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CHAPTER 1

Introduction

1.1 General Insurance Business has had a long history in India. The sector developed on the lines of the British Market and at the time of nationalization in 1973, there were 107 Insurance companies, big and small. The market was regulated by the Controller of Insurance under the Insurance Act 1938, and its regulations, rates and terms for most classes of business were prescribed by tariffs administered through the Tariff Advisory Committee. Insurers furnished regular statistics to TAC on all classes that were under the purview of tariff, the main ones being Fire and Motor Insurance. Changes in rates were based on statistics compiled by TAC.

1.2 The industry was nationalized in 1973, with GIC and the four subsidiaries holding a State owned monopoly of the insurance providers. The tariff systems continued, expanded and flourished. There was however one main difference over time. Insurers stopped submitting statistics and consequently revision of administered pricing raised fundamental issues. Experience in Motor Insurance Liability section (TP) in particular, worsened rapidly. The trend continues even now.

1.3 Following liberalization of the economy, the insurance sector was opened up to private sector participation on the basis of Malhotra Committee recommendations. The market now has 13 Non-Life insurance companies including the four Government owned insurers. All except one of the private players are joint ventures between reputed overseas insurance companies and large Indian companies and institutions. The sector is regulated by the Insurance Regulatory Development Authority (IRDA).

1.4 Motor insurance portfolio has two distinct sections; one relating to the vehicle and its physical damage or loss, which is referred to as 'Own Damage' (OD); the other relating to injury, death or damage to others known as 'Third Party' (TP). During the last several years, the motor insurance portfolio, particularly the Third Party (TP) part was deteriorating rapidly due to abysmally low tariff premiums and increasing cost of claims.

In the market realities that emerged after liberalization, the administered pricing regime in insurance through the tariff is increasingly seen as an anachronism. It makes sense that, in due course, the entire centrally administered rating regime should be replaced by company-specific rates and terms, founded on expertise and experience.

1.5 It is relevant to briefly touch on the factors that help to determine rates in general insurance. In motor insurance for instance, rates of premium charged across all classes of vehicles over a period of time should be adequate to meet claims and expenses, cover liability provisions, and leave a reasonable margin for insurers who assume the risk and uncertainty. It is in the context of run-away claims cost, particularly in the TP section, that insurers have faced considerable anxiety.

1.6 In the context of very adverse claim experience predominantly in the TP segment, there were several attempts in the past to revise rates to meet rising cost of claims. Due to absence of adequate data, revision was an uphill task. That the sector was a Government monopoly did not help matters, as escalation of issues to unprecedented levels were hampering much needed rate revision. Several legal disputes arose; but modest increases were achieved. The rate increase in the TP section is strongly resisted by the commercial vehicle constituents. In this context it may be noted that when compared to the increases in input costs led by frequent increase in fuel price, the cost of insurance across all vehicles has remained quite low.

1.7 While the OD part of motor insurance has been under reasonable control, it is the liability claims under the TP section that has been causing anxiety.

1.8 The IRDA had earlier constituted a Committee headed by Justice Rangarajan, to examine aspects of motor underwriting, de-tariffing and pooling arrangements. This Committee had representatives from insurers, user groups, consumer groups and legal field. Recognizing the difficulties in a free market regime for TP issues, the said Committee recommended de-tariffing of only the OD part, quarantining the TP section. While this report confines its recommendations to OD portion, members were of the view that this Group's Report should also reflect their thoughts and concerns on the vital aspects of TP section. This is even more relevant in

the context of the Report of the Ansari Committee, whose recommendations in respect of rating structure have already been implemented. As a first step for modification of criteria for TP underwriting the TAC had introduced a matrix for loading of TP premium and this has been in operation since July 2003. This indicates a broad level of acceptance of parameters for review.

1.9 Motor insurance in India (indeed in many insurance markets the world over) is a bit of an enigma. It is apparently the most cash rich portfolio that adds to the insurer's revenue on a daily basis, yet in reality, as is borne out from the financial statements of the insurance companies; it is indeed a bleeding portfolio.

1.10 The Motor portfolio in the Indian non-life insurance market constitutes almost 40% of the non life insurance premium. (In Japan it is estimated to be 62%, in the USA 46% and in Malaysia 48.6%.) The Motor segment in the Indian context is poised to grow in tandem with the growth in automobile industry with newer, faster models hitting the Indian roads and better and larger road surface as a result of infrastructure development such as the on- going golden quadrilateral and the north - south and east - west corridors. In short, what we are going to witness is an unprecedented growth in the number of vehicles and inevitably more accidents causing injury and damage.

1.11 The cumulative effect of increase in road surface and the growth in automobile population should directly impact the growth of motor portfolio of the non-life insurance industry. There are nearly 64 million registered vehicles in India (2003) but the total number of motor policies issued by the non-life insurers registered with the IRDA is only 26 million which means that nearly 45% of vehicles are presumed to be uninsured, the balance being made up by Government / State owned vehicles for which provision of a separate fund is made under the Motor Vehicle Act.

1.12 The inference inevitably is that a significant number of vehicles are outside the insurance net, even when the law provides that no vehicle can ply on the road unless and until it has compulsory TP liability cover. The problem lies within the domains of the administration of the Motor Vehicles Act, which is beyond the purview of the IRDA/TAC. There was however, a suggestion that the insurance industry should devise long term

single premium policy to coincide with one time taxation. This is up to the insurance industry to consider.

1.13 Inadequate premium flows and high losses in the TPL and OD fronts have been the major concerns of the insurance companies. They have argued with some reason that motor insurance has consistently been a loss-making proposition. It is in this context that a free market rating system is being considered, in place of the present administered rating system through a Tariff.

1.14 Non-insurance of motor vehicles is largely a matter that falls under the purview of implementation authorities such as the Regional Transport Authority (RTA) and the Police. The Insurance Regulator and the insurers have no statutory power to address this issue on their own. But the impact of 'non-insurance' and 'under-insurance' on the insurance industry is very adverse if the U. K. experience is taken as an indicator: uninsured drivers currently cost UK motorists over 600 million Pound Sterling a year and this figure is set to increase. In India no comparable figure is readily available but only an educated guess can be made. The insurance industry pays for the loss one way or the other, but over time the compliant motorists end up bearing the claims cost of those who do not insure their vehicles.

1.15 The motor portfolio is large enough to be considered as an insurance segment in its own right, since a comprehensive policy provides not only a third party liability indemnity, but also "Package Policy Cover" in respect of the vehicle itself that includes a modest amount of personal accident benefit. In other words, a comprehensive motor policy includes elements of liability, property and personal insurance to which a few extras may have been added.

1.16 The motor vehicle has effectively taken the prime place as a means of land transport, its user is legally obliged to insure against third party risks and governments have come to recognize that whatever may be the environmental advantages of the railways, transport by road is bound to grow. In this context, the mood of motor insurers generally ought to be one of quiet confidence reflecting years of steady future growth in the motor portfolio and perhaps a profitable underwriting result in future.

1.17 Unhappily that is not the situation in which the market finds itself, and this report considers later the possible reasons why the impressive progress of the automobile sector has not helped the insurance market to a positive final outcome in terms of even a modest surplus in Motor insurance portfolio.

1.18 Leakages, inflated claims as well increasing litigation to settle claims, have also contributed to the poor results. Continuing litigation, even for cases where the claim could have possibly been settled out of court, not only adds to the claims cost but also results in the delay in claims settlement. It has often been aired by various user groups that insurers should promptly settle motor claims so that delay resulting in penal interest, could be eliminated and this in turn could improve the loss ratio in the motor portfolio. Managing claims cost more effectively therefore becomes an urgent need for the underwriters. However, this does not mean that claims should be settled less fairly or claimants' rights for a fair settlement should be prejudiced.

1.19 Realizing the growing necessity of viewing motor insurance as a 'stand-alone' portfolio, IRDA as part of its regulations relating to presentation of financial statements, decreed that an insurer shall prepare revenue accounts separately for Miscellaneous Insurance under AS -17 with segment reporting for Motor. The companies after a grace period of two years since the publication of IRDA norms in 2000 have started showing segment-wise report for motor departments starting with Annual report of 2002-03.

1.20 Prior to this initiative of the IRDA, perhaps, insurers were justified in grouping the items in the "miscellaneous business", going by the letter of the Insurance Act, 1938. To wit, Clause (13B) of Section 2 of the Insurance Act, 1938 defines "miscellaneous business" as a residuary class of business to mean the business of effecting contracts of insurance which is not principally or wholly of any kind or kinds included in clauses (6A), (11) and (13A), viz., "fire insurance business", "life insurance business" and "marine insurance business". Now that under the segment reporting dispensation, motor portfolio is shown separately, the serious nature and extent of the adverse results are clearly brought out for all to see in a transparent manner.

CHAPTER 2

IRDA Mandate

2.1 Following receipt of representations from various interest groups regarding implementation of the revised motor tariff w.e.f. 1.7.2002 pointing out instances of insurers not granting cover in respect of damage or injury to TP property and lives on the one hand and the non-sustainability of the huge losses in the motor portfolio on the other, the IRDA as mentioned in the previous Chapter, examined the proposal for de-tariffing the motor rating structure and constituted a Committee under the Chairmanship of Justice T. N. C. Rangarajan, retired Judge of the Andhra Pradesh High Court to examine the issues in its entirety.

2.2 The aforesaid Committee was constituted with Members drawn from a cross section of interest groups, representing the insurers, car owners, truck operators, automobile manufacturers, consumers and policyholders, automobile associations, a surveyor, an advocate and a representative of the Government of India, to examine the various aspects of motor underwriting including de-tariffing.

2.3 The Committee *inter alia*, observed:

“One of the duties of the IRDA is promoting efficiency in the conduct of insurance business [Section 14(2)(e) of the IRDA Act]. Liberalization means allowing the market to function in the competitive environment. The days of administered prices are over. It is now recognized that market process should be given a free play with proper regulatory mechanisms to control deviation. For instance, the cars are classified only by cc rating at present and it is largely felt that such a classification is not equitable. If the tariff is removed, the industry will have the opportunity to classify the cars in a more meaningful way and propose appropriate premia. Older cars which may not go out on the highway and so face less risk may be given more rebate. Better drivers may be encouraged with discounts. There will be incentive to target special segments and offer the best deals. In this scenario it is inevitable that tariff has to be the file and use system. If the companies were to hike the premia, vehicle owners would either look for alternatives such as co-operative insurance or avoid OD insurance and bring the companies back on track. If the companies were to undercut premia to uneconomical levels, then again they would be brought back by the

losses that they may face. Better underwriting decisions would be promoted since the products filed have to be justified with proper data regarding the tariff. Unless the companies are able to generate and give correct data, actuarial projections made on *as if* situations and assumptions would put every one on a slippery slope. Companies will learn by experience and the very process will promote efficiency.”

2.4 The ideal solution appears to be a competitive premium-setting model ensuring that there is neither excessive pricing nor non-viable premium undercutting, which may create instability. De-tariffing does not mean that the companies can set the premium whimsically. Even in the ‘file and use’ system, the companies have to justify the pricing of their products and can offer them only after they are approved by the IRDA. The companies may then be free to offer various products under the file and use system with the approval of the IRDA.”

2.5 Consequent to the submission of report by that Committee and its examination by the CEOs of the non-life insurance companies at a meeting under the auspices of the Authority held on 6th May 2003, it was unanimously agreed to introduce w.e.f. 1st April 2005 a system of free pricing on the Own Damage portion of the motor portfolio.

2.6 The IRDA vide order dated 28th May, 2003 constituted this Group to consider the alternatives available to have a free market pricing of the products in this regard and to suggest to the Authority the measures to be taken in this regard including the adoption of differential rating:-

- 1. Shri S.V.Mony,(Ex-Chairman GIC,Vice-Chairman AMP-Sanmar) -Chairman**
- 2. Shri H. S. Wadhwa, (CMD, National Insc. Co.)**
- 3. Shri Micky Brigg, (CEO, Royal Sundaram Ins Co)**
- 4. Shri M. K. Tandon, (Retired CMD, National Insc. Co.)**
- 5. Shri S. K. Mishra, (Director (RT), Ministry of Road Transport & Highways)**
- 6. Shri Jagdish Khattar, (CEO, Maruti Udyog)**
- 7. Shri D. Varadarajan, (Advocate, Legal Adviser to IRDA,)**
- 8. Shri P. K. Swain, (AGM, TAC) Convener – Secretary**

The Group was mandated to submit their report to the Authority suggesting a road map towards de-tariffing motor Own Damage insurance.

CHAPTER 3

Approach

3.1 While the IRDA mandate, once implemented w.e.f. 1.4.2005, will open up the sector to free market pricing, where the innovation of the insurers will play a key part, it was felt that keeping in mind the marine cargo de-tariffing experience some years ago, there is a need to set in place, methods and safeguards to achieve an orderly transition from an administered rating system to a free market rating.

3.2 The Group decided to approach the task in the following manner:

- Examination of the present rating system;
- Study of the prevalent pricing systems abroad; and
- Examination of the feasibility of the pricing methodologies used abroad in the Indian context and introduction of appropriate criteria in India.

A brief background to Risk and Rating:

3.3 Insurance is based on the law of large numbers. All who are exposed to a risk or a peril contribute a relatively small sum to a common pool, which compensates the few who suffer losses. In setting the contribution, which is the 'price', reflected as premium, it needs to be ensured that each party pays an amount that reflects his/her propensity to losses varying in frequency and intensity. This is known as assessment of risk factors.

3.4 In Motor vehicle insurance, risk factors arise from a few distinct streams. The important among these are:

- **The vehicle** – make, engine power, value, age, carrying capacity, tonnage, passenger capacity, nature & validity of road permits, safety features;
- **The driver** – age, driving experience, driving record, health, habits, ;
- **The location & extent of use**, propensity to theft, exposure to perils of nature such as hurricane, flood, distance traveled daily, use (commercial, private), nature of goods carried viz., hazardous, non-hazardous etc;
- **Owner** – occupation, age,

An objective system of rating would take these relevant factors into consideration in fixing rates and terms of insurance so that a transparent level of equity and fairness is evident.

3.5 The Group noted that the present system of tariff rating in India does not include most of the rating factors that have direct influence on the frequency and severity of claims, e.g. factors relating to the driver, vehicle features including its performance in various terrains, extent of use, safety aspects, etc. In its somewhat rudimentary form, the present tariff takes into account only three factors for assessing risk and fixing rates. These are the engine capacity, (power) in c.c. (cubic capacity), tonnage and zones. None of the other key factors mentioned above find a place in the rating.

3.6 It is worth mentioning that in almost all countries where there is no centrally administered Tariff rate, these factors, or even more, are brought into play in fixing the terms and conditions at the level of each insurer. Such a system has been in operation for several years in many countries. As an example one would state that it is not the vehicle but the human factor of the driver which is generally the main cause of accidents, and therefore details of the ‘man behind the wheel’ as an underwriting factor is widely accepted for differential rating. It was felt that the present system of rating is unduly dependent on the sum insured of the vehicle, hence there was a need to change the system into a more scientific and rational exercise, where the inter-play of various factors relating to the vehicle, driver, location etc, could play a logical part in arriving at the premium. It is worth recalling that some of the key factors were introduced in the third party liability section a year back.

3.7 The Group started its deliberations against the backdrop of some of the key features in the Indian context, such as:

- In India there are around 80,000 road accident deaths annually, which is quite a high number.
- It has one of the lowest premium structures expressed as a percentage of vehicle value. (Reportedly, 3% to 4% of vehicle value as compared to 7% to 8% in other developing countries.)

- Claims experience (Ratio of claims cost to premium) for 2001-2002 - 135%. (Source GIC Annual Report 2001-2002).
- Motor rating (under present tariff system) does not put emphasis on age and track record of drivers, drunken driving, named driver, seat-belt use and other safety systems, usage of vehicles such as miles travelled (indicator of 'exposure to risk') etc.
- Complete lack of data relating to standard process of repair, standard price of replacement of parts, recording of damage to portions of vehicles, costs of administering the motor portfolio, separate data for own damage and liability cover in regard to each class of vehicles etc.
- Lack of effective communication with or among automobile manufacturers, repairers and insurers.
- Absence of close and effective monitoring of cause of accidents, types of vehicles involved.

3.8 Discussions were also held with reference to pricing methodologies based on Risk Factor Rating System (RFRS) or Group Based Rating System, whereby vehicles are grouped on a scale of 1 to 20 (as in the U.K) with group 1 being the lowest rated vehicles and group 20 being the highest. (Sports cars and high value vehicles known to be expensive to repair fall into one of the higher groups.)

