

Growth of Vehicle Car Insurance in India from (2005 -2013)

Tushar Rathore^a, ^aSymbiosis Institute of Management Studies, Pune, Email:
tushar.rathore@sims.edu

The paper deals with the growth of vehicle car insurance in India from 2005 -2013. There has been a tremendous growth in India during this period. The insurance market premium amount, claim settlement amount and market share capital area has been analysed for the study. The Indian vehicle car insurance market has witnessed and continues to witness consistent growth.

Key words: *Insurance, Vehicle, Car, Growth, Market.*

Introduction

Car Insurance is also known as Motor Vehicle Insurance is done to protect peoplesvehicle from unforeseen risks. It provides protection against the losses incurred as a result of unavoidable instances. It helps cover against theft, financial loss caused by accidents and any subsequent liabilities. The cover level of car insurance can include the insured party, the insured vehicle and third parties (car and people). The premium of the insurance is dependent on certain parameters like the value of the car, type of coverage, vehicle classification, voluntary excess etc. Car insurance gives the confidence to consumers to drive peacefully especially in emergencies; as it acts as a boon to the insurance holder.

Vehicle motor insurance has existed in India since 1897, when the first motor car insurance company in India was owned by Foster of Greaves Cotton & Company. When the this vehicle started rolling on the roads of Bombay, its owners had to depend upon the relevant provisions of the Indian Penal Code for claiming compensation for damages caused due to any motor car accidents that happened . The compensating motor car accident victims came into light when the first motor vehicles act was enacted in 1914 and a more comprehensive motor vehicles act was enacted in 1939 (Narayanan, 2010).

In India, under motor vehicle insurance, car vehicle insurance policy is mandatory under the motor vehicle act, while other forms of general insurance are optional. The Indian law



mandates that every owner of a motor vehicle must have motor car insurance policy. The need for vehicle insurance for third party liability towards injury, death or property damage is mandatory as per the motor vehicle act. Therefore vehicle car insurance becomes important as it is not just for the persons who may get injured or sustain damage, due to a vehicle hit or so on. The various aspects of motor vehicle insurance in general and specifically for the minimising of risk of vehicle users is an utmost necessity for insurers. Legally, no motor vehicle is allowed to be driven on the road without valid insurance. Hence, it is obligatory to get the vehicle insured.

Car insurance policies cover against any loss or damage caused to the vehicle or its accessories due to the either following natural or manmade calamities. Motor car vehicles fall under the Light Motor Vehicles (LMV) classification or the Gross Vehicle Weight (GVW) classification of either a motor car, tractor or road roller with the weight of which does not exceed 7,500 Kgs (Gantra, 2010; Sharif, Wahab & Sarip 2017).

The Motor Vehicles (Compulsory Insurance) regulations in 1992 come into force on 31st Dec 1992 and implement the third party motor insurance directive under which there is a requirement for motor policies to cover all passengers including travelling in course of their employment. The Motor Vehicle act 1988 (59 of 1988), was enacted as central legislation to regulate road transport in the country. The Motor Vehicle Act of 1988 (Act no 59 of 1988), Act is effective from 1st July 1989 (Kluwer, 1997).

Thus, any contract of insurance under the motor vehicles act contemplates a third party who is not a signatory or party to the contract of Insurance but is protected by the contract. The rights of the third party to get indemnified can be exercised only against the insurer of the vehicle. It is clear that third party insurance is not concerned in the matter of payment of premium. It is on the basis of this policy that claims can be maintained by a third party against the insurer. Therefore, the car insurance business has been increased in India, since the nature of insurance is mandatory in India. India has strong, transparent and vibrant regulatory body IRDA (Insurance Regulatory Development Authority) established in the year 1999. Now in India, government insurance companies and almost all private insurance companies are registered under IRDA. The important function of IRDA is to provide financial stability, transparency and establishment of a regime that shows commitment to the overall development of the insurance market in India. The car and motor insurance market in India is observing good growth and has been for a long period of time.

