As discussed in the previous chapter, process mining opportunities are more predominant in a number of sectors and industries. Insurance is an industry where Business Process Management (BPM) has been most effective. Processes are often automated and all events are recorded in a systematic and secure manner. Examples are the processing of insurance policies, claims management, handling insurance applications, etc. Most processes in insurance are Lasagna processes, i.e., highly structured. Process discovery is less relevant for these organizations as most processes are known and documented. Typical use cases in the insurance industry involve conformance checking, performance analysis, and operational support.

4.1 Insurance

Insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. An insurer is a company selling the insurance; an insured, or policyholder, is the person or entity buying the insurance policy. The definition of insurance can be made from two points;

- Functional
- Contractual

Functional definition: Insurance is a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to insure themselves against the risk.

Contractual definition: Insurance is a contract in which a sum of money is paid to the assured as consideration of insurer’s incurring the risk of paying a large sum upon a given contingency.

Insurance is one of the life’s necessities and probably the least understood financial product. Insurance reimburses people for covered losses in the event of an unfortunate
occurrence such as illness, accident, or death. At the same, it can encourage prevention and safety measures, provide investment capital, lend money, and help to reduce anxiety for society at large. As a mechanism against loss of income and means of safeguarding assets, many Indians have insurance in one form or the other. These coverages may include public coverage, such as disability insurance, a health care policy from an employer, or personal insurance to protect property such as homes, computers and cars.

4.1.1 Principles of Insurance

The seven principles of insurance are:-

a) Principle of Uberrimae fidei (Utmost Good Faith).
b) Principle of Insurable Interest.
c) Principle of Indemnity.
d) Principle of Contribution.
e) Principle of Subrogation.
f) Principle of Loss Minimization, and
g) Principle of Causa Proxima (Nearest Cause).

4.1.2 Insurance Regulatory and Development Authority – IRDA

Reforms in the insurance sector were initiated with the passage of the IRDA Bill in parliament in December 1999. The IRDA since its incorporation as a statutory body in April 2000 has fastidiously stuck to its schedules of framing regulations and registering the private sector insurance companies.

The other decision taken simultaneously to provide the supporting systems to the insurance sectors and in particular the life insurance companies was the launch of the IRDA’s online service for issue and renewal of licenses to agents.

The approval of institutions for imparting training to agents has also ensured that the insurance companies would have a trained workforce of insurance agents in place to sell their products. Since being set up as an independent statutory body the IRDA has put in a framework of globally compatible regulations. In the private sector 12 life insurance and 6 general insurance companies have been registered.
The law of India has following expectations from IRDA:

- To protect the interest of and secure fair treatment to policyholders.
- To bring about speedy and orderly growth of the insurance industry (including Annuity and Superannuation payments), for the benefit of the common man, and to provide long term funds for accelerating growth of the economy.
- To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates.
- To ensure that insurance customers receive precise, clear and correct information about products and services and make them aware of their responsibilities and duties in this regard.
- To ensure speedy settlement of genuine claims, to prevent insurance frauds and other malpractices and put in place effective grievance redressal machinery.
- To promote fairness, transparency and orderly conduct in Financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness amongst market players.
- To take action where such standards are inadequate or ineffectively enforced.
- To bring about optimum amount of Self-regulation in day to day working of the industry consistent with the requirements of prudential regulation.

4.1.3 Types of insurance

Insurance in India can be broadly categorized into two types: life and general. Life insurance can be further classified into term life insurance, whole life insurance, money back plan, endowment policy and pension plan.

- **Term Life Insurance Policy:** As its name implies, term life insurance policy is for a specified period. It lets you select the length of time for which you want coverage, up to a period of 35 years. It has one of the lowest premiums among insurance plans and also carries an added advantage of fixed payments that do not increase during your term. In case of the policy holder's untimely demise, the benefit amount specified in the insurance agreement goes to the nominees.
- **Whole Life Insurance Policy:** Whole life insurance policies do not have any fixed term or end date and is only payable to the designated beneficiary after the death of the policy holder. The policy owner does not get any monetary benefits out of this policy. Because this type of insurance involves fixed known annual premiums, it's a good option if you want to ensure guaranteed financial benefits for surviving family members.

- **Money Back Plan:** With a money back plan, you receive periodic payments, which are a percentage of the entire amount insured, during the lifetime of your policy. It's a plan that offers insurance coverage along with savings. A unique feature of the money back plan is that in the event of the policy holder's death during the policy term, the beneficiary will get the full sum assured without having any of the survival benefit amounts, which have already been paid, deducted.