3.9 Under the RFRS, as is prevalent in the Singapore market (which is non-tariff) the premium rate is calculated on the actual claims experience of the insurer or the industry. This is a statistically based system where each policyholder pays a premium rate that is based on relevant risk factors. The premium is calculated as a product of base premium and relativity factors loaded for different risk categories. The premium rating structure generally used in Australia, Canada, England, Germany and Japan is also based on the number of risk factors.

3.10 The advantages of the RFRS is that it can provide a more statistically based pricing structure, as opposed to a purely sum insured based rating system existing in the Indian market, since it includes all rating factors that are the most predictive of claims.

CHAPTER 4

Gist of Deliberations

4.1 Although the mandate of the IRDA vide its order dated 28th May, 2003 was for the Group to consider the alternatives to create a free market availability of products in Own Damage portion of motor insurance and to suggest measures to be taken in this regard, including the adoption of differential pricing, the Group examined whether in the context of the overall issues, it would be realistic to avoid addressing some related issues in the TP segment of Motor insurance portfolio.

4.2 The Group was of the view that it should examine pricing of products (Own Damage) in line with the best practices followed abroad and the need for effective implementation of a system of "File & Use" of products with the Regulator. During the detailed deliberations of the Group in their various meetings, the main points discussed touched on the following:

4.3 The necessity of ensuring that all the registered vehicles are brought into the insurance net was both a social and legal obligation and all out efforts need to be taken by the concerned authorities. The primary objective of this would be to ensure that no vehicles ply on the road without liability insurance cover (which is mandatory under the law). This would in turn result in due premium amount accruing to the insurance companies on motor vehicles plying on roads.

4.4 It was felt that the existing Insured's Estimated Value (IEV)/Insured's Declared Value (IDV) based pricing of motor products had become outdated and there was a need for a competitive premium setting model. For example, in the present system, in the case of collision involving high value vehicle, the repair of a bumper may simply wipe out the entire premium collected for own damage cover. The Group was of the view that a wider set of factors was indeed necessary.

4.5 Even though the terms of reference of the Group did not mention third party cover, the Group felt they must deliberate on TP because of the inherent inseparability and in view of the portfolio being continuously in the negative due to unlimited third party liability. It was further felt that

there should be a statutory limitation on the period of lodging liability claims and that the relevant laws needed to be looked into. The Group noted that the MV Act 1988 earlier contained a provision viz., section 166 (3) wherein a limitation period of six months to file compensation application was provided. This provision was removed by the Act 54 of 1994 effective 14 November 1994. IRDA should examine the possibility of restoring the above or similar statutory provision.

4.6 PSU insurers were apprehensive, not without justification, that whilst the private insurers may refuse to grant pure TP covers, the PSUs would not be able to do that and consequently their losses from motor portfolio would increase.

4.7 If OD is going to be detariffed, it needs to be understood that a free market-pricing regime can come into play only in a planned manner and that for a while the present tariff should be replaced by some guideline rating which will form part of the file & use application. After gaining some experience the rating be made fully market-driven. The existing tariff rates may well be the guiding rates initially.

4.8 As mentioned earlier in this report, some discussions were around the need to capping the limitation of liability claims as in the case of airlines and railways. Reference was made to the Montreal protocol under which option was available to victims of air accidents to go for second level of claims subject to their proving negligence, if they were not satisfied with the compensation offered. It needs further examination to establish if the aggregate of claims exceeding a certain limit, for example, Rs 5,00,000 per person would constitute a significant part of the overall claims so as to make an impact.

4.9 The Group discussed the principle of segregating OD and TP insurance, which were historically linked to each other. There was a need to curb the cross subsidy element from OD premium towards TP premium. The Group however recognized the practical difficulties in achieving such segregation in the short term as the data available with insurers, especially the four public sector insurance companies, were inadequate and inaccurate.

4.10 The significance of IT for motor insurers cannot be overemphasized. In the context of the deliberations of the Group and with the fundamental idea of incorporating risk factor based premium setting models, it was seen that no scientific data was available and hence recourse had to be taken to international best practices as premium setting models. It was therefore felt that inadequate data need not deter the Group's approach towards de-tariffing, and the trend of the claims experience pattern could be discerned from the data made available by the industry.

4.11 The Group invited a few recognized organizations, some with previous experience to put forth proposals for collection of data from insurers. Unfortunately, none of them offered a satisfactory approach and methodology to get the required type of data within a realistic time frame and cost. The group felt that differential rating of vehicles as per suggested parameters below would be feasible only after data was made available to them possibly through an external agency given the low level of compliance by the insurers:

- make /model of the vehicle
- profile of drivers based on age, gender, driving experience, geographical factors
- distance traveled by the vehicle
- types of road
- age of the vehicle
- engine capacity
- occupation co-relatable to usage of the vehicle
- claims experience
- type of cover
- usage of vehicle

4.12 The effort of the Group towards getting the required level of data through an external agency, after due process of presentation and price bids, did not however, match the parameters mentioned above but was instead more on revision of rates on the lines of earlier studies conducted by TAC. Hence, this option could not be pursued.

4.13 Although it was apparent that specific segmented data on all of the above parameters may not be available in the Indian market, the Group nevertheless took into consideration the fact that at least three of the above risk factors, namely, age of the vehicle, engine capacity and geographical

area were already introduced in the Indian market w.e.f. 1.7.2002 consequent to the recommendation of the Ansari Committee.

4.14 The Group further noted that effective 1.7.2003, the TAC / IRDA, with a view to addressing the issue of unbridled loading of the motor third party premium by some insurers leading to disturbance in the market place, had introduced a matrix for loading the third party premium based on certain parameters such as; age of vehicle, nature of goods carried, permit, types of road, vehicles driven by self or others, driver's age, driver's experience, driver's educational qualifications, incurred claims experience of the vehicle insured and total number of claims lodged during last 5 years. The market therefore was already attuned to applying differential rating factors and the insurance companies would have in the normal course captured data on these factors at least for a period of 1 to 2 years, i.e. data on three factors of engine capacity, age of the vehicle and geographical area relating to own damage and the ten other factors relating to TP liability. The impact of this on TP claims is yet to be evaluated.

4.15 The Group also examined a suggestion in rating of private cars based on 'car groups' as prevalent in U.K. (whereby cars were rated in a group of 1 to 20 on scoring factors like high cost of vehicle, repair cost, cost of spare parts, cost of new body shell, susceptibility to theft, etc.) and felt it would be premature to introduce this concept in the Indian market. However, the Group took note of the fact that the practice in the insurance market in the U.K. as indeed the whole of Europe highlighted the benefits of research into standard costs of spare parts, labour time etc. as carried out by 'Thatcham', a body sponsored by the insurance industry, which provided a guide to fair and equitable repair cost of vehicles. This vital component of motor insurance, as a whole, was totally absent in the Indian context.

4.16 In this context the recommendations of the Motor Insurance Task Force formed by the General Insurance Association of Singapore (GIA) is of significance. The task force, *interalia*, recommended several measures to manage claims cost better such as the use of independent assessment centers.

4.17 Currently in Singapore, in respect of non-injury accidents, the motorist is required to submit a report to a reporting centre as soon as possible following the accident. If the motorist is making a claim under his policy, his selected workshop would submit an estimate of the damages to the insurer for approval. The insurer then sends a surveyor to assess the damages, negotiate the repair cost and authorize repairs. This is much like the practice as is prevalent in India.

4.18 Under the current practice it is possible for an unprofessional workshop to aggravate the damages to the vehicle to increase the size of the repair bill and earn a high margin on repairs. In most cases for several well-known reasons, the Motor Surveyor too is unable to mitigate this problem

4.19 This problem of inflated claims is not unique to Singapore. Motor insurers in many countries have comparable problem. In Quebec, Canada, the insurance industry has sought to mitigate this problem by requiring motorist to send the vehicle for assessment of damages at an assessment centre. If this were not convenient the insurer would send the surveyor to assess the damage before the commencement of repairs. All these measures are intended to minimize the opportunities by unscrupulous workshops to aggravate the damages to the vehicle.

4.20 Under the proposed independent assessment centre operating framework in Singapore, it will be necessary to introduce a new policy condition in the motor insurance contract to require any motorist who is involved in an accident that may give rise to a potential claim to send the vehicle to an independent assessment centre as soon as possible after an accident, and before sending the vehicle to the workshop. Whilst the failure to comply with the condition can be a ground to repudiate the claim, the insurer will exercise flexibility to ensure cases where the circumstances are beyond the insured's control are not unduly penalized. On the other hand the insurer will deal firmly with motorists who display willful non-compliance of the condition.

4.21 The function of the assessment centre is to certify the extent of the damages and make a photographic record of the damages; it will not be involved in assessing the repair cost. A copy of the assessment report will be submitted to the insurer of the vehicle. The fee for the assessment service will be borne by the insurer and a copy of the report may be made available to the motorist.

4.22 While it was unanimously agreed that non profitability of the motor portfolio had much to do with the adverse loss ratio of the liability component alone which has been hovering around 200% (combined loss ratio of OD and TP between 125%-140%) there was much work to be done by way of legislation in matters relating to time limit for filing liability claims in the light of the provisions of Motor Vehicles Act. It was however noted that despite the provisions in the various Acts, MACT invariably granted condonation of delay.

4.23 Increasing awareness of rights and consequent higher awards, legal costs, unlimited liability provisions in the MV Act which are reflected in the Motor Insurance policy, concessional court fees, jurisdictional issues of MACT, non applicability of any time limitation for initiating litigation are some of the key factors which have contributed to the rapid and continuing escalation of cost of claims while the premium rates have remained stagnant.

4.24 Against this background, this Group has been mandated to provide recommendations for moving to a free market regime of the rates and terms. Since damage to the vehicle or its theft and injury to third party are triggered by one event, namely accident, any attempt to arrive at separate and independent solution is most likely to produce operational asymmetries in the market with consequent distortions. Further even if the insured had violated the limitation of use condition of the policy, or if the driver did not have a valid driving license, the Courts invariably passed awards against the insurer, leaving the insurer with a theoretical option of recovering from the erring driver or the policy-holder.

4.25 One of the suggestions made in several forums to control third party claims cost has been that the motor vehicles Act should be amended to provide for a ceiling on liability under the compulsory insurance cover. It was also felt that the concessional court fees irrespective of the amount of claim too resulted in exaggerated amounts being claimed in the MACT. The Group also discussed as to what could be the fair ceiling on liability that can make a difference. There was no clear agreement on this issue.

4.26 However if the law were to be amended to provide a ceiling, it was felt that beyond that ceiling, the company should be able to charge a price. Further, for such claims, special dispensation for reduced court fee should not be extended. There was also a view that over a period of time the

ceiling fixed will become the minimum for claims, thus defeating the very purpose of fixing the ceiling, and in the process increasing the cost of claims.

4.27 One of the aspects considered as contributing to runaway claims in TP, was a total non-application of limitation or jurisdiction for filing claims as a matter of practice. This results in large claims being filed several years after the alleged accident and claim filed in any remote location. It was opined that for claims filed within the time limit, the concessional court fee may apply and for delayed claims normal court fee may be made applicable. The Group realizes that the TP claim impact is inextricably linked to this issue to which this Report has referred to elsewhere.

4.28 The motor portfolio in the Indian insurance market thus far had been dominated by the four public sector insurers and even after opening up of insurance sector to the private players since the year 2000, the share of the motor portfolio of the four PSU insurers continues to be around 90 to 95%.

4.29 The Public sector general insurance companies have sought a level playing field and they want private players to provide third party motor insurance to those who seek it, which the latter have been shying away from. If substantiated, their demand is perhaps justified as private insurers would appear to concentrate only on the relatively less risky but profitable businesses such as Fire, Marine and Engineering insurance etc. and generally discourage acceptance of stand-alone TP insurance covers. IRDA should be able to investigate and correct this anomaly. Private insurers are of the view that if motor third party rates are also freed-up, this portfolio could become viable.

4.30 Profitability of the PSU insurance companies, and perhaps their stability in the long run, is threatened because of the losses incurred on this account. In 2001-2002, PSU general insurance companies made a loss of Rs. 1965 crores - nearly double the loss incurred in 1999-2000 on motor insurance business. This is far more than the profit of Rs. 717 crores from the other segments. At this rate, these companies may soon plunge into the red. But there is little they can do about it.

4.31 Motor liability insurance is a statutory obligation, and insurance companies cannot decline this business. While PSU Insurance companies

are obliged to grant TP cover to anyone who seeks it, private sector companies, do not appear to see themselves under such obligation. This puts them at an unfair advantage vis-à-vis their public sector counter parts. This must be addressed. Private sector companies must equally be made to share the burden with PSU companies.

4.32 However, this can at best be only a partial solution. The crux of the problem, the Group felt, lies in unlimited third party liability under the Motor Vehicles Act. This may not have been a problem had insurance companies been allowed to fix premia at market determined rates. With liability being open-ended, the premium on motor third party insurance, if priced to reflect the risk, would have to be set at higher than previous levels. This option was totally unacceptable to the commercial vehicle sector. The solution however, lies in TP insurance being priced according to the risk and claims experience.

4.33 In this context, the Group took note of the fact that the TAC/IRDA by suitable amendment of relevant provision in the motor tariff had provided an enabling clause to the insurers to load the liability premium up to a cap of 200% (w.e.f. 1.7.2002) for all classes of vehicles and had further provided a matrix for loading the premium based on risk factors so as to allow insurers to suitably enhance the third party premium (w.e.f. 1.7.2003). Information on additional premium collected in this regard is not available and IRDA may ensure that this information is collected and evaluated.

CHAPTER 5

International Best Practices

5.1 Having identified the rating factors mentioned earlier and conscious of the fact that segmented data may not be available in the context, the Group felt that they could explore other avenues like tapping the developed market for data or approach research institutes abroad for necessary information and adapt the data to Indian conditions keeping in view the underwriting factors to be finalized.

5.2 From a study of the material available, it was seen that in Malaysia and Thailand and in a number of insurance markets around the world, insurers have come to realize that the way they price motor insurance must change. The impetus for change is derived primarily from deregulation of the market, deteriorating profitability resulting from market place trends and substantial cross subsidies between different classes of business.

5.3 Insurers in Malaysia and Thailand have used rating bureaus to successfully restructure their motor premium rating plans on two fronts, namely, overall rate level and risk classification (Risk Factor Rating). This experience could be of interest to carriers in the other markets, especially in India, where there is a need to change product pricing.

5.4 In Malaysia and Thailand, insurers, have for long offered three types of motor policies, viz, act only (third party bodily injury), third party (which adds property damage liability) and comprehensive (which adds first party damage). Motor rating systems in these countries were not very complex. Insurers based their motor premiums on engine size or number of seats, number of years of claims experience and the type of policy purchased. For comprehensive policies, carriers also used insured value. Insurers did not rate risks based on characteristics of the vehicle owner or principal driver. Until recently, the motor rating systems in both countries had remained unchanged for many years. Insufficient data and limited actuarial expertise prevented a full rating plan revision. The obsolescence of rating systems became more apparent in the wake of the Asian economic crisis which began in 1997, when rate deficiencies arose in a number of motor vehicle categories.

5.5 In both these markets a combination of average premium rate and class relativity factors are used to determine the actual premium paid by different types of policyholders. For example, young drivers pay more than middle - aged drivers, and owners of expensive vehicles pay more than owners of lower - priced vehicles. By the use of generalized linear modeling (GLM), the rating bureaus provide excellent analytical tools for estimating the relativity factors. Claim frequency and severity experience are usually modeled separately using different probability distributions. Based on these assumptions, GLM produces a set of relativity factors for the model rating classes: use of vehicles, vehicle make, vehicle model, age of vehicle, geographic location, sum insured, gender of policy holder/principal driver, age of policy holder/principal driver, marital status, no claim discount and permitted drivers. As the motor insurance market evolves in these countries insurers may use more class rating factors to improve their competitive position in pricing different motor risks which will help them differentiate and target preferred customers.

5.6 The General Insurance Association of Malaysia (PIAM) is taking steps to improve the underwriting of motor insurance that would ensure the new rating structure is fair and more equitable, as the rates will be based on the risk exposure of each insured and his/her vehicle. With a view to ensuring that policy holders pay premia based on their individual risk profile, PIAM is using established actuarial methodology to put together a more comprehensive basket of rating factors.