Vehicle car insurance companies in India believe in fundamental consumer principles like putting the Customer First, setting the Organization above the employee, building a strong Trust factor in the market, Setting high standards for conducting business, Shared ownership principles, the Spirit of Adventure, and following the principles of Respect for diversity. Motor



car insurance sector is poised to mark great progress in the years to come. Over the past few years, many private insurance companies have ventured into the Indian landscape in order to harness the immense untapped latent potential of this industry. Moreover, the favourable regulatory environment from IRDA ensures stability and fair play within the motor insurance market.

Review of Literature

It is important for the study to examine the vehicle car insurance growth in India, as vehicle insurance is the only kind of insurance in India which is mandatory as per Motor Vehicle Act of 1988. Therefore on this basis, there is constant growth in vehicle car insurance business in India.

The analysis related to Indian insurance views and the Indian Insurance market development, show critical factors for market developments and potential strategies for the way forward for Indian Insurance sector.(Ernst & Young report 2010). The future prospects related to Indian Insurance sector and the various challenges and opportunities were critical aspects leading towards the growth of the country. (Moody's – ICRA 2008). The identifications of inefficiencies that could reduce benefits related to infrastructure was well identified and it could be the major reason for the decline in purchase of vehicles and ultimately car insurance (Guang Z.Chen). The need for the motor insurance categories of both light motor vehicles and gross heavy vehicles and its distributions is well discussed (R.K. Gantra 2010).

The broad range of insurance diversity of and development and its prospects is an important factor mentioned in (Tapan Sinha 2002). The Insurance sector including car insurance will grow steadily rather than rapidly, with laws and regulations in place to ensure financial strength and solvency of insurers. The challenges and critical issues are the areas that are a matter of concern for the growth of the insurance sector in the country (S. Krishnamurthy, SV Mony, and Nani Jhaveri 2005). The Motor vehicle Act 1988 and its provision of mandatory insurance is responsible for the growth of car insurance in India (U.R. Sarkar 2009). The analysis of general principles of motor insurance and contracts, proposals and policy forms, claims compensation, jurisdictions of civil courts, legal provision, legal aspects of third party claims and roles and policies of motor accidents are important aspects of vehicle car insurance (Institute of Indian Chartered Accounts of India 2009).

Research Methodology

As in India, car vehicle insurance policy is mandatory under the motor vehicle act, while other forms of general insurance are merely optional. The law mandates that every owner of a motor vehicle must have motor insurance policy. The need for vehicle insurance of third party

liability towards injury, death or property damage is mandatory as per the motor vehicle act. Therefore, vehicle insurance becomes an important issue, as it is not only for car owners to minimize the risk for their vehicles but also for persons who may get injured or suffer damage. The present study throws light on the growth of the vehicle insurance business in India from 2005 – 2013. As during this period, there was tremendous growth in the motor insurance market in India.

The Secondary data was collected from the annual reports of General Insurance Companies registered under IRDA. The Total Premium Amounts, total claim amounts settled and Total Market Share Capital Amount details were undertaken. Also, the Secondary Data was collected through books, journals, reports and from various websites.

Hypothesis

H1: There was Continuous and consistent growth for Car Vehicle Insurance Companies in India from 2005 -2013.

Results

To test the hypothesis for the present paper, the list of motor car insurance companies, registered with IRDA till March 2012 was taken for the study. As per the data available with IRDA website till March 2012, the number of registered car insurance companies was 18 from period (2000- 2009). Car and motor insurance companies potentials and market shares data from period 2005 -2013 was taken for present study test.

The table no 1 below shows car/ motor insurance companies potentials and market shares:-

Table no 1: Car / Motor insurance companies Potentials and market shares

S.No	Years	Premium Amount Total	Claim Amount Settled Total	Market Share Capital Total
1.	2005 -2006	₹ 86,18,624 Lks	₹ 55,83,053 Lks	₹ 18,22,525 Lks
2.	2006- 2007	₹ 1,05,80,796 cr	₹ 67,44,064 Lks	₹ 19,98,976 Lks
3.	2007 -2008	₹ 1,15,66,916 cr	₹ 84,75,467 Lks	₹ 23,39,271 Lks
4.	2008 -2009	₹ 1,50,39,678 cr	₹ 1,84,18,282 cr	₹ 22,86,664 Lks
5.	2009 -2010	₹ 1,72,70,474 cr	₹ 1,17,39,092 cr	₹ 35,37,399 Lks
6.	2010 -2011	₹ 1,56,54,225 cr	₹ 1,77,90,765 cr	₹ 42,11,691

