

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 May, 2012

To

Shri G. Srinivasan, CMD, United India, Chennai
Shri R. K. Kaul, CMD, Oriental Insurance, New Delhi
Shri A. R. Sekar, Current In-Charge, New India, Mumbai
Shri N.S.R. Chandraprasad, CMD, National Insurance, Kolkata

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%. In any case, taking the last tariff rates as the basis, the PSUs, while issuing any comprehensive motor policy for commercial vehicle will, as a rule of thumb, ensure that the OD premium charged in no case is lower than the last tariff rates, except in genuine cases where the combined ratio is quite comfortable & discount is necessary for continuation/procurement of such business & will not affect the combined ratio adversely. Even in such genuine cases, the difference in premium charged and the old tariff rates shall be allowed in such a way that the combined ratio under no circumstances exceeds 100%. In addition, the business procurement expenses i.e. agency commission, brokerage etc. in respect of OD premium shall be restricted to a maximum of 10%.

(ii) The reduction in OD premium vis-à-vis the old tariff rates shall be such that there is some margin on OD segment to provide cushion for the TP losses.

(iii) 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 %. In genuine cases, if any further reduction in premium as stated in (i) above 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.

(iv) 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. This may require IRDA's approval by filing separate policies with IRDA under 'file and use' procedure.

(v) The retention of risk under standalone TP policies for old commercial vehicles on the company's net account should be avoided and be ceded to the declined pool. 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).

(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 based on the past claims experience and must be reviewed every year before taking decision on renewal.

(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.

3. 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.

4. Further, quarterly report 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% may 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.

Thanking you,

Yours faithfully

Sd/-

(Arun K Misra)

Under-Secretary to the Govt. of India

Copy to:-

CMD, GIC of India, Mumbai
CE, GIPSA