5.7 According to PIAM, while the general insurance industry has always been aware of the need to review the motor insurance tariff structure to bring it in line with the times, the industry was hampered by limited statistics on motor insurance and claims. Thanks to today's modern technology, the industry has since been able to pool their resources together and to seriously undertake the mammoth task of gathering sufficient quality data from 1995 onwards.

5.8 From the findings some immediate recommendations were taken up by insurers, for example, for private cars the new rating structure provides a basis of premium computation based on nine identified rating factors instead of the prevalent three factors to determine the premium to be paid while for motor cycles, a total of eight rating factors can be used. The nine

rating factors under the new tariff of private cars are based on the use of vehicle, the number of drivers, age of vehicle, make of vehicle, geographical location, gender of the driver, engine capacity, claim free years and the sum insured or value. The same applies for motorcycles with the exclusion of the 'number of drivers' rating factor.

5.9 As more rating factors are used, the ability to segment insureds into different risk groups becomes more efficient and, in turn, more equitable premium can be charged. In other words, insureds in the better risk groups would enjoy relatively lower premium compared to insureds in the higher risk categories.

5.10 Some of the findings from the results of the analysis done by General Insurance Association of Malaysia (PIAM) revealed that, for instance, male drivers have a high accident rate than female drivers; older vehicles are less involved in accidents than newer models; and if the car owner lived in a small town, his/her chances of getting into an accident are lesser than those living in a highly urbanized location. Although there were some exceptions, these findings were found to be generally true for most vehicle groupings.

5.11 Deregulation has led to a strong increase of competition in most European countries in motor insurance sector although the insurance products continued to underlie strong regulation (for example, insurance companies are bound by a statutory minimum level of insurance coverage), the motor insurance companies of EU have largely been free to set their own premium since the deregulation. There is prevalent a competition for good risks (i.e. policy holders with sub standard loss expectation), which insurers are trying to attract by offering low premium. This competition is based on the application of 'risk cause' or 'risk criteria', groupings-such as personal criteria (gender, age of car owner), car-specific criteria (engine power in kw, empty weight of the car in Kg) and criteria relating to the use of the car (region of registration, annual mileage).

5.12 From a perusal of the rating factors prevalent in the European market it was seen that there were three broad classifications, such as, **driver/owner classification**; **use classification** and **vehicle classification** with various sub- classifications numbering 1 to 40. For example, the sub-classification under driver/owner classification includes factors like sex, age, occupation, marital status, number and age of children, age of driving

license, traffic conviction record, special driving education/safety training, member of automobile club, education-school/degree, state of health (e.g. disabilities), life style (smoker/non-smoker) etc.

5.13 Similarly the sub-classifications under use classification would include factors like region (place of residence / place of registration), private/commercial use, annual mileage, number of drivers, garaging etc.

5.14 The sub-classification under vehicle classification includes factors like type of cars/car model, age of car, new car/used car, price of car, method of financing purchase, current value of car, engine capacity/power, maximum speed, acceleration speed, weight to power ratio, weight of car, colour of car, safety equipment (seat belts/air bag, anti lock braking system) etc.

5.15 The listed risk factors forming part of RFRS were not exhaustive and such factors could be selectively adopted for the Indian market depending on their practicability of implementation backed by relevant data. It was also felt that although certain factors like the health of the drivers remained a key element in motor accidents, particularly in respect of commercial vehicles, the current system did not allow a method of rewarding those who did well nor penalized drivers with bad experience.

CHAPTER 6

Interface with user groups

6.1 At the meetings of the Group, it was the consistent position of the Ministry of Road Transport & Highways, conveyed through its representative on the Group that the stakeholders representing various transporters' associations and vehicle owners' associations be given a hearing. However, the majority of the Members of the Group was of the strong opinion that such a hearing was not required, as all the user-groups were given adequate representation on Justice Rangarajan Committee, and that the mandate of this Group was only to suggest to the IRDA, the road map for de-tariffing, consequent upon and as a follow-up of Justice Rangarajan Committee's recommendations.

6.2 Accordingly, the Group felt that in case a hearing was to be given once again, the same should be broad-based so as to include other user associations representing private cars and two wheelers. Accordingly, the Group invited representatives of the user-groups belonging to the commercial vehicles (goods carrying and passenger carrying) and private cars and two wheelers segments as represented by All India Motor Transport Congress, All India Confederation of Goods Vehicle Owners Association and Federation of India Automobile Associations, for hearing their views to appreciate better the concerns of user groups while preparing the road map for de-tariffing of motor own damage insurance, at its meeting held on 13th December, 2003.

6.3 The Group took on board the view points as expressed by the representatives of the respective associations as under:-

6.4 All India Confederation of Goods Vehicle Owners Association - Represented by Mr. Chittranjan Dass, Vice President.

Mr. Dass while appreciating the concerns of the insurers relating to heavy loss ratio in the motor portfolio, said that insurers should be operating on a 'cost plus' basis to survive and to the extent de-tariffing (OD) would provide an avenue towards free market pricing of products, they were agreeable to that.

While, in principle, they agreed to give a trial to free market rating of motor insurance products, they said that the following fundamental issues to be addressed:

- There should be a level playing field between the public and private sector insurers and the former should not be burdened with the responsibility of insuring the commercial vehicles, which were being refused cover by the private sector players.
- The matrix for loading stipulated by TAC for liability insurance was being resorted to as a ruse for charging loading indiscriminately by the insurers and remedial measures taken by the Authority had not yielded any significant result. This should be looked into.
- It should be made mandatory for the private sector insurers, that had not adhered to the IRDA's instructions so far, to issue motor third party liability insurance policies when sought by users.
- Own damage insurance should not be de-tariffed so long as the issues relating to TP liability insurance were not resolved to the complete satisfaction of user groups as they apprehended cartelization amongst insurers after de-tariffing, resulting in increase in own damage insurance premium.
- There should be an effective system in place which enabled the policy holders to know their insurance premium liability in advance, including loading, if any, on premium.

Position taken by ACOGOA

Till such time the issue regarding capping of liability (Third Party) remained unresolved, the own damage segment of the motor portfolio should not be de-tariffed.

6.5 All India Motor Transport Congress - Represented by Mr. Raman Khosla, Chairman Insurance Committee

Mr. Khosla introducing himself as the representative of All India Motor Transport Congress, an apex organisation of 15 lakh members consisting

of owners of Trucks, Tankers, Buses, etc., had taken the position that de-tariffing of Motor (OD) insurance should not take place due to the following reasons:

- The insurers, especially, private insurance companies were refusing insurance cover to commercial vehicles.
- The private insurance companies were reluctant to cover third party liability for commercial vehicles.
- There were instances of loading of premium even on brand new vehicles.
- De-tariffing of own damage insurance would increase the OD rates which a truck owner would not be able to afford.
- The harassment of policyholders by insurers would increase further after de-tariffing.

Mr. Khosla suggested that the insurers should promptly settle motor claims so that the delay resulting in penalty etc., could be eliminated which would result in reducing the loss ratio the extent of 20-30% in case of own damage insurance.

Position taken by AIMTC

The Motor tariff should “never ever” be removed and this was the stated position of the All India Motor Transport Congress. Even if done in segments, the OD de-tariffing should not be resorted to.

6.6 Federation of Indian Automobile Associations (FIAA) - Represented by Mr. Nitin Dossa, President

Mr. Dossa informed that his was the only apex body representing the private cars and two wheelers and he was in favour of OD de-tariffing. He suggested that the FIAA was in favour of even advancing the effective date to 1.4.2004 instead of 1.4.2005 as mandated by IRDA.

Position taken by FIAA

They were in favour of de-tariffing of private cars and two wheelers insurance and felt this could act as a prelude to the de-tariffing of the commercial vehicles sector.

6.7 At the conclusion of the hearing it was observed that there was a general feeling amongst insurers that the existing motor tariff protects the lower premium levels of certain classes of policy holders such as truck owners and that was the reason the user groups were opposing the de-tariffing exercise. Gradually, however, the consumers were realizing the benefits of liberalization and competition amongst manufacturers / service providers. Hence, it was the responsibility of the user groups to spread the awareness amongst their constituents regarding the benefits that would accrue to them following free market pricing of motor products.

6.8 It was observed that the apprehensions of the Associations were no different from what the Group Members had discussed in their earlier deliberations. The concerns expressed by the user groups about de-tariffed market were not without merit given the refusal of liability covers by some insurance companies as at present. Hence, the issue should be carefully considered by the IRDA while de-tariffing the own damage insurance.

6.9 The TAC should come out of the pricing responsibilities and each company should price their products in a de-tariffed market under the 'File & Use' regime by suitably applying the underwriting parameters identified by the Group.

6.10 The Group agreed that consequent upon the hearing afforded to the user groups, their final recommendations to the Authority should necessarily include the following:

- It should be mandatory for each insurer to extend third party liability insurance cover and the IRDA should ensure that no insurer indulges in the practice of offering only own damage insurance to the exclusion of third party liability insurance.

- The Authority, on an urgent basis, may examine the pooling arrangements as suggested by Justice Rangarajan Committee for third party liability insurance.

Views of Chambers of Commerce

6.11 The Group decided to obtain the views of the Chambers of Commerce with a suitable questionnaire seeking their views on the relevance and desirability of introduction of the identified parameters in the Indian market as the ultimate aim was to progressively pass on the responsibility, to determine the rates and terms of motor insurance with certain precautions to the insurers.

6.12 In response to this, the Bombay Chamber of Commerce stated that limiting the issue to de-tariffing the OD portion could only exacerbate the problems faced by the Insurer.

6.13 According to them, the solution lay in de-tariffing the entire class of motor business. It is an acknowledged fact that the current crippling claims ratio was mainly due to third party liability claims. They apprehended that de-tariffing the OD alone was bound to result in Insurers offering covers at reduced rates while being compelled to follow unsupportable tariff rates for third party liability.

6.14 The views received from the Indian Chambers of Commerce *inter alia* mentioned that such factors as would generally cause or facilitate loss occurrence or aggravate the losses should be taken into consideration in determining the rate of premium. They felt that most of the criteria identified by the Group seemed to be relevant in deciding the rate.

6.15 They also felt that in deciding to apply these factors or any other criteria, database, research on the impact of each such criterion, sample surveys, and all such necessary tools would have to be employed to arrive at the proper weightage to be assigned to each, even as guidance.

6.16 The Chamber felt that goods carrying vehicles should be classified according to the nature of cargo they carried, particularly hazardous and non hazardous in the same manner as done in Fire insurance for godowns

and stocks. For that matter vehicles of any class, age, usage etc., had to be properly rated based on loss experience and discounts be built in, to encourage loss avoidance/ minimization. Conversely, vehicle users with high loss incidence should be adequately penalized.

6.17 The Chamber also felt that no cross-subsidization be resorted to in rating own damage and liability covers and ultimately it should be left to the insurer, insured and the latter's broker/ risk management consultant to arrive at the insurance cost of a particular portfolio.

6.18 The Madras Chamber of Commerce stated that the thirteen parameters identified for determining the risk appeared to be relevant for all risks and to achieve mitigation of loss. However these factors would have to be adopted in the context of Indian market and practices relating to settlement of claims. Experience indicated that while insurance for liability was a statutory requirement for a motor vehicle, there was wisdom in avoiding a comprehensive insurance, unless the vehicle was on lease through a finance company.

6.19 They believed that the 'No Claim Bonus' clause was a major impediment in availing of the Comprehensive insurance cover. For minor liabilities being met by the company, they felt that the NCB should be left unaffected or effected on a pro rata basis.

CHAPTER 7

Rating Methodology and its applicability in the Indian context

7.1 Transacting any form of business in the emerging markets is getting more and more technology-driven, with economic and trade barriers fast disappearing. What was once taboo in a socialistic economy has become a 'mantra' of a globalized economy, namely, free trade. With the advent of IT as a powerful tool in the hands of the carrier, international best practices both in terms of cost and customer support are no longer the preserve of the advanced economies of the world. It is only natural that such of the best practices that have found acceptability as successful tools in conducting business be given a fair trial in markets that are opening up to competition, albeit, with local ground-realities and safeguards.

7.2 In Motor insurance pricing, the Indian market has hitherto been tariff driven, the products offered were plain vanilla, devoid of merit-rating or differential pricing, probably because there were very limited classes and models of vehicles available to the consumer on the one hand and there was a lack of real competition in the market.

7.3 With the expansion of the automobile sector and the opening up of the insurance sector, the logical step would be to synthesize the pricing of motor insurance with the variety of products that are available for each model and type of vehicle with their unique characteristics. It would no longer be considered equitable to price them in a narrow common band.

7.4 It is in this background that the Group saw merit in adopting a premium setting model based on the Risk Factor Rating System (RFRS), as is prevalent in many countries and such risk factors used abroad have proven to be predictive of claims. In such a system as has been mentioned earlier, the premium for any class of vehicle is calculated as a product of base premium (which may be labeled Pure Risk Premium) and relativity factors loaded or discounted for various risk categories.

7.5 Under this statistics-based system, each policyholder pays a premium determined by a combination of risk factors used and based on his/her risk profile. For the sake of ease of application in a de-tariffed market, a

sample table in the form of a “Matrix” is shown as **Annexure 1** incorporating the various parameters. In this table, each parameter is allotted a score on a scale of 1 to 6 giving the insurer some discretion for overall adjustment. Thus the premium for a particular risk may vary from insurer to insurer based on his risk perception and the insured’s risk profile.

7.6 It may be emphasized that the system of RFRS works well in other countries on the strength of the availability of suitable database and highly developed usage of statistical tools such as regression analysis wherein the inter-relationship of parameters amongst each other is calculated with a certain degree of accuracy to arrive at the base premium. The Group was conscious of the lamentable lack of appreciation of the merits of statistical tools in deriving rates of premium, especially in the motor portfolio. This has resulted in the market not having a database in this vital sector.

7.7 This lack of sensitivity towards building a database needs to be addressed on a priority basis, before a viable pricing alternative, in a detariffed scenario, such as the one based on RFRS is adopted. In this regard the mandate of IRDA/TAC for collection and submission of statistics to the TAC has to be taken seriously by the key players in the insurance market.

7.8 The Group also discussed the desirability of putting the RFRS into use and then allowing the building up of the database rather than await the development of the database before implementing the internationally adopted RFRS. A partial implementation of the RFRS having commenced in the TP segment of the motor portfolio w.e.f. 1.7.2003, the Group felt that it might take insurers 2 to 3 years after de-tariffing to build a robust database. It might be worthwhile for the individual insurance companies to use agreed benchmarks during the initial phase. After considerable discussion, it was the view of the Group that its recommendations ***should not prescribe*** a point system in detail as this might be tantamount to prescription of an alternative tariff and it would beg the question of de-tariffing. It was decided that the Group should recommend for the insurers’ guidance the use of the parameters mentioned earlier, leaving the weightage to individual insurers’ discretion based on their perception of risk. As a further measure to ensure orderly transition, the Group felt that each insurer should highlight to the IRDA through their ‘File & Use’

system the specifics of the parameters they would use in their rating and underwriting.

7.9 In order to ensure orderly transition it is desirable to indicate a band within which the basic rating structure of individual insurance companies would swing when compared to the rating tables and parameters in the present system. In the end it was emphasized that any such limits should be left to the discretion of the individual companies and not imposed externally. This could form part of 'file & use' process. Once again the present tariff rates could be a starting point for this approach.

Pre requisites for an orderly transition from a centrally administered rating regime to an individual company administered one

7.10 In a free market environment, it is not that there is no tariff, but it is that the rating exercise is shifted from a central organization to each individual company's boardroom. It is recognition of a scenario where insurers are given freedom with responsibility. The mechanism to ensure this at the Insurance Company level would include:

- An approved proprietary internal tariff (certified by an actuary and approved by the Board of Directors or its Committee)
- The usual process of products and pricing being brought under the discipline of 'file and use' mechanism in IRDA.
- Clearly drafted internal guidelines, acceptance of risks, use of discretion and application of any discount or loading.
- Terms of reference to the insurers' Internal Audit to provide that through an adequate sampling process the approved rates and terms are strictly followed by the employees of the company. In any case the responsibility to maintain the rates and terms as approved by the Corporate Office is a matter on which the Board should receive due compliance report from the auditors.
- Periodic review by the company's Chief Underwriter, Actuary and the Board at least once a year

- Copy of proposal form to be part of policy documentation to be sent to the customer along with copy of ‘rate quotation’ for which a format may be drafted.