- **Pension Plan:** Pension plans are different from other types of life insurance because they do not provide any life insurance cover, but ensure a guaranteed income, either for life or for a certain period. You make the investment for a pension plan either with a single lump sum payment or through installments paid over a certain number of years. In return, you get a specific sum every year, every half-year or every month, either for life or for a fixed number of years.

- **Endowment Policy:** An endowment policy can be taken out for a specified period. At the end of the stipulated period, the assured amount is paid back to the policy holder, along with the bonus accumulated during the term of the policy. Designed primarily to provide a living benefit, along with life insurance protection, the endowment policy makes a good investment if you want coverage, as well as some extra money.

General insurance is further classified as

- **Fire Insurance:** Fire insurance provides protection against damage to property caused by accidents due to fire, lightening or explosion, whereby the explosion is caused by boilers not being used for industrial purposes. Fire insurance also
includes damage caused due to other perils like storm tempest or flood; burst pipes; earthquake; aircraft; riot, civil commotion; malicious damage; explosion; impact.

- **Marine Insurance:** Marine insurance basically covers three risk areas, namely, hull, cargo and freight. The risks which these areas are exposed to are collectively known as "Perils of the Sea". These perils include theft, fire, collision etc. Marine insurance further includes:
  
  o **Marine Cargo** Marine cargo policy provides protection to the goods loaded on a ship against all perils between the departure and arrival warehouse. Therefore, marine cargo covers carriage of goods by sea as well as transportation of goods by land.
  
  o **Marine Hull** Marine hull policy provides protection against damage to ship caused due to the perils of the sea. Marine hull policy covers three-fourth of the liability of the hull owner (ship owner) against loss due to collisions at sea. The remaining 1/4th of the liability is looked after by associations formed by ship owners for the purpose (P and I clubs)

- **Liability Insurance:** Liability insurance is a part of the general insurance system of risk financing to protect the purchaser (the "insured") from the risks of liabilities imposed by lawsuits and similar claims. It protects the insured in the event he or she is sued for claims that come within the coverage of the insurance policy. Liability insurance is designed to offer specific protection against third party insurance claims, i.e., payment is not typically made to the insured, but rather to someone suffering loss who is not a party to the insurance contract.

- **Health Insurance:** Health insurance is insurance against the risk of incurring medical expenses among individuals. By estimating the overall risk of health care and health system expenses among a targeted group, an insurer can develop a routine finance structure, such as a monthly premium or payroll tax, to ensure that money is available to pay for the health care benefits specified in the insurance agreement. The benefit is administered by a central organization such as a government agency, private business, or not-for-profit entity.
Travel Insurance: Travel insurance is insurance that is intended to cover medical expenses, financial default of travel suppliers, and other losses incurred while traveling, either within one's own country, or internationally. Temporary travel insurance can usually be arranged at the time of the booking of a trip to cover exactly the duration of that trip, or a "multi-trip" policy can cover an unlimited number of trips within a set time frame. Coverage varies, and can be purchased to include higher risk items such as "winter sports".

Motor Insurance: Vehicle insurance (also known as auto insurance, car insurance, or motor insurance) is insurance purchased for cars, trucks, motorcycles, and other road vehicles. Its primary use is to provide financial protection against physical damage and/or bodily injury resulting from traffic collisions and against liability that could also arise therefrom.

4.2 Motor Insurance

Motor insurance, an important branch of insurance, had its beginnings in the United Kingdom in the early part of the last century. The first motor car was introduced into England in 1894.

The first motor policy was introduced in 1895 to cover third party liabilities. By 1899, accidental damage to the car was added to the policy, thus introducing, the comprehensive policy along the lines of the policy issued today.

In 1903, the Car and General Insurance Corporation Ltd. was established mainly to transact motor insurance, followed by other companies. After World War-I, there was considerable increase in the number of vehicles on the road as also in the number of road accidents. Many injured persons in road accidents were unable to recover damages because not all motorists were insured.

This led to the introduction of compulsory third party insurance through the passing of the Road Traffic Acts 1930 and 1934. The compulsory insurance provisions of these Acts have been consolidated by the Road Traffic Act, 1960.

