector insurers has sought a level playing field since the bulk of high claims portfolios is currently vested with the PSU, eroding their competitive strengths, the sources said.

Detariffing was meant to pave the way for a larger private sector presence in the motor insurance business across all sectors. Private sector presence in motor insurance is restricted only to cars where the claims ratios are under 100 per cent.

Most of the private sector has been avoiding the commercial vehicle and third party liability business in motor insurance sectors where claims are the highest, the sources said.

Detariffing the entire motor insurance sector, the sources said, would most likely result in lower tariffs in low claims sectors, especially the cars and personal transport segments.

However, in the case of high claims segments, tariffs were likely to steeply increase - especially in third party covers.

Objectives of the Research-

To analyze the impact of detariffing in three segments of Pvt. car Motor insurance-

- a. Pvt. motor car below 1000 cc.
- b. Pvt. motor car above 1000 cc and below 1500 cc.
- c. Pvt. motor car above 1500 cc.

IV.EXPERIMENTAL RESULTS

One of the company data(Market Leader) –(ICICI Lombard General insurance Company Ltd.) is shared here in which we find out whether the premium rate is increased or decreased in various segments(<1000cc,1000 to 1500 cc and >1500 cc motor private segment).Note-other major company data was also collected and they showed same

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cummulative trend.Cumulative impact is shown in the last row of all tables which is derived by totaling the last column.Negative percentage in last column of all tables means that premium rate is reduced post detarriffing and positive percentage in the last column means that premium rate is increased post detarriffing.so in Table 1 26.767% means cumulatively in segment 'for Engine not exceeding 1000cc' there is increase in premium rate post De-Tarriffing.

**Table 1,
Title-Premium rates of Pvt Motor Car Pre and Post De-Tarriffing for not exceeding 1000cc**

ICICI LOMBARD for following Manufacturer	Motor Not exceeding 1000 cc	Delhi Motor Pre Detariffed Regime Rate on IDV (Insured Declared Value)	Post detariff rate	Discount /Loading
Honda	Not Considered	0.000%	0.000%	0.000%
Maruti-Suzuki	wagon R-Dx	3.127%	3.599%	15.094%
Tata	Nano-Cx	3.127%	3.263%	4.349%
Hyundai	EON-D-lite	3.127%	3.081%	-1.471%
Mahindra & Mahindra	Not considered	0.000%	0.000%	0.000%
Ford	Not considered	0.000%	0.000%	0.000%
Toyota	Not considered	0.000%	0.000%	0.000%
Volkswagen	Not considered	0.000%	0.000%	0.000%
Chevrolet	Spark-1	3.127%	3.402%	8.794%
Skoda	Not considered	0.000%	0.000%	0.000%
Mercedes-Benz	Not considered	0.000%	0.000%	0.000%
Audi	Not considered	0.000%	0.000%	0.000%
BMW	Not considered	0.000%	0.000%	0.000%
26.767% -Cumulative Impact on Motor premium rating				

**Table 2,
Title-Premium rates of Pvt Motor Car Pre and Post De-Tarriffing for not exceeding 1000cc and not more than 1500 cc**

ICICI LOMBARD				
Manufacturer	Motor Exceeding 1000cc but not exceeding 1500 cc	Delhi Motor Pre Detariffed Regime Rate on IDV	Post detariff rate	Discount /Loading
Honda	Honda city-1.3lxi	3.283%	2.328%	-29.089%
Maruti-Suzuki	Esteem-lx	3.283%	3.527%	7.432%
Tata	Indigo-gls	3.283%	4.272%	30.125%
Hyundai	Santro-dx	3.283%	2.280%	-30.551%
Mahindra & Mahindra	Not considered	0.000%	0.000%	0.000%

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Ford	Figo-1.2duratec-plxi	3.283%	2.458%	-25.129%
Toyota	Etios-1.5jpetrol	3.283%	3.078%	-6.244%
Volkswagens	Polo-1.2pt	3.283%	2.753%	-16.144%
Chevrolet	Aveo-1.4	3.283%	2.348%	-28.480%
Skoda	Fabia-elegance1.4tdi	3.283%	3.213%	-2.132%
Mercedes-Benz	Not considered	0.000%	0.000%	0.000%
Audi	Not considered	0.000%	0.000%	0.000%
BMW	Not considered	0.000%	0.000%	0.000%
-100.213% Cumulative Impact on Motor premium rating				