On the role and responsibility of IRDA

7.11 The ‘file and use’ approval format prescribed by the IRDA should reflect the underwriting parameters, weightages, loading and discounts, assumptions of expenses, claims cost and profitability of the product and the portfolio in an agreed timeframe. It is suggested that the principles governing the ‘file and use’ mechanism at the IRDA are examined again to bring into focus the end objectives of such approval. For instance, is the process intended to give approval of specific pricing, and/or the terms and conditions of the policies or is it to be a prima facie approval without detailed examination of all the nitty gritty of the products and their pricing? At the moment, all these are pre-empted by the tariff structure and once that is dismantled, the IRDA has to articulate clear objectives and methods in implementing ‘file and use’ in Motor Insurance.

7.12 IRDA should have a dedicated Cell for monitoring the performance of the motor portfolio, suitably staffed with senior underwriters, separate actuary, statisticians, IT software to test each company’s performance in this portfolio. (For motor this is specifically suggested because of its serious potential to erode the vitals of an insurance company unless continuous monitoring is done)

7.13 Take urgent steps to set up an institutionalized mechanism to collect statistics for the portfolio and collate individual company and market statistics along with analysis of trend. It is necessary to create a new organization or an existing one made responsible for this and the findings should be published annually for the market. Parallely set up R& D facilities so that the insurance market is able to use the state of the art mechanism. Some part of the work can be the responsibility of the General Insurance Council and / or the TAC as referred to in Chapter 9 of this Report.

7.14 To implement a well-conceived awareness programme and publicity before implementation of the Group’s Report.

7.15 The factors that the Group finally found suitable for adoption include:

- Make and model of the vehicle
- Engine capacity
- Tonnage
- Carrying capacity
- Type & extent of Road permit
- Vehicles carrying hazardous or non hazardous goods
- Age of the vehicle
- Sum Insured
- Age of the driver
- Driving experience
- Claims experience
- Number of claim-free years (currently being reflected in the ‘NCB’)
- Type of cover
- Geographical location

7.16 The Group felt that in order to analyze factors that would enable the insurance companies in rating motor own damage in a detariffed scenario, some amount of data collection was required. As such, the Group devised a data collection format as at **Annexure 2** for capturing some sample data from the insurers, which would help the group in determining certain pricing factors, which could be useful in this context. The target was to generate around 1 lakh records (of which 50 thousand would be with claims) from the 13 non-life insurance companies. Accordingly, suitable letters were addressed to the CEOs of all non-life insurance companies and a time limit of 30 days was set for compliance.

7.17 All insurance companies excepting two in the Public Sector complied with the request though not to the satisfaction of the Group. In all, 13,43,051 records were received (65,711 with claims details) of which the contribution from public sector was 18,602 records.

7.18 The quality of the data received from some of the insurers was far from satisfactory. and some had to be discarded. Many records had been submitted with incoherent and unacceptable figures. Many did not have any codes and quite a few records had wrong codes. Depending on the

type of errors, many of these records had to be manually / mechanically cleansed to get the residual data which could be meaningfully analyzed.

7.19 The residual data of 54840 records fell into three groups, i.e. private cars (42505 records), two wheelers (9890 records) and commercial vehicles (2445 records). Given the scanty data received for two wheelers and commercial vehicles, the analysis was restricted to the private car segment, which was fairly indicative of the market trends for the purposes of this exercise.

7.20 The Group noted that despite the various constraints, the data sample was a fair mix of various market experiences, such as public and private sector, various territorial and geographical regions, various vehicle models of different value segments and age groups, different types of drivers from different age groups, different types of losses of varied intensities etc. The data therefore was usable.

7.21 Statistical Analysis (Annexure 3)

A total of 42505 records in respect of private cars were analyzed. The findings from the various analyses are given below:

Analysis of Vehicles causing Maximum Losses and their Claims Cost:

(Reference to 'Segments' in the following para is based on information from various Automobile magazines and categories maintained by car manufacturers. Generally Segment A indicates low priced vehicle and the value progressively increases from Segment B to Segment E.)

All 42505 records were analyzed for locating maximum loss causing vehicle models. It was identified that only nine models caused 38% of the losses. Of these, seven models were from low-end vehicles in terms of cubic capacity and value, from Segment 'A' and 'B' vehicles as per the vehicle segmentation in vogue in the Indian Automobile Market. Other popular low-end models seem to have reported lesser claims and are not figuring in this list. Though the number of accidents involved (accident frequency) were relatively low, two high-end vehicle models, also figure in the top 9. This may be due to the per accident cost of these models being quite high. (The table and charts may be seen at **Exhibit T1 / C1.**)

The analysis indicated an industry average per accident claims costs of Rs. 13,608/-. The average per accident claims costs were Rs. 33,900/- and Rs. 22,708/- for some vehicles in the 'C' Segment, as against the average per accident claims cost of Rs. 10,552/- in respect of vehicles in the 'A' Segment. (The chart may be seen at **Exhibit C8**.)

Thus the 'make and model' as a factor of repair costs of vehicles would be valid to be taken into reckoning.

Analysis of Types of Losses and their Claims Cost:

36230 records having relevant information were studied to locate the types of losses that cause maximum claims. It was noticed that 69% of the claims were caused by “accident - external means”, followed by “theft of entire vehicle” (11%). The losses due to “theft of accessories” and “theft by conversion by the hirer” contributed to 1% each only. Claims due to “fire” and “self ignition” were around 1%. All the other types of losses put together contributed to 17%. (The table and chart may be seen at **Exhibit T2 / C2**.)

The average financial impact of different types of losses on private cars was studied and it was noticed that an average claim arising out of “theft of entire vehicle” would cost Rs. 2,21,698/- whereas a claim due to “theft of accessories” would cost Rs. 10,881/-. A “road accident” would cost an average claim of Rs. 13,802/- whereas average losses due to “fire” would be Rs. 84,243/- and “self-ignition” Rs. 60,000/-. (The chart may be seen at **Exhibit C6**.)

A comparison of **Exhibit T2 / C2** and **C6** indicates how road accidents causing relatively small claims can cause a big drain on the industry. The findings relating to the average quantum of losses and frequency of losses due to “theft of entire vehicle” would justify the need for giving incentives for installing “anti-theft devices”.

Although nature of loss may not directly figure as a rating factor, the need of differential pricing based on ‘exposure’ is pronounced. The Group

suggests different matrix points for Comprehensive OD cover and a limited cover (say, covering fire and/or theft risks only).

Analysis of Driver Group-wise Claims Frequency:

An attempt was made to study the incidence of claims among various driver groups. The study indicated that 55% of the claims were in case of self-driven vehicles. (The table and chart may be seen at **Exhibit T3 / C3**.)

However, as only very scanty data (only 2491 records) was available with driver group-wise information, the results of the analysis may not be indicative of the real picture.

Analysis of Driver Age-wise Claims Frequency:

The 2094 records (relating to 2243 incidences of claims) giving details of the driver's age (grouped as per the present TP Liability grouping) were studied. (The table and chart may be seen at **Exhibit T4 / C4**.)

The pattern indicated a consistent decline in the number of claims from the age groups “20 / 30” to “55 & above”. This pattern follows the international trend of considering the younger age group as high-risk category and claims experience improving with the driver's age.

Though the data shows a lesser number of claims in the “less than 20” age group, this may not reflect a true picture. Primarily, in the Indian context, data will be available only on the owner-drivers of that age group, whereas practically, many drivers of this group drive their parents'/ relatives' vehicles. Secondly, data on “named driver” is not being captured in the Indian market. Thirdly, the social strata comprising affluent young owners/ drivers is not very pronounced vis a vis affluent western countries. Further, the TP liability grouping of “less than 20” practically reflects only ages 18 and 19 and as such a realistic age profile would be 18 - 25, 25-30, 30-40, 40-50 and above 50 recommended in the matrix which is consistent with international practice.

Analysis of Vehicle Age-wise Claims Frequency and Claims Cost:
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14385 records having vehicle age wise claim frequency were analyzed. (The table and chart may be seen at **Exhibit T5 / C5**.)

Results showed that vehicles "less than 5 years" caused 95% of the losses. It was noticed that 12411 of the vehicles having such age-wise details had come from three private companies who had possibly underwritten more new vehicles. The findings not being in consonance with international trends may not be truly reflective of the market.

However, the chart at **Exhibit C7** indicates that as against an average per incident claim of Rs.13,608/- in the industry, a vehicle "less than 5 years" would create an average claim Rs. 12,773/-, while vehicles between 5 to 10 years, would have an average claim of Rs. 11,610/- and vehicles above 10 years would cost an average claim of Rs. 14,141/-. The, correlation between the vehicle age and per claim cost requires a more detailed study in a separate exercise.

The information gathered from these analyses confirmed the Group's views on building the risk factor rating system into a "Matrix", a specimen of which is provided as annexure, so as to facilitate rating of all classes of vehicles in the period immediately following detariffing w.e.f. 1st April 2005.

CHAPTER 8

Rationalization of Motor (OD) insurance policy documents

8.1 The Group recognized that rationalization of own damage insurance would enable insurers to differentially rate vehicles on the basis of a 'bench mark' rate with loading for risk factors identified by the Group. However, a point that still required to be addressed by the Group was whether, while establishing a free market pricing in the OD component of motor insurance, the existing policy wordings, conditions, and warranties should continue to be tariffed or left to free market operations. This is because the present tariff covered all these within their scope.

8.2 The Group at their meeting held on 17-10-2003 decided to constitute a Sub-Group comprising the following Members to deliberate on the matter of simplification of policy conditions, clauses, terms, warranties etc. and submit its recommendations to the main Group:

Mr. H. S. Wadhwa (or his nominee)

Mr. Micky Brigg (or his nominee)

Mr. D. Varadarajan

Mr. P. K. Swain

8.3 At present, basic rates as well as terms and conditions of most branches of non-life insurance business including Motor are governed by tariff. Elsewhere in the world, though some have a minimum guide rates, the terms and conditions of insurance contracts are generally free of any tariffs or centralised system.

8.4 Detariffing of the OD segment of motor insurance will have two ramifications- replacing a centrally administered Tariff rate with individual insurer administered rates (while recommending a risk based rating structure on defined parameters) and secondly, abolition of centralized terms and conditions. The terms and conditions, clauses and warranties currently in vogue have been mostly based on the U.K. model and have been subjected to judicial scrutiny and interpretation over the years.

However, the fact remains that in the UK. And other countries, the policy terms and conditions have been made simpler using simple English devoid of archaic wordings and hence more customer - friendly.

8.5 The Group noted that the Indian insurance market having been tariff regulated for long was on a migratory path towards de-tariffing. Post de-tariffing, if each contract of insurance was different from the other, with different and fresh interpretations by courts of law, there could be confusion in the market place, where the ultimate casualty would be the consumer. Given the fact that the policy terms and conditions were to be legally vetted and filed with the IRDA the Authority would then have to be prepared to process a large number of documents under the 'file and use' procedure for motor products that were hitherto tariffed and under the supervision and control of TAC, under section 64 UC (1) of the Insurance Act, 1938. Further, merit rating of each risk might be a desirable goal but tinkering with or freeing altogether the wordings and conditions might create more problems given the present state and maturity of the Indian market.

8.6 Among the differing international practices, there is the practice in USA where the Insurance Services Office (ISO) provides specimen policy wordings for insurers that are largely uniform. In the Japanese market (where automobile insurance constitute 62% of the non-life insurance) governed under a regime, rates and policy terms and conditions are required to be filed by insurers before the FSA. The Automobile Insurance Rating Organisation (AIRO), now Non-Life Rating Organisation Of Japan (NLROJ) provides standard policy conditions for insurers. In the UK the Association Of British Insurers (ABI) used to provide standard or uniform policy conditions till recently. As of now the ABI no longer provides standard or specimen policy conditions which are now market - driven.

8.7 The Sub-Group felt it would be worthwhile to examine the provisions of the IRDA regulations with regard to construction of policy wordings and conditions before any attempt is made towards this end.

8.8 The IRDA (Protection of Policyholder's Interests) Regulations, 2002 make it mandatory that all policies should clearly contain 'material' information which is 17 in number in the policy document. Further, it is

stated that all policy documents issued should be accompanied by the procedure followed by the insurer for redressal of grievances of the policyholder

8.9 In the regime devised by IRDA vide circular No.IRDA/Gen/Feb./2001 dated 26th Feb., 2001 it is stipulated that all products submitted to IRDA should be duly certified by a lawyer. The relevant extracts of the circular is reproduced for ready reference:

“The lawyer of the insurer should review the contents of the prospectus of the product, proposal form, policy wording, wordings of clauses and warranties of the products and certify that:

- a) the prospectus of the products explains in simple and unambiguous language easily understood by a layman, the important features of the cover, the exclusions and limitations, the conditions to be fulfilled by the policy holder, the basis of assessment of the claim, the method of payment of the claim and the premium payable;
- b) the proposal form contains questions which are clear to understand, which ask questions covering all matters material to the risk, and which clearly states that failure to disclose facts material to the assessment of the risk or providing misleading information may render the contract void;
- c) the policy is written in simple language easily understood by a layman, and tells the policy holder what is covered, what is not covered, what is the basis of assessment of a claim, what the policy holder is expected to do on occurrence of a loss, what he must not do, what are the conditions and warranties to be complied with during the duration of the contract, what is the procedures to make a claim, what documentation is required to support the claim, the period within which such claim should be made and the dispute resolution procedure; and

- d) the terms and conditions of the contract can be considered as fair between the insurer and the policy holder in the light of information provided before the contract is entered into.

However, such certification will not be required in respect of clauses and warranties which are widely used in the market and are issued by reputed market organizations such as the Institute clauses.”

8.10 It is clear from a reading of the above conditions, especially in c) and d) that till the policy conditions, warranties, clauses, etc., are thoroughly scrutinized and simplified to cater to the needs of the de-tariffed market, the existing policies, terms and conditions, etc., should be minimally amended and retained as standardized conditions for use by the insurers. It may be recalled that ‘proposal forms’ for various classes of vehicles were incorporated in the revised All India Motor Tariff effective from 1.7.2002 stating the minimum requirements for reference by the insurers. It permitted the insurers to ask for additional information as desired for underwriting purposes. This standardization with options for increasing the scope seems to have been well received in the market.

8.11 With the above background, the Sub-Group deliberated as to whether:

- to retain existing policy wordings, conditions, warranties, clauses, etc., suitably amended and in consonance with final recommendations of the Group, at least for a year or two as the minimum requirements of a policy document permitting the insurers to make additions if desired and so approved by IRDA.

or

- to simplify all motor policies using simple English as per prevailing international best practices on the basis of a detailed study of sample policy copies as may be accessed, without altering the legal content of the documents

8.12 The Sub-Group recommended the first alternative viz., the present policy conditions, warranties, clauses etc., might be used as “standard

specimen” allowing insurers to add to the scope of cover or make suitable changes as required subject to legal vetting and approval by the IRDA under the regime for non-tariff products. With this overall proviso, the Group authorized the Sub-Group to proceed to simplify the policy wordings.

8.13 The Sub-Group consisting of Mr. D. Varadarajan, Mr. P.K. Swain, Mr. R. Shivakumar (Nominee of Mr. H.S. Wadhwa) and Mrs. Radha Raghavan (Nominee of Mr. Micky Brigg) proceeded to review the existing policy document as regards private cars, as a model, which could be suitably adapted for two wheeler policy document by the insurers. While redrafting the policy conditions, the Sub-Group, with a view to making the wordings of the policy user friendly, proceeded to align the wordings even in regard to Act driven clauses (i.e. In regard to Third Party Liability under the Package Policy) in simple words, without in any way diluting the liability element. The initial draft of the policy wordings was prepared in the TAC Secretariat, which was vetted from the perspectives of the underwriters by Mr. R. Shivakumar, representing Public Sector General Insurers and Mrs. Radha Raghavan, representing Private Sector General Insurers.

8.14 After exhaustive deliberations, clause by clause, the Sub-Group, after taking into account contemporary practices in other insurance markets, as noted from a few specimen copies of motor insurance policies issued abroad, finalized the draft Policy Document under the detariffed regime, vis-a-vis the OD portion of the policy document. In addition, the Sub-Group, as already stated above, also vetted and fine-tuned the other policy conditions in the existing Package Policy, to make the policy conditions more intelligible to common man, by avoiding to the extent possible, legal jargons.