				Lks
7.	2011 -2012	₹ 2,30,82,946 cr	₹ 1,70,64,448 cr	₹ 55,29,898 Lks
8.	2012 -2013	₹ 3,14,53,938 cr	₹ 1,82,36,351 cr	₹ 62,61,818 Lks

Source: Various website from sampled companies

From Table no 1 shows the registered 18 car / motor insurance companies consolidated table of totals premium amount, claim amounts settled and market share capital from the period between 2005 -2013. The above table shows motor insurance companies performance in terms of totals OD (Own Damage) and TP (Third Party) premium amounts, claim settled amounts and companies' market share capital amount.

The present study, the statistical analysis given in tables / graphs no- 2, 3, and 4 show the total premium amounts, claim amount settled, and market share capital from the period between 2005 -2013. At graphs on X axis represents (years) from 2005 -2006 as point 1, 2006 – 2007 as point 2, 2007 – 2008 as point 3, 2008 -2009 as point 4, 2009 -2010 as point 5, 2010 -2011 as point 6, 2011 -2012 as point 7, 2012 -2013 as point 8. Y axis shows the total amounts of premiums, claims, and market share capital.

All the available equations in Ms – Excel were considered, out of which the equation for R^2 was maximised on (Coefficient of Y determination) was taken as the best fitting equation. R^2 = Coefficient of determinations. R^2 for present study explains at what percentage of 'Y' axis is explained for 'X axis.

The fitting equation to test the first hypothesis is mentioned below;-

1. Total Premium Amount - Exponential Regression Equation

Exponential Regression Equation: $Y = ae^{bx}$

Y = Amount.

bx = (b) Constant co-efficient, (x) Years.

ae = Constants co-efficient.

2. Total Claim Amount Settled - Power Regression Equation

Power Regression Equation: $Y = ax^b$

Y = Amount.

x = Years.

ab = Constants co-efficient.

3. Total Market Share Capital Amount - Polynomial Regression Equation

Polynomial Regression Equation: $Y = ax^2 - bx + c$

Y = Amount.
x = Years.
abc = Constants co-efficient.

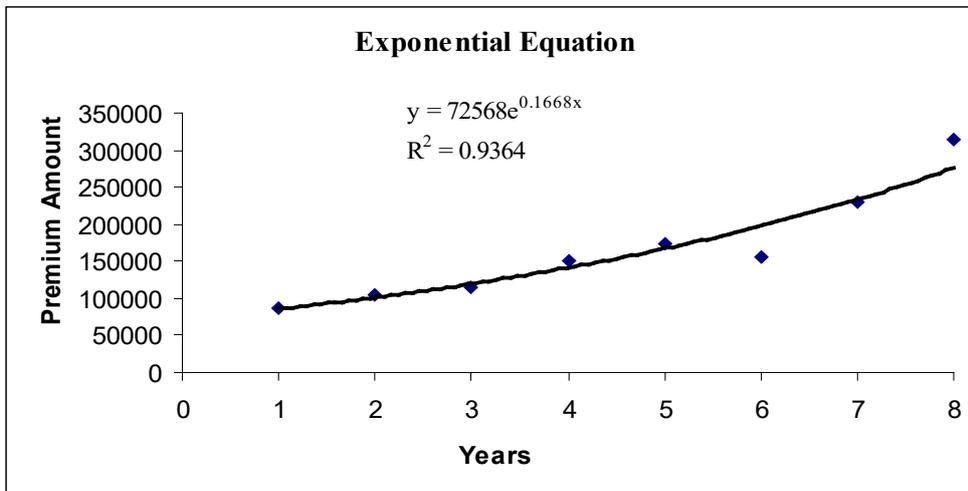
The table given below shows car / motor insurance companies total amounts of premiums:-

