

F.No.14017/17/2010-Ins.II
Government of India
Ministry of Finance
Department of Financial Services
(Insurance Division)

2nd floor, Jeevan Deep Building,
Parliament Street, New Delhi.

Dated: 30th July, 2012

To

Shri G. Srinivasan, CMD, United India, Chennai

Dr. A.K.Saxena, CMD, Oriental Insurance, New Delhi

Shri N.S.R. Chandraprasad, CMD, National Insurance, Kolkata

Shri A. R. Sekar, Current In-Charge, New India, Mumbai

Subject: Strategy to be adapted by companies for Motor third Party Insurance in
r/o commercial vehicles consequent upon implementation of Third
Party Declined Pool w.e.f. 01.04.2012.

Dear Sir,

As you are aware, non-life PSUs have been incurring underwriting loss under Motor Portfolio, particularly, under the Motor Third Party segment. The situation is likely to worsen with the discontinuance of Third Party Motor Pool and the same having been replaced with the Commercial Vehicle Third Party Insurance Declined Pool with effect from 1st April, 2012. Under the Declined Pool, though the risk under TP Standalone Policies in respect of commercial vehicles falling under the category of declined risk as defined by the respective company in advance can be ceded to the Declined Pool, the risk under the Comprehensive Motor Insurance policy, covering OD & TP risks in respect of commercial vehicles, will be on the respective Company's net account. The choice of the Insurers transferring the TP risk to the TP Pool as an arbitrage for getting profitable OD premium henceforth will no more be available to the insurance companies.

2. In view of the changed scenario, the PSUs are advised to be more cautious and prudent in underwriting motor business by devising a proper underwriting / marketing strategy to minimize TP loss. The Advisory is, accordingly, issued as under:-

(i) Pricing of comprehensive motor insurance policy is required to be made more realistic so that the combined ratio including Claims, ME and Commission does not exceed 100%.

(ii) For cases where combined ratio is less than 1, the operating offices shall be authorized to allow reduction in OD premium for commercial vehicles as compared to the old tariff rates, up to a maximum limit of 10 %. The controlling regional offices may be given an authority to increase their discount to a maximum of 20%. In genuine cases, if any further reduction in premium is considered necessary, the same may be considered at HO level with the prior written approval of the GM concerned, who will certify that he has done the necessary due diligence and that combined ratio will continue to be favourable [one or less]. All such cases with proper justification shall have to be brought to the notice of the Risk Management Committee of the company (RMC) on monthly / quarterly basis. RMC shall take necessary review of such cases very carefully and shall brief the Board on all such cases where it is not satisfied with the due diligence exercised by the GM

Commission /brokerage along with other incidentals such as infrastructure expenses, if any, not to exceed 20% of OD premium. In any case the total outgo under all the 3 head viz. discounts, commission/brokerage and other incidentals shall not go beyond 35%.

In case of vehicles of more than seven years of age, the rate charged should be as per the Indian Motor Tariff 2002 rates and in such cases the commission/brokerage shall be restricted to 5% of OD premium. No brokerage/commission shall be payable for vehicles of more than 10 years of age.

(iii) In addition to issuing comprehensive policies, the companies may examine the possibilities of issuing separate policies for OD and TP to facilitate transferring of bad TP risk to the pool and retention of OD premium on companies' net account after obtaining necessary regulatory approvals if required. No commission/brokerage shall be paid for TP portion of comprehensive policies and for TP standalone policies.

Further, no discounts and commission shall be payable in case of niche policies covering Third Party risk, fire and/or theft risks irrespective of the age of the vehicle.

(iv) The standalone TP policies for 'healthy' and 'roadworthy' vehicles only should be taken on the companies' net account. However, the companies may take a considered view about the age and type/make/model of the commercial vehicles to be ceded to the Declined Pool. Here, it may be noted that TP insurance losses are not restricted to four wheeler commercial vehicles alone but also to other categories of commercial vehicles such as goods carrying public as well as private carrier (3 wheelers) as is evident from the ICR% data published by Insurance Information Bureau (ICR% 175.56% & 105.94% respectively).

(v) Since the companies have already filed their respective underwriting policies with the IRDA, a group of the senior executives of the four PSUs will prepare a Common Underwriting Manual for the Declined Risk Pool by the end of August for the next year i.e. 2013-14, and after approval thereof by their respective Boards, be submitted to IRDA before the end of the current year. Pending the above exercise, the Companies will immediately issue detailed instructions to their operating offices and ensure that the risk avoided by one PSU Company does not get transferred to another PSU company.

(vi) Business from dealers, manufactures and financiers placing bulk motor business with Insurance Companies with heavy claim ratio (OD+TP) should be discouraged unless the OD rates are revised realistically.

(vii) Restrictions may be placed on offices in certain geographical areas from granting comprehensive policies in respect of such line of commercial vehicles which are otherwise required to be ceded to the Declined Pool.

(viii) Appropriate precaution be undertaken for motor policies to be issued in respect of the State Transport Undertakings/Corporations where third party insurance is not mandatory as per the Motor Vehicle Act 1988.

(ix) The companies should attempt to settle maximum number of claims through the conciliatory process. The Board of Directors of the Company may frame and approve an appropriate policy for this.

(x) The companies may ensure formation of Third Party Hubs in all major centers for settlement of Motor TP Claims with focused attention. Similarly, steps for formation of investigation teams in major centers, to visit the site of accident

immediately in order to avoid exaggeration of claims and frauds etc., should be taken if not done so already.

(xi) The companies should ensure collaboration at the industry level and with Police Authorities, judiciary and Transport authorities for prevention of frauds.

(xii) Companies should file criminal cases against those entities found to be indulging / conniving in filing of fraudulent petitions.

(xiii) It has been observed that there is significant leakage of OD premium in the absence of non-availability of confirmation of NCB entitlement by the insured and that there is a general tendency to shift the business from one company to another company after a claim is reported to enable the insured to continue to enjoy the NCB. At present, such non-compliance of NCB confirmation is noticed at the time of claim and the current practice is to settle such claim after collecting the difference of premium on account of withdrawal of NCB. Such kind of misrepresentation on eligibility of NCB amounts to misstatement of facts and insurers are entitled to repudiate such claim. Thus no NCB be allowed unless the previous insurer confirms the same in writing. Companies will jointly put in practice a Clearing House for confirmation of NCB among themselves.

2. Keeping in view the above guidelines, each of the companies may devise a policy for motor underwriting. This policy will have to be approved by the respective Board of the Company.

3. Further, quarterly report on compliance of the above guidelines in respect of such cases where the premium rate charged is lower than the old tariff rate and / or the combined ratio is more than 100% shall be placed before the Board of Directors for their information and guidance within one month of the end of each quarter, with all relevant details, through the RMC and the Chair of RMC shall brief the Board on these cases and shall make available all details as sought for.

Please acknowledge receipt and confirm the action taken.

This has the approval of Secretary (FS).

Thanking you,

Yours faithfully,

Sd/-

(Arun K Misra)

Under-Secretary to the Govt. of India