8.15 While finalizing the Policy Document, the Sub-Group laid emphasis on the following:

- Removing unnecessary words and expressions, which have outlived their utility and use;
- Rewording/rephrasing long winding paragraphs by keeping the essential requirements;

- Avoiding expressions, which could be misunderstood or misinterpreted;
- Making the Policy Document to serve as a direct one to one communication between the insurer and the insured;
- Introducing a “dictionary or definition clause” in the Policy Document, to serve as the Glossary of the terms and terminologies used in the Policy to give precision to understanding in regard to the scope, coverage, import and purport of the Policy.

8.16 The Sub-Group was of the opinion that the concept of IDV had worked fairly well since its introduction a year and a half ago. However, it was felt that in order to avoid inconsistencies in the values of the vehicles, values of vehicles should be fixed by a body comprising of representatives of Insurance Companies (representative of the General Insurance Council), TAC, representative of Federation of Indian Automobile Association, via a publication, on the lines of the Glass’s Guide of the UK, who publish the value at half yearly intervals. As regards the General Rules and Regulations and Endorsements, (Section 1 and Section 7) of the existing All India Motor Tariff, the Sub-Group was of the opinion that these might be left to free market operations, treating the existing provisions as a guide or bench mark, and leaving them open for the insurers to consider what was good for them in consonance with the kind of cover to be provided by them.

8.17 While rewording the Package Policy, the Sub-Group endeavoured to maintain the provisions pertaining the general exceptions, deductible and conditions by suitably modifying them, without diluting the general scope and coverage, by adumbrating the general conditions exceptions as are existing now, *albeit* differently worded and placed under the various sub-headings.

8.18 The Group after considering the draft Policy Document as finalized by the Sub-Group, as also the other aspects suggested by the Sub-Group, endorse the same. The Group, however, suggest to the IRDA/TAC, that the specimen re-worded Policy Document as at **Annexure 4** to this Report, may be examined critically and after consultation with the user group as necessary, before finally notifying the same, so as to avoid any unintended omission or commission. This

is included in this report as a strong suggestion for future implementation.

CHAPTER 9

Role of the General Insurance Council - in Retrospect & Prospect

9.1 In the context of the rapid opening up of the economy in several sectors, administered regime of insurance rates would become a thing of the past. The present exercise of this Group is a forerunner towards progressive de-tariffing, starting with the motor insurance portfolio.

9.2 The roadmap for de-tariffing the OD Portion of the Motor Insurance Portfolio, as drawn and suggested by this Group, when implemented w.e.f. 1-4-2005, would call for adoption of new strategies by the general insurers, by balancing the underwriting fundamentals on the one hand, and competitive pricing on the other, so as to make their packages more customer friendly in the open market place.

9.3 Once the “administered pricing” (tariff) mechanism is dismantled, the market players would have nothing to fall back upon, except their own wise counsel and prudent judgement vis-à-vis the determinants of their pricing policy. In such a scenario, the TAC will not continue its proactive role in regulating the rates, terms and conditions that may be offered by the insurers. Therefore, it becomes imperative for the market players to take stock of the contemporary best practices on vital matters impacting the motor portfolio, such as:

- (i) Creation of robust database on repairs costs that catapult the claims cost.
- (ii) Adopt pricing methodologies in select detariffed markets with provisions for checks and balances.
- (iii) Regular interface with policy makers, both at the Centre and States, to address motor related issues, such as, initiation of effective measures for tackling the menace of uninsured/underinsured vehicles.
- (iv) Legal framework vis-à-vis motor liability claims, and continuous study of important court rulings that have a significant bearing to the matter on hand.

- (v) Co-ordination between different Ministries, such as, Transport, Law and Insurance.
- (vi) Research to identify strategies and interventions to reduce deaths, injuries and property damage; development of complete, accurate and accessible data; all aspects of vehicle safety including the conditioning of vehicles put on road; education of all stakeholders about road safety; development and promotion of strategies and interventions for increasing road safety; collection of data *inter alia* from the police and enforcement agencies and statutory authorities, hospitals, insurers and the insuring public; conduct of research and studies on various important and relevant topics like seat belt usage, helmet usage, mobile phone usage, road design, age of drivers and driving skills, pedestrian related, alcohol related, poor/bad road conditions related accidents, etc., in collaboration with the specialised agencies and institutions of repute.

9.4 The Insurance Act, 1938 ('the Act' for brevity) has consciously provided for, vide Part IIA of the Act, the active, and not passive, role of the players in the industry. The provisions, *inter alia*, in regard to General Insurance Council have envisioned the role to be played by this Council, albeit in reality, the Council is yet to function to its full potential.

9.5 In the post free-pricing scenario, it is apposite for the General Insurance Council to play an active role and discharge its functions as detailed in Sections 64L(1) and 64M of the Act. To wit, Section 64L(1) of the Act casts the following functions on the Executive Committee of the General Insurance Council:

- (i) to aid and advise insurers, carrying on general insurance business, in the matter of setting up standards of conduct and sound practice and in the matter of rendering efficient service to holders of policies of general insurance;
- (ii) to render advice to the Authority (IRDA) in the matter of controlling expenses of such insurers carrying on business in India in the matter of commission and other expenses;

- (iii) to bring to the notice of the Authority the case of any such insurer acting in a manner prejudicial to the interests of holders of general insurance policies;
- (iv) to act in any matter incidental or ancillary to any of the matters specified in clauses (a) to (c)

9.6 Section 64M of the Act enjoins upon the Executive Committee of the General Insurance Council to render advice to the Authority in fixing the limits of management expenses pursuant to the provisions of Section 40C of the Act.

9.7 Further, Section 64F(5) of the Act enables the General Insurance Council to form such other Committees consisting of such persons as it may think fit to discharge such functions as may be delegated thereto. However, this is subject to the previous consent of the Authority.

9.8 In the aforesaid statutory setting and matrix, carving out a niche for itself, the role and responsibility of General Insurance Council require to be strengthened in the context of the ushering in of the free-pricing regime. Accordingly, it is commended that in regard to the illustrative vital matters as listed in (i) to (vi) above, as also other relevant matters as may be deemed expedient, the General Insurance Council, given the complexities of the matters calling for contributions from persons having wide and varied experience profile, may be asked to undertake implementing the detariffing and other related issues. To achieve this, they may constitute such Committees, by invoking its powers under Section 64F(5) of the Act, preferably consisting of an underwriter, surveyor & loss assessor, legal expert in the field of insurance laws and regulations, a representative from the TAC, manufacturer, representative of related research organisations and user groups. Such Committees should regularly consider and address all the relevant issues and come out with their advice, findings and reports for the consideration by the General Insurance Council, so as to enable the General Insurance Council to take on the mantle and play a positive and proactive role as envisaged in the Act. In short, it requires no reiteration that the General Insurance Council in the new market environment occasioned by the inevitable compulsion of time, should rise to the occasion.

9.9 The Group is of the view that in the context of free-pricing, self-regulation and self-determination of the rates and terms by the general insurers is a *sine qua non*, and that the Regulator may resort to “control or management by exception” should there be a need, without getting involved into the actual price determination exercise. This would effectively bind the market players to embark upon self-regulation mode with utmost care and accountability, rather than being administered by the Regulator. Consequently, the present statutory dispensation vis-à-vis the constitution and composition of the General Insurance Council requires suitable amendments, so as to advance the concept of “self-regulation and self-determination “of rates and terms by the players in the Industry and leave the IRDA to its development and regulatory functions. The Regulator may be invested with the power to appoint its nominees on the General Insurance Council or supersede the Council only in the event of the General Insurance Council not discharging its assigned role satisfactorily, so that self-governance of the market players is given the needed thrust and boost in the free-pricing scenario. Continuation of the IRDA Member in the Council in the normal course needs to be reviewed.

9.10 However, the Group is conscious that the role of the Regulator as envisaged above vis-à-vis the General Insurance Council would be increasingly relevant when all portfolios of general insurance business are de-tariffed.

9.11 However, with in the present framework, it will be in the fitness of things for the General Insurance Council, in the context of the detariffing of the OD Portion of the Motor Portfolio, to constitute Committees as suggested in Para 9.8 above, to address all the relevant issues, so as to enable and ensure effective implementation of the recommendations that are approved by the IRDA.

CHAPTER 10

Recommendations of the Group

10.1 While it would have been appropriate and timely to dismantle the entire motor tariff regime, the Group appreciates the compulsions that have prevailed in seeking its recommendations on a process to install a free market regime in respect of the Own Damage part only. Consequently the Group confines its core recommendations to issues relevant to the Own Damage part.

10.2 The Group recommends that the centralized rating regime under the existing tariff for Own Damage is replaced by a system of rates, terms and conditions administered by individual insurance companies with safeguards and internal and regulatory compliances.

10.3 Recognizing the merit of several significant underwriting factors that are in use almost universally, the Group recommends the introduction of key underwriting factors to be adopted by insurance companies in preparing their respective rate schedules, clauses and conditions, discounts and loadings and treatment of exceptions. Among a universe of more than thirty rating factors, the Group identifies the following as critical for adoption by insurers in this regard:

- a) Vehicle Related
 - i) Make & Model
 - ii) Engine Power
 - iii) Age of the vehicle
 - iv) Licensed carrying capacity / GVW as applicable
 - v) Safety features
 - vi) Repair and replacement costs
- b) Driver/Owner Related
 - i) Age
 - ii) Driving experience
 - iii) Driving Record
 - iv) Health & Habits

c) Use Related

- i) Annual Mileage run
- ii) Geographical location
- iii) Personal, commercial private, commercial for hire
- iv) Type of goods transported

The Group recommends the *above list of critical factors for universal adoption* by companies leaving it to each company to determine the weightage they would attribute to the parameters.

The following is an *indicative list* of other rating factors, which also play a role in underwriting a risk:

- i) Theft-proneness of the vehicle or its parts
- ii) Frequency and nature of accidents
- iii) Named Driver
- iv) Occupation of Owner
- v) Traffic conviction record
- vi) Special driving education, safety training
- vii) Membership of Automobile Association

The factors in the indicative list are not exhaustive. There may be others that insurers may identify for adoption as deemed appropriate depending upon nature of vehicle, proposal, location, their own experience etc.

It is further recommended that the companies adopt the RFRS in preparing the products and pricing profile and furnish to the IRDA under the ‘file and use’ regime, so as to ensure commitment to discipline in their practices.

10.4 The Group recognizes the need for a starting point to which various rating factors would apply and required loading or the eligible discount will be calculated. The Group recommends that the existing tariff rates be used as the guide rates. The Group feels that the creation of a band within which the insurers may apply the loading or discount, is best left to the individual insurers as long as they include the specifics in the documentation furnished to the IRDA under the ‘file and use’ system.

10.5 After careful consideration of the desirability of providing a sun-set clause to safeguard the existing accumulated benefits of customers with good experience, the Group recommends that any dispensation in this regard is best left to companies' discretion.

10.6 The Group recommends that the feature of No Claim Bonus scales may continue to be applied over and above the final rate arrived at after application of the various factors. In this context, the Group is hopeful that insurers will offer new products to protect the No Claim Bonus for a price as existing in some of the other markets in the world.

10.7 It is recommended that freedom to impose deductibles with or without benefit in premium be left to the individual insurers' discretion.

10.8 Similarly after a centralized tariff for 'Own Damage' is dismantled, the tariff provisions relating to scales of depreciation will no more apply but will be at the discretion of the insurance companies. However, in order to avoid inconsistencies in the values of the vehicles, it is recommended that values of vehicles should be fixed by a body comprising of representatives of Insurance Companies (representative of the General Insurance Council), TAC, representative of Federation of Indian Automobile Association, and made known through a publication, on the lines of the Glass's Guide of the UK. Early initiatives in this regard may be taken.

10.9 Parallel to the transfer of pricing function from TAC to the insurance companies, the following safeguards are recommended for implementation by the insurers:

- i) The basic rates, details of underwriting factors adopted for use and their weightage, dispensation relating to application of band for variance in rates, deductibles, no claim bonus scales etc will have to be approved by the Actuary and Board of Directors or their delegated committee, before submission to the IRDA under the 'file and use' system.

- ii) Implementation of i) above and the practices in the company should be subject to regular monitoring by the Internal Audit system and this function should be reflected in their terms of reference.
- iii) Compliance Report will have to be placed before the Board at least once a year.
- iv) Submission of agreed statistical returns to a designated authority be made a compliance issue at the level of the Board, and non-compliance to attract punishment.

10.10 Taking into account the vital significance of statistics on the portfolio and the problems faced by the industry in the absence of such statistics the Group recommends that submission of information in an agreed format to a designated organization be made mandatory on the part of the insurer and a compliance issue vis-à-vis the Board and Regulator.

10.11 In the interests of customer service, it is recommended that a copy of the proposal and the quotation of the premium rates be made a part of the policy documentation.

10.12 It is recommended that in the context of a free market rate regime for Own Damage, insurers should not be allowed to offer stand-alone own damage cover without attendant third party protection. The IRDA may ensure this. Similarly IRDA may ensure that companies do not refuse pure third party insurance cover.

10.13 It is recommended that the IRDA strengthen their administrative machinery to handle the 'file and use' format in the new paradigm to scrutinize the following:

- i) underwriting parameters, weightages, loading and discounts, assumptions of expenses, claims cost, profitability of the product and the portfolio in an agreed time frame.
- ii) set up a separate dedicated Cell or Division to continually monitor the performance of the motor portfolio specifically, with adequate staff consisting of senior professionals, actuary, statistician and IT professionals.

10.14 It is recommended that the IRDA take urgent steps to set up an institution to process industry's statistics and undertake R & D activities in relating to the motor portfolio, more particularly in the area of design, reparability and 'repair friendliness' of the vehicle. Such a research centre may be set up as a collaborative effort between insurance companies, automobile manufacturers and the IRDA. The Group draws attention to recommendations made by some of the previous Committees and initiatives of the IRDA

10.15 In order to ensure a smooth transition from an administered pricing regime to a disciplined free market regime, it is important to secure the understanding of the consumers. The Group recommends that the IRDA and/or the General Insurance Council undertake systematic awareness campaigns before and after a change is implemented.

10.16 It is recommended that in monitoring the rates and terms, the General Insurance Council should act as a self-regulating body for the industry, with the Regulator controlling by exception.

10.17 It is recommended that a Monitoring and Complaints Redressal Committee (MCRC) be set up by the IRDA in the context of these reforms. Such a Committee should be charged with the responsibility for filing periodic reports to the IRDA for further action as appropriate.

10.18 The Group wishes to place the following for consideration of the IRDA in respect of the Third Party Liability section in motor insurance that has been a source of concern to the insurance industry:

- to actively pursue with the concerned Ministry to amend the MV Act to address the features relating to unlimited liability, concessional court fees, jurisdiction and statutory time limitation.
- to pursue with the concerned Ministry and/or State Governments to ensure that all vehicles on the road are duly insured as per the MV Act.
- To initiate a project to set up a Motor Third Party Insurance Pool (*a mechanism by which all insurers in a market share the premium*

and claims and net outcome is distributed annually among the Pool participants) for the market so that common experience is shared by all on a basis to be agreed. (This was recommended by the Justice Rangarajan Committee.)

- To initiate steps to move towards a free market regime for the whole motor insurance portfolio.
- in the context of initiating the above step, move towards a free market regime in respect of all other business under the tariff regime.