Table No 2: Total Premium amount for Car / Motor insurance companies

S.No	Years	Premium Amount Total
1.	2005 -2006	₹ 86,18,624 Lks
2.	2006- 2007	₹ 1,05,80,796 cr
3.	2007 -2008	₹ 1,15,66,916 cr
4.	2008 -2009	₹ 1,50,39,678 cr
5.	2009 -2010	₹ 1,72,70,474 cr
6.	2010 -2011	₹ 1,56,54,225 cr
7.	2011 -2012	₹ 2,30,82,946 cr
8.	2012 -2013	₹ 3,14,53,938 cr

Source: Various website from sampled companies

Graph No 2. Total Premium Analysis Exponential Equation



Source: Various website from sampled companies

From the Table & Graph no - 2 shows the registered 18 car/motor insurance companies total premium amount. Exponential Equation is the best fitting equation for the premium amount. Since the co-efficient, a and b are positive it indicates positive exponential growth in premium amount.

Exponential Equation analysis is mentioned below:-

$$y = 72568e^{0.1668x}$$

$$R^2 = 0.9364$$

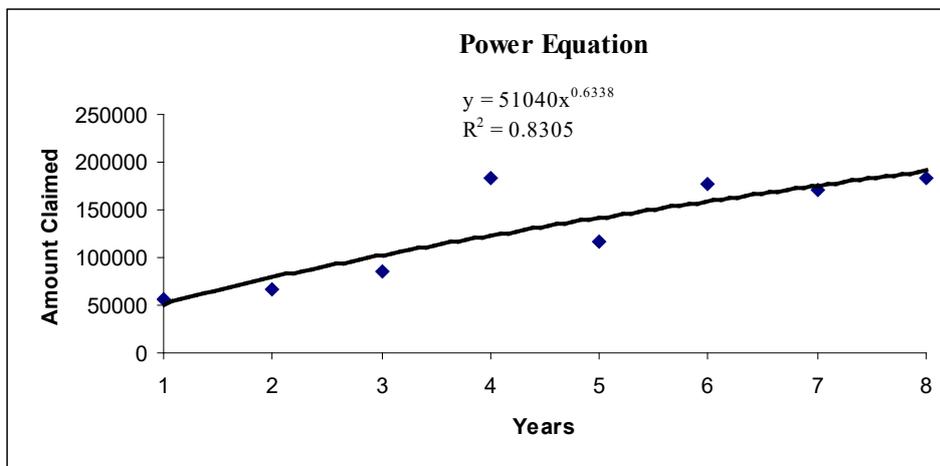
R^2 is 0.9364 (approx) i.e., 94% variation in y is explained by x .

Table No 3: Total Claim amount settled for Car / Motor insurance companies

S.No	Years	Claim Amount Settled Total
1.	2005 -2006	₹ 55,83,053 Lks
2.	2006- 2007	₹ 67,44,064 Lks
3.	2007 -2008	₹ 84,75,467 Lks
4.	2008 -2009	₹ 1,84,18,282 cr
5.	2009 -2010	₹ 1,17,39,092 cr
6.	2010 -2011	₹ 1,77,90,765 cr
7.	2011 -2012	₹ 1,70,64,448 cr
8.	2012 -2013	₹ 1,82,36,351 cr

Source: Various website from sampled companies

Graph No 3. Total Claim Analysis Power Equation



Source: Various website from sampled companies

From the Table & Graph no - 3 show the registered 18 car/motor insurance companies total claim amounts. Power equation is the best fitting equation for the claim amount. Since the coefficient a and b are positive, it indicates a positive power growth in the claim amount. Since R^2 is 0.8305 (approx) at 83% variations in y is explained by x .