In India, the Motor Vehicle Act was passed in 1939 introducing the law relating to compulsory third party insurance. The practice of motor insurance in India generally follows that of the U.K. market. The business was governed by a tariff till 2006, and now like the UK market it is non-tariff.
However, the IRDA, the Indian regulatory authority for insurance has directed insurers in India to continue to follow the tariff policy wordings. The Motor Vehicles Act 1988 (Act No. 59 of 1988) has replaced the earlier 1939 Act, and it became effective from 1st July 1989. The third party insurance business is still governed by the India Motor Tariff.

Legally, no motor vehicle is allowed to be driven on the road in India without valid insurance. Hence, it is obligatory to get the vehicle insured. As per the Motor Vehicles Act, 1988 it is mandatory for every owner of a vehicle plying on public roads, to take an insurance policy, to cover the amount, which the owner becomes legally liable to pay as damages to third parties as a result of accidental death, bodily injury or damage to property.

A Certificate of Insurance must be carried in the vehicle as a proof of such insurance. For all vehicles registered with Regional Transport Authorities, third party insurance is compulsory as per Motor Vehicle Act. Third party liability is unlimited however, there is a statutory limit for Third party property damage of Rs. 6000/-. 

4.2.1 Types of Motor Vehicles

For purposes of insurance, motor vehicles are classified into 3 broad categories:

a) Private Car
b) Motor cycles/scooter (Two wheelers) and three wheelers not exceeding 350 cc Engine capacity.
c) Commercial vehicle.

Commercial Vehicles divided into 4 groups:

a) Goods carrying vehicles (own goods)
b) Good carrying vehicles (general carriage)
c) Passenger Carrying vehicles
   i. Motorized Rickshaws
   ii. Taxis
   iii. Bus
d) Miscellaneous and Special types of Vehicles
4.2.2 Types of Motor Insurance

Auto Insurance in India deals with the insurance covers for the loss or damage caused to the automobile or its parts due to natural and man-made calamities. It provides accident cover for individual owners of the vehicle while driving and also for passengers and third party legal liability. There are certain general insurance companies who also offer online insurance service for the vehicle.

Auto Insurance in India is a compulsory requirement for all new vehicles used whether for commercial or personal use. The insurance companies have tie-ups with leading automobile manufacturers. They offer their customers instant auto quotes. Auto premium is determined by a number of factors and the amount of premium increases with the rise in the price of the vehicle. The claims of the Auto Insurance in India can be accidental, theft claims or third party claims. Certain documents are required for claiming Auto Insurance in India, like duly signed claim form, RC copy of the vehicle, Driving license copy, FIR copy, Original estimate and policy copy.

There are different types of Auto Insurance in India:

- **Private Car Insurance** – In the Auto Insurance in India, Private Car Insurance is the fastest growing sector as it is compulsory for all the new cars. The amount of premium depends on the make and value of the car, state where the car is registered and the year of manufacture.

- **Two Wheeler Insurance** – The Two Wheeler Insurance under the Auto Insurance in India covers accidental insurance for the drivers of the vehicle. The amount of premium depends on the current showroom price multiplied by the depreciation rate fixed by the Tariff Advisory Committee at the time of the beginning of policy period.

- **Commercial Vehicle Insurance** – Commercial Vehicle Insurance under the Auto Insurance in India provides cover for all the vehicles which are not used for personal purposes, like the Trucks and HMVs. The amount of premium depends on the showroom price of the vehicle at the commencement of the insurance period, make of the vehicle and the place of registration of the vehicle.

The auto insurance generally includes:
• Loss or damage by accident, fire, lightning, self-ignition, external explosion, burglary, housebreaking or theft, malicious act.
• Liability for third party injury/death, third party property and liability to paid driver
• On payment of appropriate additional premium, loss/damage to electrical/electronic accessories

The auto insurance does not include:
• Consequential loss, depreciation, mechanical and electrical breakdown, failure or breakage.
• When vehicle is used outside the geographical area.
• War or nuclear perils and drunken driving.

4.2.3 Motor Insurance Coverages

Car insurance or Motor Insurance is mandatory by law. It is a legal requirement to have a minimal level of insurance before driving a car in India. Coverage would differ by product; however following is a list of possible coverages:

a) Bodily injury liability - It covers bodily injury claims of people who get injured in an accident.

b) Property damage liability - It covers property damages to third parties such as another person's car.

c) Medical payments - This payment is done to the policy owner and other passengers in the policy owner’s car.

d) Uninsured and underinsured motorist coverage. This coverage protects you when the negligent driver has no insurance or insufficient insurance. In most states, this covers only bodily injury losses, though some states do include property damage losses.

e) Physical damage covers damage to your car in the following instances:
   • Covers losses to your car involved in collision.
   • Covers non-collision physical damage if your car is damaged in storm or windshield breaks etc.