Signed and submitted at Hyderabad this 6th day of April 2004

S.V.Mony
(Chairman of the Group)

H.S.Wadhwa
(Member)

Micky Brigg
(Member)

M.K.Tandon
(Member)

S.K.Mishra
(Member)

Jagdish Khattar
D.Varadarajan
(Member)

(Member)

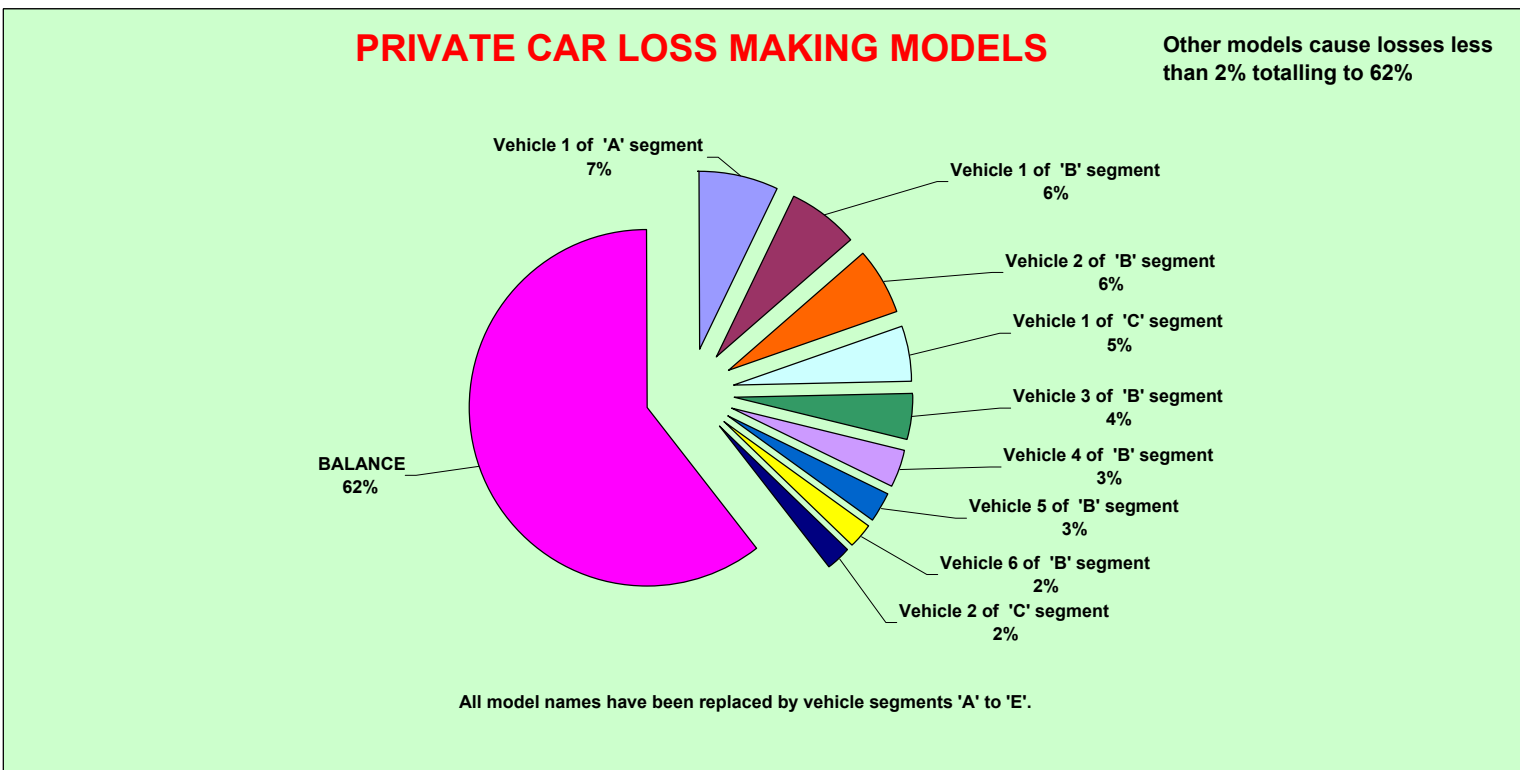
P.K.Swain
(Convener –Secretary)

	VEHICLE CLASS	AGE VEHICLE	AGE - DRIVER	DRIVER -EXP	No Claim Bonus	Type of Cover	GEOGRAPHICAL AREA	USAGE-DISTANCE	Safety		
	< 2,00,000	< 1 year	Above 50	Above 15	5 Conse.clm free years	Other than Package **	Roads other than specified below	< 5000 Km	Only one safety feature		
	2,00,000 - 3,50,000	3 to 5 years	40 - 50	10 to 15	4 consec clm free years		District Roads	5000 - 10000	Two safety features		
	3,50,000 - 5,00,000	5 to 7 years	30 - 40	5 to 10	3 consec clm free years	Package Cover	City Town Roads	10000 - 20000	Three safety features		
	5,00,000 - 10,00,000	7 to 10 years	25 - 30	3 to 5	2 consec clm free years		State Highways	Above 20000			
	Above 10,00,000	Above 10 years	18 - 25	1 to 3	1 consec clm free years		National Highway				
				< 1			Hilly Roads				
						** Limited Cover eg: Fire & Theft					
	Explanation										
	Column 1 Vehicle Class includes 3 factors namely I) The Engine Capacity, ii) Sum Insured and iii) make & model of the vehicle.										
	Column 8 namely Usage Distance and Column 9 Safety factors were not specifically recommended by the Group but being significantly associated with the vehicle, have been factored in the matrix on an as if basis.										
	Column 9 viz., Safety features takes into account 3 features I) Anti lock braking system (ii) Anti Theft Devices and iii) Air Bags.										
	Column 5 - No Claim Bonus is related to the number of claim free years as at present in the Tariff. The higher the claim free year, the lesser is the scoring point implying better risk.										

MAXIMUM LOSS MAKING MODELS WITH BREAKUP OF CLAIM AMOUNT, CLAIM FREQUENCY AND ZONE WISE DISTRIBUTION

DESCRIPTION	CLAIM AMOUNT IN '000's	Number of Records	Claims Frequency	Zone wise breakup of Claims Records			Zone wise breakup of Claims Amounts (000s)			Zone wise breakup of Claims Frequency		
				Zone A	Zone B	Zone X	Zone A	Zone B	Zone X	Zone A	Zone B	Zone X
Grand Total	877087.54	42505	64452	28810	13654	41	559895	316534	659	43863	20485	104
Vehicle 1 of 'A' segment	62531.78	4342	5926	2756	1582	4	35427	27053	52	3759	2161	6
Vehicle 1 of 'B' segment	56954.482	2943	4867	2053	889	1	35083	21855	16	3429	1435	3
Vehicle 2 of 'B' segment	54502.678	3472	4951	2423	1048	1	36418	18055	30	3473	1474	4
Vehicle 1 of 'C' segment	43154.786	847	1273	537	309	1	22699	20436	20	819	452	2
Vehicle 3 of 'B' segment	35258.988	2328	3260	1589	738	1	22106	13139	14	2201	1055	4
Vehicle 4 of 'B' segment	29614.24	1492	2237	1128	364	0	22077	7537	0	1691	546	0
Vehicle 5 of 'B' segment	23791.247	1244	1965	860	382	2	14637	9135	19	1347	613	5
Vehicle 6 of 'B' segment	21733.755	1337	2082	869	468	0	12817	8916	1	1387	695	0
Vehicle 2 of 'C' segment	18325.108	544	807	374	169	1	12345	5971	9	557	248	2
BALANCE	531220.47	23956	37084	16221	7705	30	346286	184437	497	25200	11806	78

N.B. "Zone X" denotes cases where Zones are not specified



NATURE OF LOSS WISE BREAK UP OF CLAIM AMOUNT & FREQUENCY

NATURE OF LOSS CODE	DESCRIPTION OF LOSS	CLAIM AMOUNT '000s	NO OF RECORDS	CLAIM FREQUENCY	AVERAGE CLAIM COST '000s
5	ACCIDENT EXTERNAL MEANS	528622	29200	38300	14
50	THEFT OF ENTIRE VEHICLE	86019	308	388	222
10	THEFT /CONVERSION BY HIRER	5345	46	51	105
49	THEFT OF ACCESSORIES	5190	298	477	11
1	FIRE	4044	48	48	84
51	FLODD & TIDAL WAVES	346	12	16	22
53	STORM, TEMPEST & CYCLONE	290	19	27	11
52	FRESH RAIN WATER & INNUNDATION	236	13	21	11
47	MALICIOUS DAMAGE	201	11	19	11
2	SELF IGNITION	60	1	1	60
4	RELIEF, INT AWARDED BY CONSUMER FORUM	8	1	1	8
59	ANY OTHER	129749	6273	10631	12
	TOTAL	760110	36230	49980	15

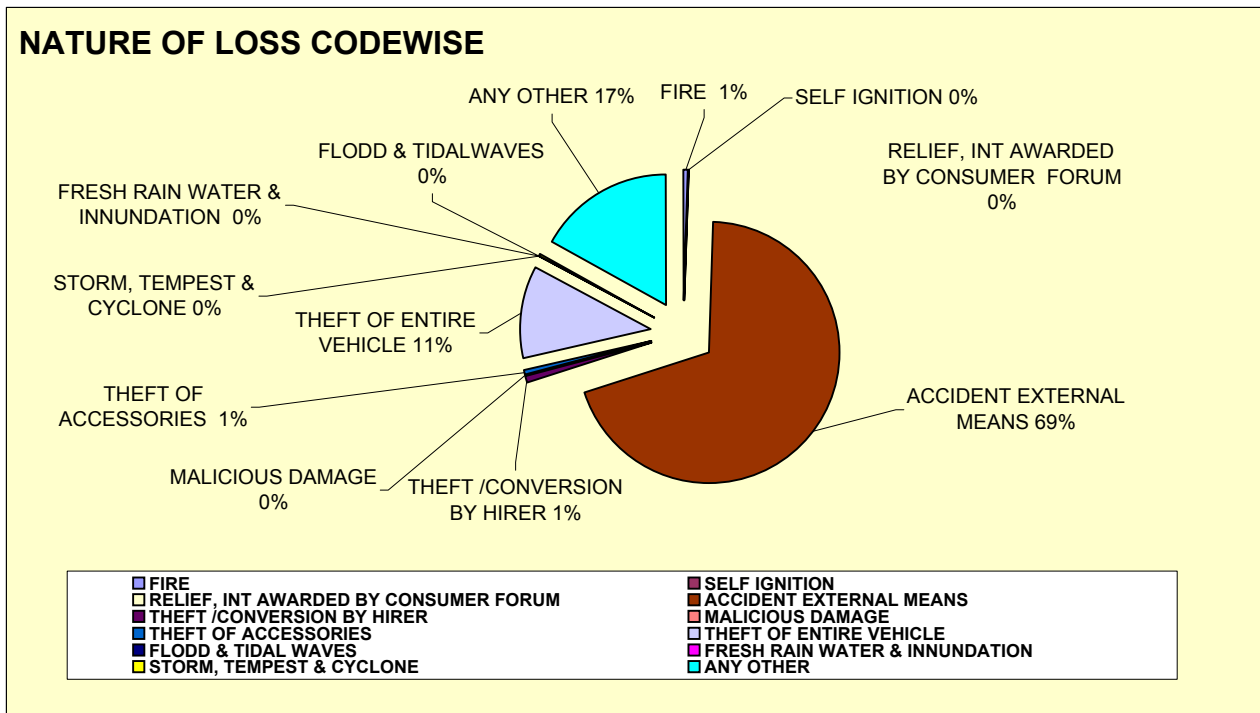
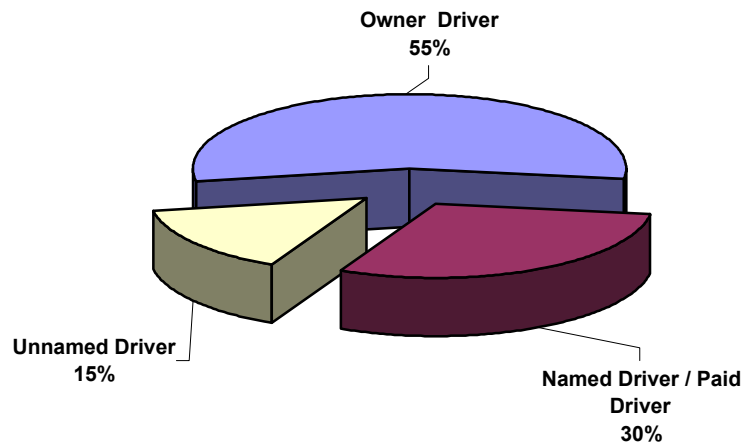


EXHIBIT T - 3

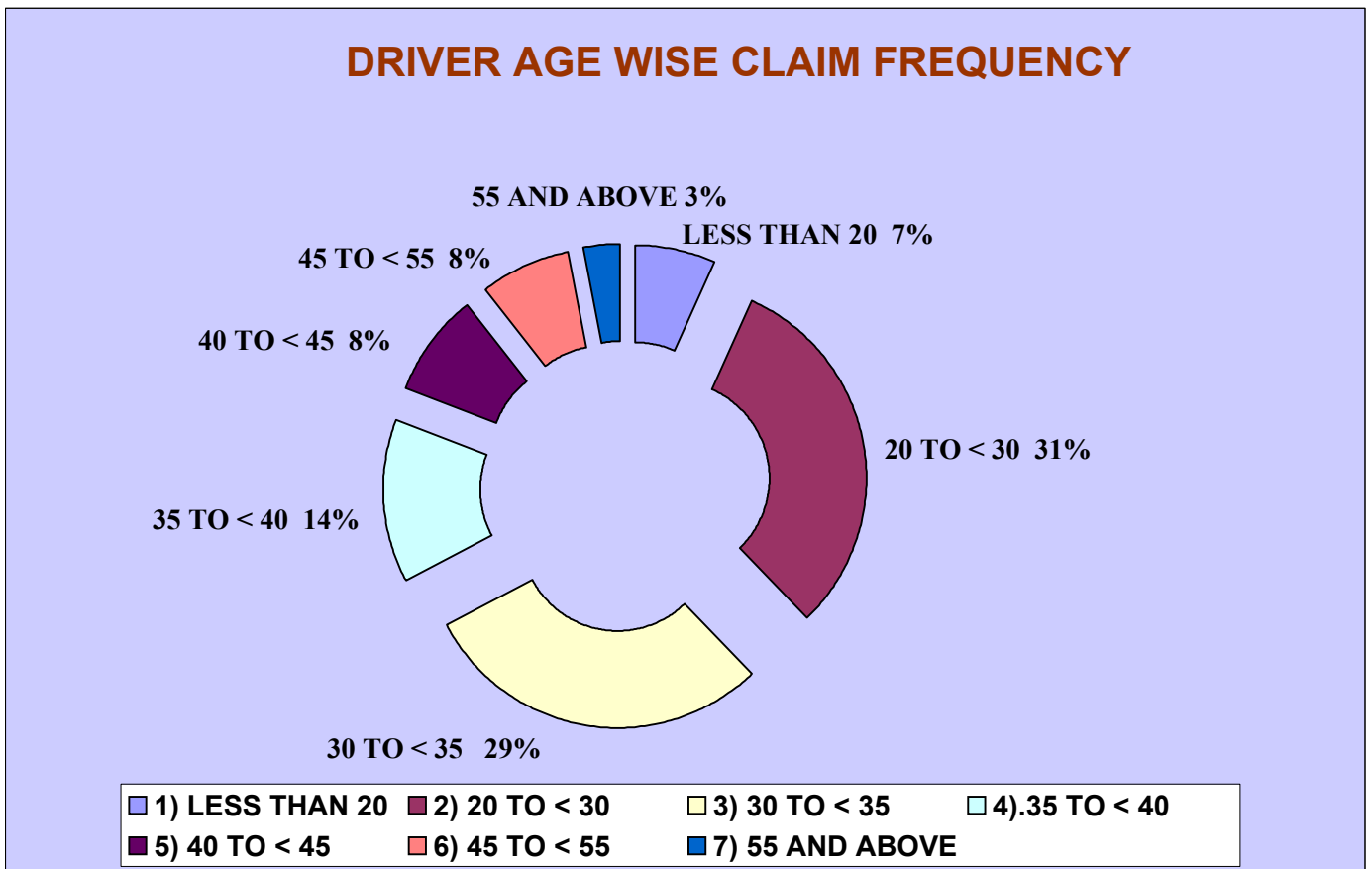
Driver Group	No. of Claims
Owner Driver	1370
Named Driver / Paid Driver	748
Unnamed Driver	373
Grand Total	2491

EXHIBIT C - 3

DRIVER GROUPWISE CLAIMS FREQUENCY
(Driver Groupcode-wise breakup of 2491 accidents)