Power equation analysis is mentioned below;-

$$y = 51040x^{0.63338}$$

$$R^2 = 0.8305$$

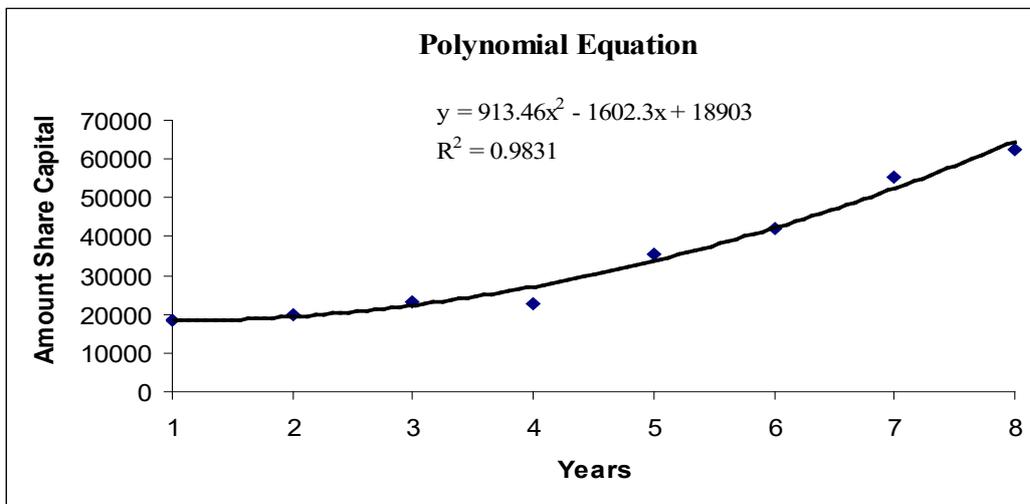
R^2 is 0.8305 (approx) i.e., 83% variations in y is explained by x .

Table No 4: Total Market Share Capital for Car / Motor insurance companies

S.No	Years	Market Share Capital Total
1.	2005 -2006	₹ 18,22,525 Lks
2.	2006- 2007	₹ 19,98,976 Lks
3.	2007 -2008	₹ 23,39,271 Lks
4.	2008 -2009	₹ 22,86,664 Lks
5.	2009 -2010	₹ 35,37,399 Lks
6.	2010 -2011	₹ 42,11,691 Lks
7.	2011 -2012	₹ 55,29,898 Lks
8.	2012 -2013	₹ 62,61,818 Lks

Source: Various website from sampled companies

Graph No 4. Total Market Share Capital Analysis Polynomial Equation



Source: Various website from sampled companies

From the Table and Graph no - 4 shows the registered 18 car / motor insurance companies, total market share capital amounts. A polynomial equation is the best fitting equation for the market share capital amount. Since the co-efficient x^2 is positive, it indicates a positive polynomial growth in market share capital amount.

Polynomial equation analysis is mentioned below;-

$$y = 913.46x^2 - 1602.3x + 18903$$

$$R^2 = 0.9831$$

R^2 is 0.9831 (approx) i.e, 98% variations in y is explained by x .

The analysis shows that there is continuous and consistent growth for car and motor vehicle insurance companies in terms of its potentials on the premium amount, the claim amount settled and market share capital from the period (2005 -2013) in India. The premium amount is greater than the claim amount settled, so almost all companies have registered potential growth in car and motor insurance business from the period (2005 -2013). Therefore there is continuous and consistent growth for car and motor vehicle insurance companies in India.

Conclusion

The Indian car vehicle insurance market has undergone major structural changes, since 1991 economic reforms in India. The government monopoly was dissolved, and private companies were permitted to operate, and brokers had a major role to play. IRDA also regulated its motor tariffs acts since 1999. The Indian car insurance market is competitive and growing rapidly in today's general insurance market. IRDA has played an important role in the development of Indian Insurance sector since the sector opened up in 2000. The Indian economy in general and Indian insurance sector in particular remained on a steady growth path from 2000 -2007. During the global financial meltdown of 2008-09, the insurance sector remained virtually unaffected. In today's arena, the more profitable private car and two-wheeler insurance business is mostly targeted by the private insurance companies and commercial vehicles is generally left to public insurance companies, but it is important to keep in mind, that public insurance companies are also having huge potential in its growth figures by doing car and two-wheeler insurance business in India. Today motor/car insurance companies are having bright prospects due to competitive policies and innovative discounts which are offered by both public and private insurance companies in India.

