



# Challenges And Insights In Motor Insurance: A Case Study Analysis

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**Abstract:** Motor insurance has become the most recognized business line outside life insurance. This research examines the obstacles motor insurance companies face during claim processing for their policyholders. Insurance plays an essential role through its diverse responsibilities by protecting finances and automobile safety levels, and making the insurance sector profitable. This study provides insight into the various hurdles and novel revelations in the motor insurance industry. A systematic evaluation of earlier studies and case studies combined with journal articles formed the foundation for this assessment. The research demonstrates what rights are provided to policyholders and highlights insurance providers' responsibilities. The findings suggest that Insurance companies can simplify policy terms and offer clearer explanations through simplified documents or digital platforms. Additionally, customer-friendly tools, like interactive online calculators or chatbots, could help buyers select the right coverage more effectively.

**Keywords:** Motor Insurance, Awareness and Recommendations, customer-friendly tools, Third party liability, Digital platforms.

## I. INTRODUCTION

Motor insurance is one of the most pivotal branches in the non-life insurance category. Indian motor insurance is expected to grow from \$2.0bn in 2018 to \$2.4bn in 2023, according to Global Data (Umashanker Yadav et al. 2022). In most countries, India's non-life insurance market is vital to the nation's financial system, offering individuals and companies vital risk management services. Non-life insurance companies confront various opportunities and difficulties in evolving client preferences, technology improvements, and regulatory frameworks, which necessitate carefully analyzing their financial performance measures.

Motor insurance is a crucial component of risk management since it shields individuals and businesses from financial damages from auto accidents. It reviews policyholder benefits and claims procedures and examines the role and importance of third-party insurance in promoting societal welfare. Procedural inefficiencies, awareness gaps, and the evolving regulatory environment are among the highlighted challenges.

Vehicle insurance, as a pillar of monetary security and legal compliance, is significant for both individual policyholders and the larger society. The case study analysis highlights a complex interaction of factors such as regulatory compliance, economic conditions, and technological advancements that influence the effectiveness of motor insurance schemes. In the Indian context, motor insurance plays a crucial role in promoting road safety and ensuring compliance with the Motor Vehicles Act. However, the sector faces challenges such as low penetration rates, fraudulent claims, and high loss ratios. On the other hand, emerging technologies like telematics, digital underwriting, and blockchain hold significant promise for transforming the industry by enhancing transparency and efficiency.

## II. Selected Review of Literature:

The literature indicates the growing challenges faced by insurance companies and helps to enable them to make a profit and provide financial protection to the policyholders.

**Sinha, T. (2005)** states that reforming the current tariff structure will be a major obstacle to India's non-life insurance industry, and the non-life market is still subject to strict regulation on prices. Since the tariff system generates about 75% of premiums, they are frequently below market clearing levels.

**Arena (2008)** states that life and non-life insurance positively and significantly affect economic growth.

**Rao, M. S., & Srinivasulu, R. (2013)** opined that in India, insurance is gaining recognition as a key financial instrument supporting economic stability and poverty reduction. Although growth projections may vary, the sector's contribution to long-term development remains significant.

**Ray, S., Thakur, V., & Bandyopadhyay, K. (2020)** examine the Indian insurance industry, and chart its development. They also list the main obstacles that the industry must overcome. As the report emphasizes, low penetration and density rates are among the issues affecting the industry: investment in insurance products, the dominance of public sector insurers, and their declining financial standing.

## III. Overview of the compulsory insurance system in motor vehicles in India

In recent years, India's rapid economic and social development has led to the rapid spread of motor vehicles. According to the National Statistical Office's (NSO) preliminary projections of national income, India's GDP at current prices is projected to reach ₹272.41 lakh crore in 2022–2023 compared to ₹234.71 lakh crore in 2021–2022, representing a 16.1% growth rate. The Gross National Disposable Income (GNDI) is projected to increase by 15.8% to ₹273.36 lakh crore in 2022–2023 at current prices, from ₹236.06 lakh crore in 2021–2022. According to the Swiss Re Sigma Report (No. 03/2023), inflation is still the top worldwide macroeconomic issue, and the world economy is still slowing down. Despite these obstacles, the insurance sector is anticipated to weather the storm in 2023, as the world economy is predicted to expand by 2.3% that year.