Car insurance is packaged into different coverage types and is broadly divided into two as discussed below:
1) **Comprehensive car insurance policy**

It protects against any loss or damage caused to the vehicle and its insured accessories as a result of natural and man-made calamities. These calamities can be broadly classified as ‘Natural Calamities’ and ‘Man Made Calamities’. Natural calamities include: fire, explosion, lightning, flood, typhoon, hurricane, storm, tempest, inundation, cyclone, hailstorm, frost, landslide, rockslide, fire and shock damage due to earthquake. Man-made calamities include: burglary, housebreaking, theft, riot or strike, accident by external means, malicious act, terrorist activity and damage during travel by road, rail, inland-waterway, or air.

The policy also includes personal accident cover, which provides accident cover for the driver of the vehicle while driving. The owner can avail personal accident cover for passengers in the vehicle. Another mandatory feature is the third party legal liability cover. It protects the owner against legal liability arising from an accident causing any permanent injury or death as well as any damage to the property. It also covers for fire and theft provided the vehicles are laid up in a garage and not in active use.

2) **Third Party car insurance policy**

An insurance policy is between two parties, the insurer and the insured. Therefore, a third party is any person who is neither the insured nor the insurer. Third parties are mainly pedestrians, fare-paying and non-fare paying passengers in a vehicle. People in the vehicles like the driver, owner or passengers are also third parties. Fare paying passengers are the people who travel in public transport such as taxis, auto rickshaws and buses. Non-Fare Paying Passengers are the people who are allowed to travel in a vehicle for free. The Third Party car insurance policy covers your legal liability for any compensation to be paid arising from accident caused by your vehicle. It includes liability for death or injury to third parties like pedestrians, occupant of other vehicles, and outsiders other than passengers. Passengers of private vehicles and pillion riders are also considered to be covered. As an owner of the vehicle you are insured against death or injury caused to passengers carried in the vehicle for hire. The liability covered is unlimited in case of death or injury. Damage to third party’s property is usually covered by the insurance policy.
4.2.4 Importance of Motor Portfolio in an Insurance Company

In India, under the provisions of the Motor Vehicles Act, it is mandatory that every vehicle should have a valid Insurance to drive on the road. Any vehicle used for social, domestic and pleasure purpose and for the insurer's business motor purpose should be insured. The violation of this act is punishable with fine. The various factors that make the motor portfolio very important for a general insurance company are

- The % contribution
- The commissions paid
- The claims ratio

a) Motor insurance contribution

Following is an approximate representation of the product composition of India's insurance industry:

**General insurance**

<table>
<thead>
<tr>
<th>Product</th>
<th>Percentage</th>
<th>Product</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor OD</td>
<td>27.63</td>
<td>Engineering</td>
<td>4</td>
</tr>
<tr>
<td>Motor TP</td>
<td>14.94</td>
<td>Liability</td>
<td>2.40</td>
</tr>
<tr>
<td>Health</td>
<td>22.58</td>
<td>Personal accident</td>
<td>2.63</td>
</tr>
<tr>
<td>Marine</td>
<td>5.97</td>
<td>Fire</td>
<td>10.91</td>
</tr>
<tr>
<td>Aviation</td>
<td>1.08</td>
<td>Health</td>
<td>22.58</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Others</td>
<td>7.37</td>
</tr>
</tbody>
</table>

The Motor business continued to be the largest non-life insurance segment with a share of 45.84 percent in 2011-12 (42.68 per cent in 2010-11).

The below table shows the actual premium.