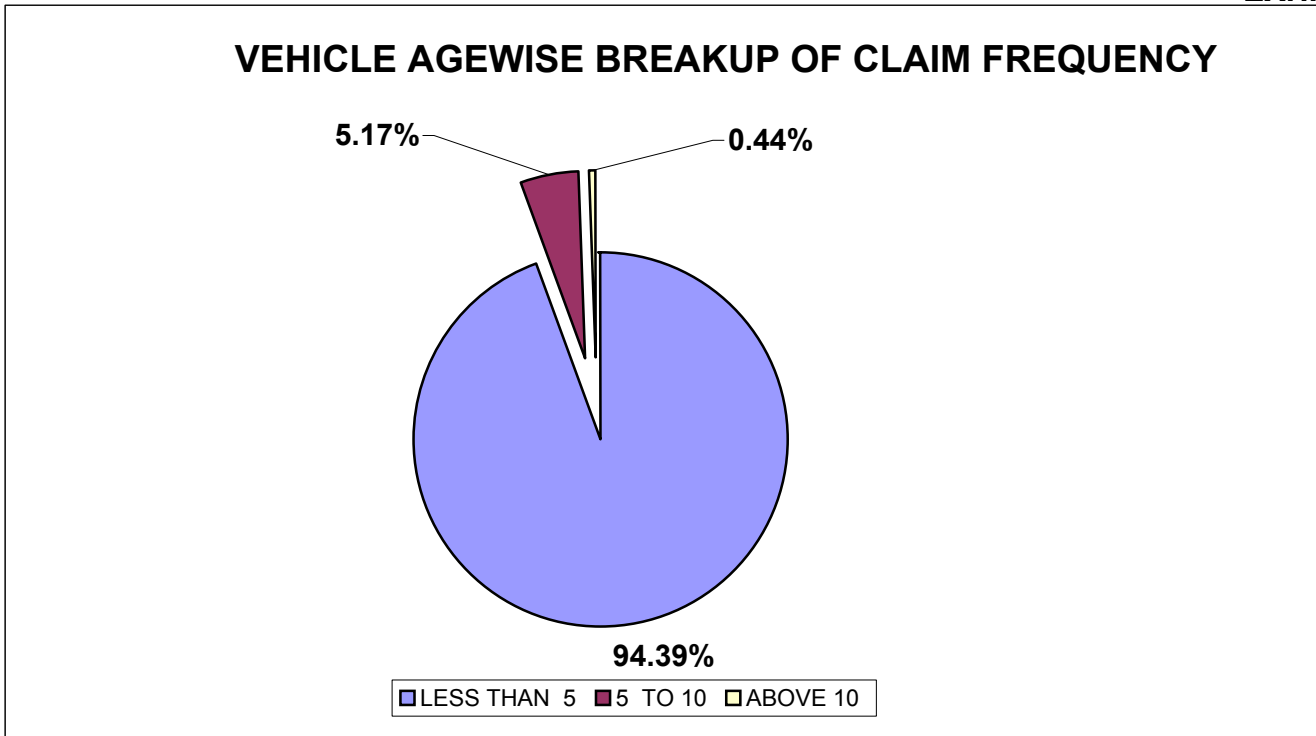


DRIVER AGE WISE BREAK UP OF CLAIMS	
AGE OF THE DRIVER	NUMBER OF CLAIMS
1) LESS THAN 20	148
2) 20 TO < 30	702
3) 30 TO < 35	656
4) 35 TO < 40	309
5) 40 TO < 45	190
6) 45 TO < 55	170
7) 55 AND ABOVE	68
	2243



VEHICLE AGE CODE				
LESS THAN 5	5 TO 10	ABOVE 10	NOT SPECIFIED	TOTAL

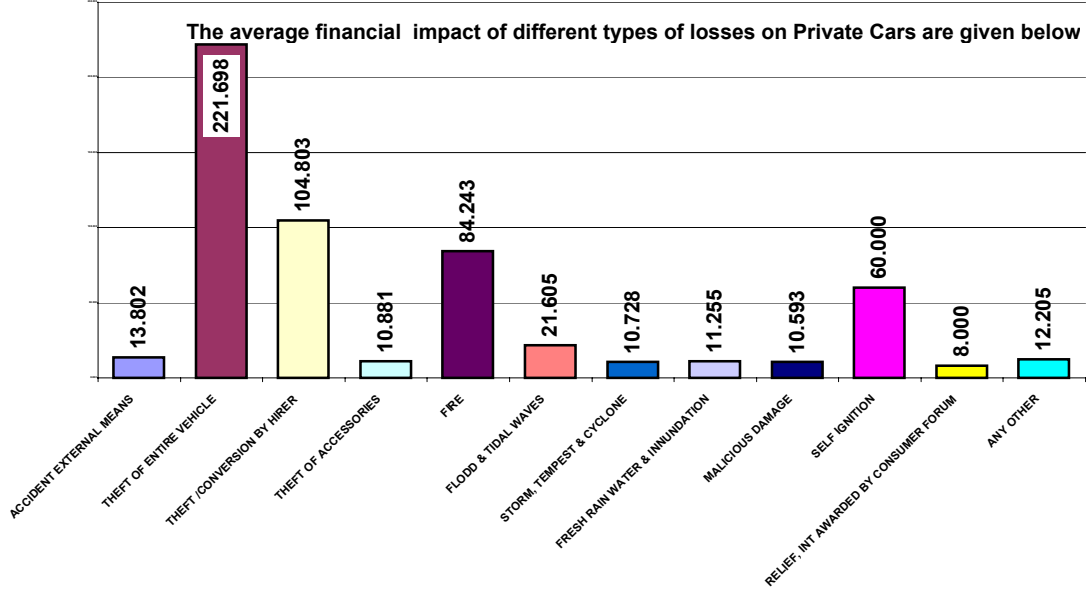
CLAIM AMOUNT	288836.783	14373.284	1229.885	572647.584	877087.536
FREQUENCY	22613	1238	105	40496	64452
AVERAGE PER CLAIM COST	12.773	11.610	11.713	14.141	13.608



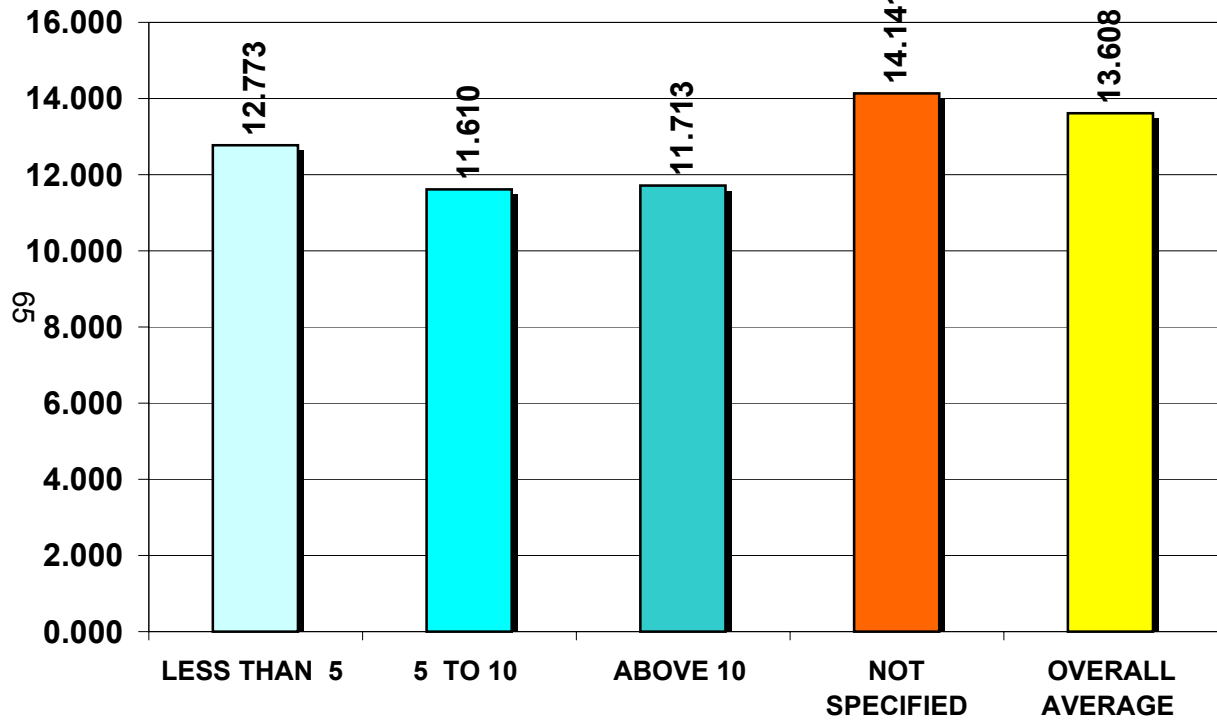
NATURE OF LOSS WISE AVERAGE CLAIM COST (000's)

69

The average financial impact of different types of losses on Private Cars are given below

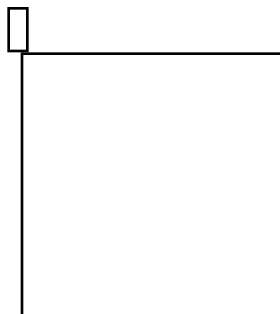
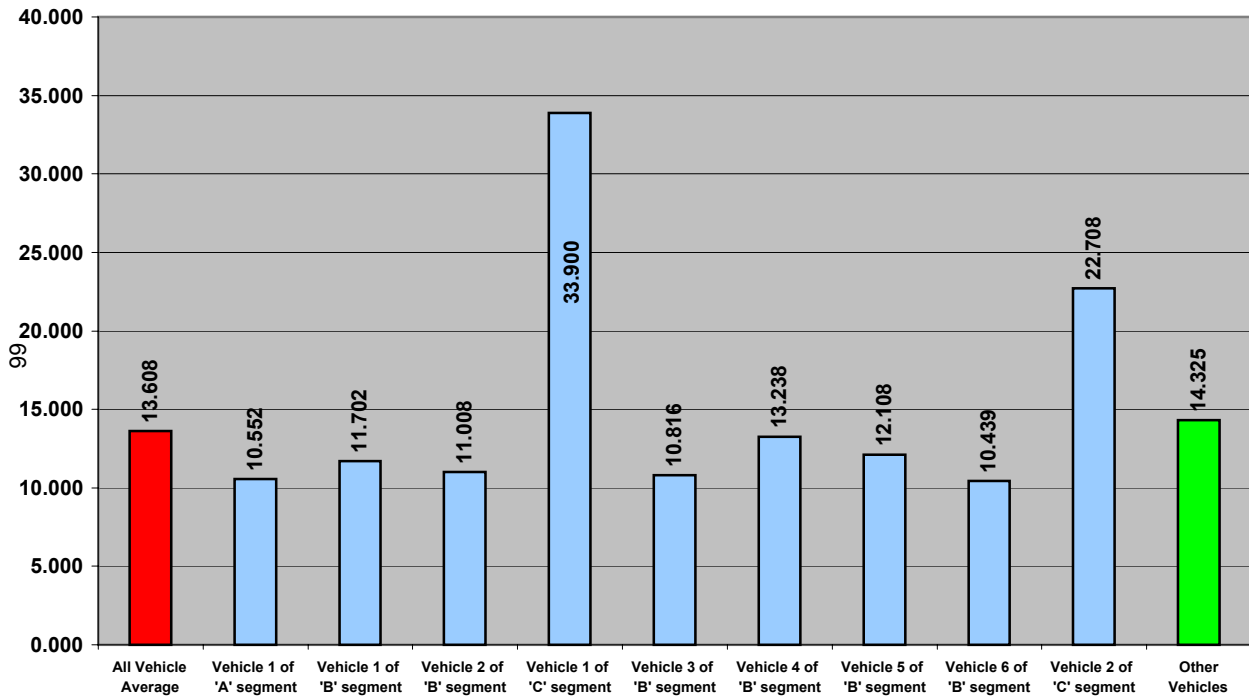


VEHICLE AGEWISE AVERAGE PER CLAIM COST (000's)



VEHICLE MODELWISE AVERAGE CLAIMS COST PER ACCIDENT (000's)
model names have been replaced by vehicle segments 'A' to 'E'

EXHIBIT -C 8
(All



**PRIVATE CAR
MOTOR POLICY WORDINGS**

Introduction

Your motor policy

Thank you for choosing us as your motor insurer.

You should have three documents: this policy booklet, a policy schedule and a certificate of insurance. You may also have an endorsement schedule. Please read all the documents carefully, taking note of any endorsements and also the exclusions, general exceptions and general conditions stated in this policy booklet.

Please note that we have relied upon the information and statements provided by you, including the proposal form. If the information is not accurate or complete, this policy may not be valid. If you have made any mistake, please tell us at once.

You should always keep a copy of the certificate always in the car.

(Name of Insurance Company to appear here).

The contract of insurance

This policy is a Contract of Indemnity between you, our policyholder, and us,(Name of Insurance Company to appear here).

In return for the premium you have paid and any tax applicable, we will provide the insurance as shown in the following pages. This will last during the period of insurance shown in the policy schedule and during any further period for which we may accept a payment for renewal.

Under the policy terms and endorsements, we will insure you against certain legal liability, loss or damage which occurs during any period of insurance for which we have accepted the premium.

Your insurance cover is a legal contract between You and Us. It is subject to the conditions contained in the Policy, Schedule and Certificate of Insurance, and

- the completeness and accuracy of information in the Proposal Form, statements, claims or documents given by You to Us; and
- compliance with the conditions of the Policy.

On behalf of(Name of Company to appear here).

(Chief Executive Officer).

What cover do you have?

Your policy schedule shows what cover you paid for

Package

If you have a package cover, the whole of this policy booklet applies.

**Liability only
with Fire
and theft**

If your cover is liability only with fire and theft, the parts and sections of this policy booklet which apply are

- section
- section
- your motor policy
- definitions and information
- the contract of insurance
- the law which applies to this policy
- general exceptions
- general conditions
- Endorsements

Liability only

If your cover is restricted to liability only, sectionapplies.

Section 1 – Loss or damage to your vehicle

What you are covered for

Loss or damage

We will cover you for loss or damage to your vehicle including accessories caused by:

1. fire explosion self ignition or lightning
2. burglary housebreaking or theft
3. riot and strike
4. earthquake (fire and shock damage)
5. flood, typhoon, hurricane, storm, tempest, inundation, cyclone and hailstorm.
6. accidental external means
7. malicious act
8. terrorist activity
9. whilst in transit by road rail inland-waterway lift elevator or air.
10. by landslide rockslide

subject to the maximum limit of Insured Declared Value.

Section 1 – Loss or damage to your vehicle (Contd.)

What we will do if you make a claim

Claim procedure You must inform us either in writing or over phone about any damage you are going to claim for and give all information including proof of loss. You may choose your own repairer, but you must send us a detailed estimate as soon as possible. We will authorise the repairs only if the estimate is reasonable. If we believe that the estimate is unreasonable, we will have the right to arrange for your vehicle to be taken to another repairer.

Compensation We cover accidental loss of or damage to:

- a. the Motor Car, and
- b. its Accessories and spare parts.

Provided the loss or damage is covered under Your Policy, **We** will settle **Your** claim at our option as stated below, subject to any Policy limits and any applicable Excess.

a. The motor car

Following loss or damage to the Motor Car:

- i. in case where repair can be economically made we will authorise repair or pay for repair to the damage.
- ii. where the Motor Car is stolen and not recovered or where repair cannot be economically carried out, we will pay the Insured Declared Value of the Motor Car.

b. Accessories and spare parts

Following loss of or damage to Accessories and spare parts:

- i) in case where repair can be economically carried out, we will authorise repair or pay for repair to the damage.
- ii) in case where the item is stolen and not recovered or where repair cannot be economically carried out, We may, at our option arrange replacement with a similar item of equivalent pre-loss or damage quality and value.

If we choose a cash settlement, We will pay you an amount equal to the amount which We would have paid had repair or replacement been carried out.

We may need to recover the amount of payment from another party if they were responsible for the loss or damage. We will do this in your name. We may also want to defend you if it is alleged that you caused someone else loss or damage.

**Accident
recovery
and protection**

In the event of the vehicle being disabled by reason of loss or damage covered under this Policy We will bear the reasonable cost of protection and removal to the nearest repairer and redelivery to you but not exceeding in all Rs.1500/- in respect of any one accident.

You may authorise the repair of the vehicle necessitated by damage for which **We** may be liable under this policy provided that:

- a) the estimated cost of such repair including

replacements, if any, does not exceed Rs.500/-.

b) a detailed estimate of the cost of repairs is furnished forthwith to us; and

c) you shall give us every assistance to see that such repair is necessary and the charges are reasonable.

**Hire Purchase/
Lease/
Hypothecation
Agreement**

If your vehicle is the subject of a hire purchase or other similar agreement with a finance company or any other institution/organisation, the Total Loss payment shall be made to such finance company/institution/organisation. In all other cases payment shall be made to you.

In the case of a Total Loss, acceptance or settlement by finance company/ institution/ organisation shall be binding on You.

Section 1 – Loss or damage to your vehicle (Contd.)