**Table 3,
Title-Premium rates of Pvt Motor Car Pre and Post De-Tarriffing for more than 1500 cc**

ICICI LOMBARD				
Manufacturers	Motor Exceeding 1500 cc	Delhi Motor Pre Detariffed Regime Rate on IDV	Post detariff rate	Discount/Loading
Honda	Honda civic-sport	3.440%	2.173%	-36.831%
Maruti-Suzuki	Sx4-vxi	3.440%	3.192%	-7.209%
Tata	Safari-cicex	3.440%	3.362%	-2.267%
Hyundai	Sonata2vtvtmanual	3.440%	2.192%	-36.279%
Mahindra & Mahindra	Scorpio-crde-dx	3.440%	2.652%	-22.907%
Ford	Endevour-4x2xltDCI	3.440%	2.313%	-32.762%
Toyota	Corolla-dx	3.440%	2.980%	-13.372%
Valkswagen	Vento-1.6 high line	3.440%	2.175%	-36.773%
Chevrolet	Taverab1	3.440%	2.251%	-34.564%
Skoda	Superb-2.8v6	3.440%	2.021%	-41.250%
Mercedes-Benz	Mercedes-benzclass-c200	3.440%	2.021%	-41.250%
Audi	A6-2.8fsi	3.440%	2.021%	-41.250%
BMW	3-series-320	3.440%	2.175%	-36.773%
-383.488% Cumulative Impact on Motor premium rating				

V.CONCLUSION

A rate war is likely to break out in the motor insurance business following deregulation of the tariff. Typically deregulation leads to a fall in rates as players cut rates to attract business, lose money and raise rates again. This leads to a boom and bust cycle. In such a situation it is important for insurance companies to start analysing information from now on. It also needs to analyse data and identify which vehicles were likely to result in higher claims and price the segments accordingly.

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After de-tariffing, the companies will need to adopt aggressive strategies in order to survive in the motor insurance market. Otherwise past experiences have shown that, the big losers were those companies which did not select their risks and adopted a flat rate of premium & the winners were those who adopted a selective pricing and marketing approach, targeting profitable segments and avoiding loss-making ones.

Insurance companies are trying hard to make the claim process simpler and quicker to widen the existing customer base. After analyzing the discounts and loadings in insurance rating in all three segments -up to 1000 cc, 1000cc to 1500 cc and above 1500cc it is clearly concluded that post de-tariffing premium have increased in up to 1000 cc segment. Marginally the segment between 1000 cc to 1500 cc is reflecting slightly discounted trend. However it is clearly above 1500 cc segment which has emerged as maximum benefited segment as far as discounting is concerned post de-tariffing. It is also inferred that segments showing higher discounts e.g. above 1500 cc segment is surely profitable segment for General insurance companies and that is the reason they are willing to give more discounts to get new business in this segment above 1500 cc segment pvt. motor cars are mostly premium segment cars and are having high premium value per case and less susceptible to claims. This data is for Delhi NCR and trend can vary for other regions.

After findings we conclude the following statements:

1. Private Motor Not exceeding 1000 cc has shown increase in premium rate after de-tariffing cumulatively.
2. Private Motor Exceeding 1000cc but not exceeding 1500 cc showed slight reduction in premium rate .
3. Private Motor Exceeding 1500 cc was clear winner and maximum and clear reduction in premium rates was seen post detariffing.

De tariffing has a mixed impact on motor insurance. Premium rates have fallen in respect of certain classes(>1500 cc) of insurance and risen in some other classes that are less premium segment. Taken together, the impact is expected to be limited. In view of the freeing of rates in all sectors of insurance, more professionalization of regulatory oversight is called for. This not only includes more intensive monitoring of performance of companies and their solvency ratios. It is advised that the insures to be mindful of the concerns expressed by vehicle owner about both the rates and availability of insurance. Considering the mandatory nature of motor third party insurance, insurers are advised to ensure that it is made available to all. The soft pricing regime prevailing post de-tariffing is expected to stabilize at current levels posing challenges to general insurance industry with regards to strain on underwriting profitability before eventually moving to risk based pricing. The currently prevailing free pricing regime in the Indian general insurance industry provides the backdrop for risk-based pricing to emerge over the longer term. Gradually, the industry players are expected to focus more on franchise building (via improved client servicing), cost competitiveness, and product differentiation, which in turn is likely to help them better face increased competition if and when the industry is opened up further to foreign direct investment. The near-term challenges notwithstanding, the long-term outlook for the domestic general insurance industry is supported by several factors, including the currently low levels of insurance penetration and the country's long term economic growth potential.

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