**Table 4.2 Premium underwritten by general insurers**

<table>
<thead>
<tr>
<th>Segment</th>
<th>2010-11</th>
<th>2011-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire</td>
<td>4565</td>
<td>5430</td>
</tr>
<tr>
<td>Marine</td>
<td>(10.70)</td>
<td>(10.27)</td>
</tr>
<tr>
<td>Motor</td>
<td>2519</td>
<td>2875</td>
</tr>
<tr>
<td></td>
<td>(5.92)</td>
<td>(5.44)</td>
</tr>
<tr>
<td>Health*</td>
<td>18173</td>
<td>24239</td>
</tr>
<tr>
<td></td>
<td>(42.68)</td>
<td>(45.84)</td>
</tr>
<tr>
<td>Others</td>
<td>9943.93</td>
<td>11777</td>
</tr>
<tr>
<td></td>
<td>(23.48)</td>
<td>(22.27)</td>
</tr>
<tr>
<td>Total Premium</td>
<td>7386</td>
<td>8356</td>
</tr>
<tr>
<td></td>
<td>(17.35)</td>
<td>(16.15)</td>
</tr>
<tr>
<td></td>
<td>42576</td>
<td>52878</td>
</tr>
<tr>
<td></td>
<td>(100.00)</td>
<td>(100.00)</td>
</tr>
</tbody>
</table>
The above table clearly shows that the gross premium from motor insurance is considerably high when compared to the other products and the motor premium is increased from 18173 crores to 24239 crores in the financial year 2010-11 to 2011-2012.

b) Commissions paid

The motor insurance business is a contractual agreement between the insured and the insurer. This transaction happens directly or with the help of intermediates. The intermediates are paid commission for every transaction.

Table 4.3 Commission Expenses Statement for General Insurer

<table>
<thead>
<tr>
<th>Segment</th>
<th>Private Sector</th>
<th>Public Sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010-11</td>
<td>2011-12</td>
<td>2010-11</td>
</tr>
<tr>
<td>Fire</td>
<td>77.05</td>
<td>103.32</td>
<td>267.79</td>
</tr>
<tr>
<td>Marine</td>
<td>53.59</td>
<td>66.51</td>
<td>141.57</td>
</tr>
<tr>
<td>Motor</td>
<td>315.05</td>
<td>440.08</td>
<td>576.03</td>
</tr>
<tr>
<td>Health</td>
<td>185.51</td>
<td>242.10</td>
<td>525.18</td>
</tr>
<tr>
<td>Others</td>
<td>182.11</td>
<td>227.80</td>
<td>432.77</td>
</tr>
<tr>
<td>Total</td>
<td>813.32</td>
<td>1079.80</td>
<td>1943.34</td>
</tr>
</tbody>
</table>

Again it is evident that the commission paid to the intermediates for the motor business is very high when compared to the other segments. They contribute about 33% of the total commission expenses.

The commission expenses of public and private non-life insurers stood at 2,258 crore and 1,080 crore respectively for 2011-12, cumulatively amounting to a total commission expense of 3,338 crore for the nonlife industry. The commission expenses continued to be the highest in the Motor segment, which stood at 1,098 crore, comprising of 658 crore for the public sector and 440 crore for the private sector companies.

c) Claims Ratio

The motor insurance data is collected in three major data sets – Policy data, Own Damage claims data, and Third Party (TP) claims data. The data collected has been classified
based on vehicle type and the following tables are generated for time lags in various claim processing stages i.e.

- Date of loss to Date of intimation
- Date of intimation to Date of payment and
- Date of loss to Date of payment.

Fig 4.1 Types of Motor Claims

The data has been classified on the following types of Nature of Loss:

- Death
- Third Party Property Damage (TPPD) and
- Others

**Table 4.4 Summary Report 1 of Motor data**

<table>
<thead>
<tr>
<th>FY Year</th>
<th>Class description</th>
<th>No of policies</th>
<th>Total premium (crores)</th>
<th>Total no of claims</th>
<th>Total claims paid</th>
<th>Total incurred claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>Private cars</td>
<td>7506018</td>
<td>4,804.28</td>
<td>1261455</td>
<td>2,516.65</td>
<td>2,561.87</td>
</tr>
<tr>
<td>2008-09</td>
<td></td>
<td>8467321</td>
<td>5,056.79</td>
<td>1542677</td>
<td>3,119.22</td>
<td>3,327.09</td>
</tr>
<tr>
<td>2009-10</td>
<td></td>
<td>71,38,559</td>
<td>4,722.89</td>
<td>15,37,282</td>
<td>2,901.08</td>
<td>2,950.80</td>
</tr>
<tr>
<td>2010-11</td>
<td></td>
<td>10100109</td>
<td>6,650.83</td>
<td>22,76,950</td>
<td>3,962.81</td>
<td>4,278.53</td>
</tr>
</tbody>
</table>
Table 4.1 tabulates the four financial year’s statistics on the number of policies issued, total premium collected, total no of claims made, total amount of claims paid and the total amount of claims incurred. In the financial year 2010-2011, the total premium collected was 6650 crores as against which the incurred claims amount was 4278 crores, thereby the incurred claims ratio being 64%.