Thus the insurance sector is observing growth in relation to motor and car insurance business in India. The car/motor insurance companies promise through policies contract and the delivery of services that both these elements will play a critical role for the growth of companies. It can be further said that instead of over promise and under – delivery, car / motor insurance companies motto should be under promise and over delivery as far as customers are concerned.

Any business succeeds not because it is big or it has been long established, business succeeds because there are people who work as a united and productive team and have practical, feasible, future growth plans for it. Similar kind of principle applies to car/motor insurance companies business in India.



Acknowledgement

I am very grateful to National Insurance Academy in Pune for their valuable inputs and guidance in making the paper.

REFERENCES

Ahuja, H.L. (2005). Advanced Economic Theory (Micro – Economic Analysis). S Chand & Company Ltd. Publishers, New Delhi.

Bodla, B.S., Garg, M. C. & Singh, K.P. (2003). Insurance Fundamentals, Environment and Procedures. Deep / Deep Publications Pvt. Ltd. New Delhi.

Confederation of Indian Industry Ernst & Young, (2010). Indian Insurance Sector – Stepping into next Decade of Growth. Date - 1.9.2010.

Dheeraj, R. (2008). Insurance Principles, Application and Practices. Cyber Tech Publication New Delhi.

Gantra, R.K. (2010). Motor Insurance I.C. 72 Insurance I.C. 72 Insurance Institute of India Publications, Mumbai. pp: 109.

Guang, Z. C. (2005). (Sector Manager for Transport, South Asia Region) Energy & Infrastructure Operations Division South Asia Regional Office Document of World Bank India “Road Transport Service Efficiency Study” Date – 1.11.2005.

Harish, M. C. (2009). Insurance – Principles and performance. Pardeshi Publishers, Jaipur Rajasthan.

IRDA, (2001). IRDA Report Part –I, 2000- 2001 Edition, Source; www.irda.gov.in

Janak, R. J. (2007). Motor Accidents Claims and Procedures. Universal Law Publishing Co Ltd New Delhi.

Kluwer, M. (1997). Hand Book of Insurance Hand book. (Compiled folder) Croner Publications, Hampshire England, Ch -6. pp: 6 – 4.

Kolhatkar, V.B. & Pai, V.A. (1999). Motor Insurance IC 72, Insurance Institute of India Publications, Mumbai.

Krishnamurthy, S., Mony, S. V., Nani, J., Sandeep, B., Ramesh, B., Dixit, M. R., Sunil, M. and Ramesh, B. (2005). (Coordinator) Insurance Industry in India: Structure, Performance, and Future Challenges. Volume Date - 30 July – September 2005.



Mark, S. D. (1978). Introduction to Insurance. Third Edition Prentice – Hall, Inc Publishers New Jersey, United States of America.

Mishra, M. N. (2005). Insurance Principles and Practices. S. Chand / Company Ltd. New Delhi.

Moody's-ICRA Global Insurance (Editors Panel), (2008). Indian General Insurance Industry Outlook Major Changes Expected as deregulation continues. Date – 14 .04.2008.

Narayanan, M. H. (2010). Indian Insurance a Profile – Past and Present of Indian Insurance Industry with focus on Global Changes. JICO Publishing House Mumbai. pp: 356 -358.

Sarkar, U.R. (2011). Motor Vehicles Act 1988 Sodhi Publications 4th edition New Delhi – Allahabad. Pg 62.

Sharif, I., Wahab, S. R. A., & Sarip, A. (2017). Psychological Contract Breach and Feelings of Violation: Moderating role of Age-Related Difference. International Journal of Asian Social Science, 7(1), 85-96.

Tapen, S. (2002). Indian Insurance Industry – Challenges and Prospects Institute of Insurance and Risk Management Publisher Ltd. Date – 01.01.2002. Pg11.

The Chartered, (1996). The Chartered Institute of bankers (London), “Insurance” 3rd Edition bankers book limited 1996 New Delhi. Pg 19.

Uma, N. (2013). Insurance Industry in India – Features, Reforms, and Outlook. New Century Publications New Delhi.