General Exceptions and what you are not covered for

We will not pay for any accidents, injury, loss, damage, liability or consequential loss under the following events, circumstances or contingencies :

Driver not holding a valid driving licence

while your vehicle is being driven by any person including you, without holding a valid driving license to drive the vehicle you or that person is not disqualified from holding or obtaining such a licence.

Use

while your vehicle is being used contravening the Limitations as to use of the vehicle provided in 'Certificate of Insurance'

Compulsory deductible

The amount, or amounts, shown in your Schedule which you bear for any one incident resulting in a claim.

Depreciation on repairable loss claims

The following rates of depreciation shall apply for repairable loss claims in respect of vehicle/accessories:

1. Rate of depreciation for all rubber/nylon/plastic parts, tyres and tubes
batteries and air bags 50%
2. Rate of depreciation for all fibre
glass components 30%
3. Rate of depreciation for all parts
made of glass Nil

4. Rate of depreciation for all other parts including wooden parts is to be as per the following schedule:

AGE OF THE VEHICLE	% OF DEPRECIATION
Not exceeding 6 months	Nil
Exceeding 6 months but not exceeding 1 year	5%
Exceeding 1 year but not exceeding 2 years	10%
Exceeding 2 years but not exceeding 3 years	15%
Exceeding 3 years but not exceeding 4 years	25%
Exceeding 4 years but not exceeding 5 years	35%
Exceeding 5 years but not exceeding 10 years	40%
Exceeding 10 years	50%

Tyres and Tubes

Damage to Tyres and Tubes unless the vehicle insured is damaged at the same time in which case our liability shall be limited to 50% of the cost of replacement.

**Wear and tear
Keys**

For wear and tear, rust or other forms of corrosion.

For loss or damage to your vehicle arising from theft when an ignition key has been left in or on your vehicle.

Breakdowns

For any mechanical, electrical, electronic, computer or computer software breakdown, failure, fault or breakage.

**Intoxication/
Alcohol /Drugs**

For loss or damage to your vehicle caused by you or any person driving the vehicle whilst under the influence of intoxication, alcohol, drugs etc.

Improving your vehicle	For repairs or replacements which improve your vehicle beyond its condition it was in before the loss or damage occurred.
Loss of value following repairs	For any reduction in the value of your vehicle which results from repairs to the vehicle.
Loss of use	For loss of use, extra expenses incurred for hiring a vehicle or consequential loss which happens as a result of the loss or damage for which you are claiming.
Contractual agreement	Occurring as a result of an agreement or contract, or from an obligation under a contract unless we would have been responsible anyway if the agreement or contract did not exist.
War risk	Caused by, or as a result of, war, invasion, act of foreign enemy, hostilities (whether war be declared or not), civil war, rebellion, revolution, insurrection or military or usurped power.
Radioactivity	Directly or indirectly caused, by or contributed to by or arising from: <ul style="list-style-type: none"> • ionising radiations or radioactive contamination from any irradiated nuclear fuel or from any nuclear waste from the combustion of nuclear fuel: •the radioactive, toxic, explosive or other dangerous properties of any explosive nuclear assembly or nuclear component of such assembly.
Pollution risk	Biological, chemical or nuclear pollution or contamination.

Section 2 - Liability to Third Parties

1. Within the limits of liability as mentioned in the Schedule to this Policy, we will indemnify you in the event of an accident caused by or arising out of the use of the vehicle against all sums which you shall become legally liable to pay in the event of:

(i) death or bodily injury to any person including occupants carried in the vehicle (who are not carried for hire or reward), but except so far as it is necessary to meet the requirements of Motor Vehicles Act, we shall not be liable where such death or injury arises out of and in the course of employment of such person by you;

(ii) damage to property other than property belonging to you or held in trust or in the custody or control of you.

2. We will pay all costs and expenses incurred with our written consent.

3. We will indemnify, subject to the limitations of indemnity granted by this Section, any driver who is driving the vehicle on your order or with your permission, if such driver observes/fulfils and be subject to the terms, exceptions and conditions of this Policy in so far as they apply.

In the event death of any person entitled to indemnity under this Policy, we will in respect of the liability incurred by such person indemnify his/her personal representative in terms of and subject to the limitations of this Policy, if such personal representative shall observe/fulfil and be subject to the terms, exceptions and conditions of this Policy in so far as they apply.

5. We may at our option:

(A) arrange for representation at any Inquest or Fatal Inquiry in respect of any death which may be subject of indemnity under this Policy;

and

(B) undertake the defence of proceedings in any Court of Law in respect of any act or alleged offence causing or relating to any event which may be the subject of indemnity under this Policy.

Avoidance of certain Terms and Right of Recovery

Nothing in this Policy or any endorsement shall affect the right of any person indemnified by this Policy or any other person to recover an amount under or by virtue of the provisions of the Motor Vehicles Act. But you (the insured) shall repay to us all sums paid by us, which we would not have been liable to pay but for the said provisions.

Application of limits of indemnity

In the event of any accident involving indemnity to more than one person, any limitation by the terms of this Policy and/or any endorsement thereon of the amount of any indemnity shall apply to the aggregate amount of indemnity to all persons indemnified and such indemnity shall apply in priority to you (the insured).

SECTION 3 - PERSONAL ACCIDENT COVER FOR OWNER -DRIVER

1. We undertake to pay compensation as per the following scale for bodily injury/death sustained by the owner-driver of the vehicle, in direct connection with the vehicle insured or whilst driving or mounting into/dismounting from the vehicle insured or whilst travelling in it as a co-driver, caused by violent accidental external and visible means which independent of any other cause shall within six calendar months of such injury result in:

Nature of injury	Scale of compensation
(i) Death	100%
(ii) Loss of two limbs or sight of two eyes or one limb and sight of one eye	100%
iii) Loss of one limb or sight of one eye	50%
(iv) Permanent total disablement from injuries other than named above	100%

Provided always that:

A) compensation shall be payable under only one of the items (i) to (iv) above in respect of the owner-driver arising out of any one occurrence and our total liability shall not in the aggregate exceed the sum of Rs. 2 lakhs during any one period of insurance;

B) no compensation shall be payable in respect of death or bodily injury directly or indirectly wholly or in part arising or resulting from or traceable to (1) intentional self injury, suicide or attempted suicide physical defect or infirmity or (2) an accident happening whilst such person is under the influence of intoxicating liquor or drugs.

C) Such compensation shall be payable directly to you or to your legal representatives whose receipts shall be the full discharge in respect of the injury to you.

2) This cover is applicable if:

(a) you are the registered owner of the vehicle insured herein;

(b) you are the insured named in this policy;

(c) you hold an effective driving licence, in accordance with the provisions of Rule 3 of the Central Motor Vehicles Rules, 1989, at the time of the accident.

Section 4 - No Claim Bonus

No Claim Bonus wherever applicable, will be as per the following table:

VEHICLE	% OF DISCOUNT ON OWN DAMAGE PREMIUM
No claim made or pending during the preceding full year of insurance	20%
No claim made or pending during the preceding 2 consecutive years of insurance	25%
No claim made or pending during the preceding 3 consecutive years of insurance	35%
No claim made or pending during the preceding 4 consecutive years of insurance	45%
No claim made or pending during the preceding 5 consecutive years of insurance	50%

- you cannot transfer your no-claim discount to anyone else
- no claim bonus can be earned only on the Own Damage section of Policy.
- you become entitled to NCB only when the vehicle has been insured continuously for a period of 12 months without any break.
- no NCB can be allowed when a policy is not renewed within 90 days of its expiry. However, in the case of Military or para-military personnel working in forward areas, the period of 90 days may be extended upto 365 days depending on the circumstances of each individual case with a declaration in writing by the policy holder that the vehicle was not put to use during the interim period.

- the entitlement of NCB shall follow the fortune of the insured and not the vehicle or the policy. In the event of transfer of interest in the policy from one insured to another, the entitlement of NCB for the new insured will be as per transferee's eligibility following the transfer of interest.
- in the event of the insured, transferring his insurance from one insurer to another insurer, the transferee insurer may allow the same rate of NCB which the insured would have received from the previous insurer.
- if an insured vehicle is sold and not replaced immediately, NCB earned if any, may be granted in the event of an insured insuring any vehicle within a period of 3 years from the date of expiry of the previous policy.

Section 5 - Territorial limits and using your vehicle abroad

Territorial limits

The **cover** provided by this **policy** applies in full while **your vehicle** is within the Geographical area including extension thereof allowed by us which is as under:

Geographical Area

INDIA

Policy can be extended to include

Bangladesh

Bhutan

Maldives

Nepal

Pakistan

Sri Lanka

What you are not covered for

Such geographical area extensions, however, specifically exclude cover for damage to the vehicle/injury to its occupants/TP liability in respect of the vehicle during air passage/sea voyage for the purpose of ferrying the vehicle to the extended Geographical Area.

General Conditions

Accidents and Claim procedure

You must contact us at the following address, as soon as possible, about any event which may lead to a claim under this **insurance**.

.....(Name of the Company)
Address
Telephone No.
Fax No.

A specimen claim form is provided with this booklet.

If **you** receive notice of a claim from someone else, **you** must tell us immediately and send any correspondence **you** receive to us. **You** must send us every writ, summons and letter you receive. You must also write and tell **us** immediately if **you** are about to be prosecuted or have to go to an inquest.

You must not admit liability for, or offer to settle, any claim without our permission. **We** may take over, defend or settle the claim or prosecute in **your** name for **our** own benefit. **You** must give us all the help and information **we** need.

Vehicle maintenance and safekeeping

You must do all that you can to protect your vehicle against loss or damage and make sure that it is fit and safe to drive. You will not be covered if:

- * **you** have an accident while your vehicle, including its load, is being driven when it is not fit and safe to do so;
- * **your vehicle** is overloaded with passengers or

goods.

**Keeping to
the conditions**

We will only provide **cover** as described in this **insurance** if the person claiming has fulfilled all the terms and conditions, and the **information and statements** provided by **you** are, as far as **you** know, complete and accurate.

Cancellation

We may cancel this **insurance** by giving **you** seven days written notice to **your** last known address. If **we** do this, **we** will return **your** premium for the rest of the period of **insurance**.

You may cancel this **insurance** as long as you have not made a claim during the period of **insurance**. If you cancel, **you** must send **us your certificate of insurance**. **We** will then return the unused part of **your** premium from the date **we** receive **your certificate**. However in no case premium paid towards liability cover shall be refunded.

Contribution

If at the time of occurrence of an event that gives rise to any claim under this policy there is in existence any other insurance covering the same liability, We shall not be liable to pay or contribute more than our ratable proportion of any compensation, cost or expense.

Disagreements

If any dispute or difference shall arise as to the quantum to be paid under this **policy** (liability being otherwise admitted), such difference shall independent of other questions be referred to the decision of a sole arbitrator to be appointed in writing by the parties to the dispute or if they cannot agree upon a single arbitrator within 30 days of any party invoking arbitration, the same shall be referred to a panel of three arbitrators comprising two arbitrators one to be appointed by each of the parties to the dispute / difference and a third arbitrator to be appointed by such two arbitrators who shall act as the presiding arbitrator and

arbitration shall be conducted under and in accordance with the provisions of the Arbitration and Conciliation Act, 1996.

It is clearly agreed and understood that no difference or dispute shall be referable to arbitration as herein before provided, if **we** have disputed or not accepted liability under or in respect of this **policy**.

It is hereby expressly stipulated and declared that it shall be condition precedent to any right of action or suit upon this **policy** that the award by such arbitrator / arbitrators of the amount of the loss or damage shall be first obtained.

It is also hereby further expressly agreed and declared that if **we** shall disclaim liability to the insured for any claim hereunder and such claim shall not, within twelve calendar months from the date of such disclaimer have been made the subject matter of a suit in a court of law, then the claim shall for all purposes be deemed to have been abandoned and shall not thereafter be recoverable hereunder.

Fraud

If a claim made against **us** is in any way fraudulent, or its amount is deliberately inflated or exaggerated, or it is made with the use of forged or falsified documents, no benefit will be paid under this **policy**.

Alteration of risk

You must tell **us** at once if there is any change in the **information you** gave to **us** when **we** agreed to insure **you**.

Without affecting the condition relating to cancellation **we** shall be entitled to adjust the premium and / or vary the terms, conditions and exceptions of this **policy** in respect of the unexpired term of this **insurance**.

Succession

In the event of the death of the sole insured during the

policy period the coverage under the policy shall stand transferred in the name of legal heirs/administrators as the case may be till expiry of the policy.

Definitions and information

The defined words listed in alphabetical order shall carry the same meaning wherever they occur in the policy booklet.

Accessory Accessory means any extra motoring equipment or fitment fitted to your vehicle for use irrespective of whether fitted by manufacturer but which is not essential for running of the vehicle. This does not include any trailer.

Certificate of insurance the document which gives evidence that you have a motor insurance policy which complies with the Motor Vehicles Act 1988, the Central Motor Vehicles Rules 1989 and amendment thereof.

It also shows :

- * the number of your policy;
- * the registration number, engine number and chassis number of your vehicle;
- * your name as the policy holder;
- * the period of cover;
- * who may drive your vehicle;
- * the limitations as to the use of the vehicle which we have Agreed.

Driver as defined in the Certificate of Insurance.

Cover the insurance we will provide under the policy.

Endorsement a wording which changes the insurance in this policy.

Endorsement Schedule the document headed endorsement schedule, which may be provided with this policy booklet. It shows the wordings of any

endorsements which apply to this policy.

Deductible	the first part of a claim which you must bear. Sometimes more than one excess can apply, in which case we add them together.
Information and Statements	the information and statements you have given to us when asking us to insure you. This will include any proposal form completed by you.
Market Value	is our assessment of the cost of replacing your vehicle with one of similar age, make and condition using local market rates at the time of the incident you are claiming for. This does not include allowance for dealers profit warranty costs, stamp duty or transfer fees.
Modification	is an alteration to your vehicle's standard body, engine, suspension, wheels or paint work which may affect its value, safety, performance or appearance.
Policy	your contract of insurance based on the information provided by you, the policy schedule, the endorsement schedule and the certificate of insurance.
Policy schedule	the document headed policy schedule which is provided with this policy booklet and shows : <ul style="list-style-type: none">* your details ;* the details and registration number of your vehicle ;* the period of cover ;* the type of cover, whether comprehensive, third party Fire and theft, or third party only ;* any endorsement which apply.
Premium	means the total amount you pay for this insurance. It is shown on the Certificate of insurance.
Proposal form	the document containing all material information relevant to the cover which has been submitted by you for obtaining this insurance.
Total loss/	a vehicle will be considered to be a total loss/constructive total

Constructive Total loss loss, where the aggregate cost of retrieval and/or repair of the vehicle subject to terms and conditions of the policy exceeds 75% of the IDV.

Us, we and our name of the insurer.

You/ your means the insured under the policy

Acknowledgements

The Group wishes to place on record its appreciation of the initiative of the Chairman IRDA in taking forward the issue of Detariffing the OD portion of motor portfolio and also for agreeing to extend the tenure of the Group to submit its report by 31-3-04 instead of the earlier mandated 31-12-03.

The views received from various Chambers of Commerce are acknowledged with thanks.

The Group would like to make a specific mention of the contribution made by the Convener Secretary Mr P.K. Swain and his team at the TAC, in collecting the background information and providing the Group with a first cut draft report and other valuable inputs.

The Group also wishes to put on record the valuable contribution made by the Sub-Group consisting of Mr D.Varadarajan, Mr P.K. Swain, Mr R. Shiva Kumar and Ms Radha Raghavan for their inputs in simplifying the policy documents in a user-friendly language.

The Group wishes to acknowledge the help and cooperation it has received from the officials of TAC HO and TAC,Chennai RO, and National HO in arranging for the meeting and providing logistical supports. The Group thanks the MSD team at TAC HO and other officials namely, Mr M Kar, Mr George E Thomas, Mr K.O Antony, Mr M S Jayakumar, Mr V. Kapoor and Mr H Ananthkrishnan for valuable statistical analysis and other assistance.

Various web sites were accessed and articles on the net by Mr Sheng Hau Yu and Mr David Summer were visited. The report of the Motor Insurance Task Force, Singapore, web site of PIAM (General Insurance Association of Malaysia), articles published in IRDA journals by Mr K N Bhandari and article on TP motor insurance in Europe by Professor Dr Ulrich Meyer were also perused.

Last but not least, the Group wishes to thank Mr Prabodh Chander, ED, IRDA for sending articles for the consideration of the Group.