Table 4.5 Summary Report 2 of Motor Data

<table>
<thead>
<tr>
<th>FY Year</th>
<th>Class description</th>
<th>OD Premium</th>
<th>TP Premium</th>
<th>Total OD Claims paid</th>
<th>Total TP Claims paid</th>
<th>OD incurred claims</th>
<th>TP incurred claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>Private cars</td>
<td>3796.77</td>
<td>1007.51</td>
<td>1904.83</td>
<td>611.82</td>
<td>1800.47</td>
<td>761.39</td>
</tr>
<tr>
<td>2008-09</td>
<td></td>
<td>3974.71</td>
<td>1082.08</td>
<td>2443.95</td>
<td>675.28</td>
<td>2554.30</td>
<td>774.23</td>
</tr>
<tr>
<td>2009-10</td>
<td></td>
<td>3,844.20</td>
<td>878.69</td>
<td>2,412.64</td>
<td>488.44</td>
<td>2,471.39</td>
<td>479.41</td>
</tr>
<tr>
<td>2010-11</td>
<td></td>
<td>5,361.11</td>
<td>1,289.72</td>
<td>3,136.10</td>
<td>3,116.35</td>
<td>826.71</td>
<td>1,162.18</td>
</tr>
</tbody>
</table>

Table 4.5 shows the break-up of the own damage premium / the third party premium and the OD incurred claims / third party incurred claims. In the financial year 2010-2011, the OD incurred claims ratio was 15% and the TP incurred claims ratio was 90%.

Table 4.6 Summary Report 3 of Motor Data

<table>
<thead>
<tr>
<th>FY Year</th>
<th>Class description</th>
<th>OD Incurred claims ratio</th>
<th>TP Incurred claims ratio</th>
<th>Total Incurred claims ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>Private cars</td>
<td>47.42</td>
<td>75.57</td>
<td>53.32</td>
</tr>
<tr>
<td>2008-09</td>
<td></td>
<td>64.26</td>
<td>71.55</td>
<td>65.79</td>
</tr>
<tr>
<td>2009-10</td>
<td></td>
<td>64.29</td>
<td>54.56</td>
<td>62.48</td>
</tr>
<tr>
<td>2010-11</td>
<td></td>
<td>58.13</td>
<td>90.11</td>
<td>64.33</td>
</tr>
</tbody>
</table>

Table 4.6 summarizes the OD incurred claims ratio, TP incurred claims ratio and the total incurred claims ratio for the financial years. Year-on-year the total incurred claims ratio keeps increasing which is alarming for any insurance company.
4.3 Summary

Rising claims are a major reason behind losses. Motor insurance had higher claims ratio at 94.9%. Motor is the largest segment in non-life insurance commanding 45.84%. After the dawn of de-tariffing regime six years ago that largely did away with benchmarking premiums and gave insurers pricing freedom, insurers have been pricing their policies with the sole aim to gain maximum market share even at the cost of their bottom lines, sources said. This has led to reduction in tariff rates, but a simultaneous increase in claims have led to losses in the sector.

Regulatory data show that underwriting losses of non-life insurance companies in 2011-12 was still high at R8,817 crore, though it was down by 11.33% from R9,944 crore in the previous fiscal.

Of this, the losses incurred by the public sector insurers fell by 22.94% to R5,817 crore in 2011-12 from R7,549 crore in 2010-11, while the losses of the private sector insurers rose 25.27% to R2,999 crore in 2011-12 from R2,394 crore in 2010-11 as a result of the “increase in the reserve for unexpired risks”.

The incurred claims ratio (or ICR — net incurred claims to net premium) of the non-life insurance industry declined to 88.85% in 2011-12 from 93.3% in the previous fiscal. The ICR for public sector insurers fell to 89.22% in 2011-12 from 97.03% in the previous year, while the private sector insurers’ ICR marginally rose to 88.22% in 2011-12 from 86.71% in the previous year.

The IRDA data show that operating expenses of non-life insurers had risen 5.25% to R11,178 crore in 2011-12 over the previous year. While the operating expenses of the PSU insurers slipped only marginally by 1.87% in 2011-12 to R6,563 crore, that of the private sector rose 17.35% to R4,614 crore.

Considering all the facts mentioned above, for a motor insurance to be viable and profitable the following points have to be considered.

- Reduce the claims turn-around-time (TAT)
- Reduce the operational cost
- Process enhancement
- Customer retention