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It is a provision that a wise man makes against unavoidable possibilities, loss, or disaster. No one can forecast when an accident will occur, a fire will break out, or a ship will sink. Therefore, to avoid risks, insurance is needed. Insurance works on the basic principle of risk-sharing. A large financial institution's insurance policy provides reimbursement or financial protection against potential future losses or damages to an individual, business, or other entity. Anybody thinking about buying an insurance policy or just learning the fundamentals of finance should be conscious of what insurance is. Insurance is a hedging tool that is a preventative step against potential future losses. This tool is employed to control potential future hazards. (Dr. M Subba Rao and R. Srinivasulu 2013).

We used a case study methodology. This research explores the dynamics of auto insurance, looking at the main issues stakeholders encounter and the lessons learned to increase its accessibility, effectiveness, and social value. By concentrating on actual situations, the research offers a thorough grasp of the variables affecting auto insurance, especially concerning third-party liability coverage, and recommends actions to close any gaps.

The insurance penetration and density are low in India compared to developed nations, but they have gradually increased in recent years. (Saon Ray Vasundhara Thakur Kuntala Bandyopadhyay (2020)

This study proposes to analyze the issues and challenges faced by motor insurance in India. According to Marson, Ferris, and Nicholson (2017), motor insurance is a vital insurance coverage that has allowed most cardholders to counterbalance the heavy financial burdens caused by injury or damage to the property of third parties, particularly in low-income countries. Insurance helps modern society and commerce by spreading risk to reduce the economic impact of disasters.

#### IV. Objectives:

1. To examine the case studies relating to the settlement of insurance claims.
2. To provide awareness and recommendations for policy reforms to enhance the efficiency and awareness of motor insurance systems.

#### V. Methodology:

A case study approach is used to analyse the insurance industry's challenges while settling insurance claims. This methodology allows for a detailed examination of specific examples of the issues and challenges motor insurance companies have faced. The case study approach is suitable for understanding complicated situations between policyholders and vehicle insurance companies.

#### VI. Motor vehicle insurance in India faces several challenges:

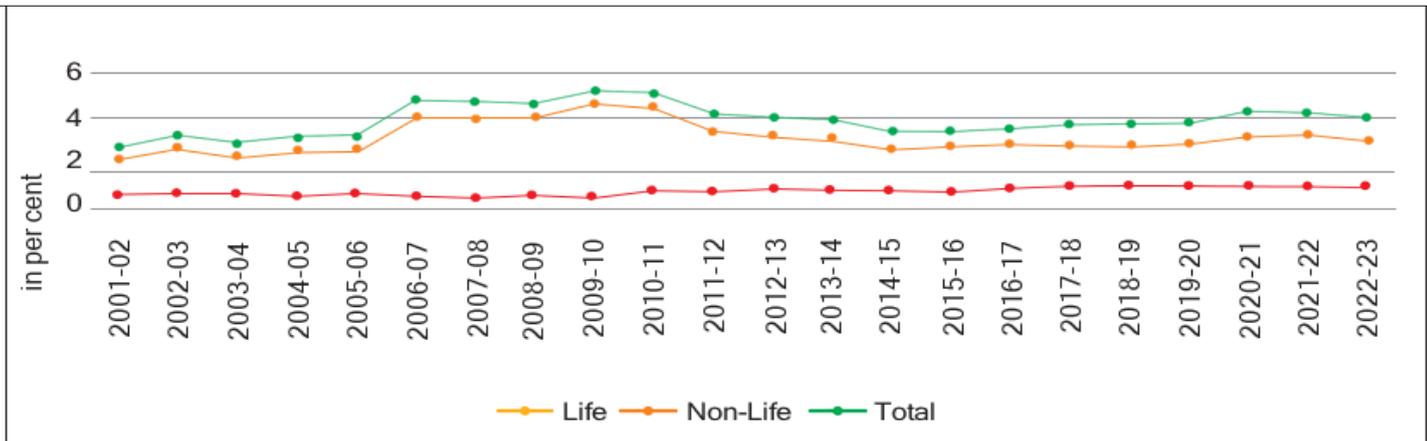
In India, vehicle insurance is dynamic in the nation's overall insurance market. Though having at least third-party liability insurance for cars is required by the Motor Vehicles Act of 1988, there are still numerous issues facing the industry that impact insurers and consumers. These difficulties hinder the growth, availability, and efficiency of auto insurance in India. In India, motor insurance policies are now priced conventionally, which is unfair to certain policyholders based on factors like the vehicle's make and model, capacity, geographic use, etc. However, there are a lot of additional factors that can be taken into account when setting prices. For instance, there are fewer risks for those who drive their cars for shorter periods or over shorter distances, and vice versa. However, these individuals all wind up paying the same premium for a specific car model. The risk assessment should also take other factors into account, such as the vehicle's maintenance, frequency of use, and distance travelled; top businesses have a confirmed track record of efficiency and innovation, as well as being flexible to their client's shifting needs, the primary oversight and updating of the legal and regulatory structure. Stronger competition and more safety would also result from an industry consolidation that encourages weaker companies to merge or leave the market. The following challenges are desired to be taken by the Insurance Sector:

#### Low Rate of Insurance Consumption:

There is often a lack of trust in the insurance industry. The lack of awareness in disadvantaged regions, as well as misinformation, provides significant barriers to obtaining customer trust. However, inflation and macroeconomic volatility have compelled insurers to raise rates. These factors make the insurance sector the most expensive to acquire new clients, which hinders accessibility.

Although the number of Indians who own cars is increasing, the country's insurance penetration rate is still very low. It is clear from India's low insurance penetration and density that a sizable portion of the populace is still uninsured. About 30% of vehicles on Indian roadways are uninsured, according to owners, particularly those who own inexpensive cars and two-wheelers, who fail to recognize the importance of insurance. In India, the insurance penetration of the life insurance sector cut down from 3.2 percent in 2012-2022 to 3 percent in 2022-2023, while the non-life insurance sector stayed at 1 percent in both years, according to the Swiss Re sigma research. As a result, India's total insurance penetration fell from 4.2 percent in 2021-2022 to 4 percent in 2022-2023.

According to a local survey in 2023, only 55% of vehicle owners in rural areas had valid insurance. It indicates that many of them operate their vehicles without motor insurance, particularly third-party insurance, which is required by Indian law. This low rate of insurance consumption posed serious risks to both individuals and society as a whole.



Source: Swiss Re, Sigma World Insurance Report, various issues (Penetration - in per cent)

### Trend in Insurance Penetration in India

#### Reasons for Low Insurance Consumption:

- Absence of Awareness:** Many people in the village were unaware of the legal requirements and benefits of motor insurance.
- Monetary Constraints:** Rural residents prioritized immediate expenses like farming costs, household needs, and loan repayments over insurance premiums.
- Accessibility Issues:** Limited access to authorized insurance agents or digital platforms made it difficult for vehicle owners to renew policies.
- Perceived Insignificance:** Many rural vehicle owners believed insurance was unnecessary unless their vehicle was involved in an accident.

#### Impact:

- Monetary Drain:** The accident left people in debt; they had to borrow money to pay the compensation.
- Authorized Expenditure:** Many clients' financial difficulties were made worse by fines they received for driving without insurance.
- Societal Risks:** The lack of insurance coverage among rural vehicle owners increased the risk of uncompensated losses for third-party victims.

#### Measures Taken:

- Awareness Campaigns:** Local NGOs and insurance companies collaborated to conduct workshops in villages, educating residents about the importance of motor insurance.
- Reasonable Premium Options:** Insurers introduced flexible plans and micro-insurance products tailored for rural customers.
- Improved Accessibility:** Mobile insurance storefronts and digital platforms were launched to simplify the process of purchasing and renewing policies in remote areas.
- Government Initiatives:** The government, combined with insurance companies, offers subsidies to low-income groups to encourage insurance adoption.

#### V. Case Study: National Insurance Co. Ltd. Vs. Keshav Bahadur and Ors.

On June 5, 1987, Hasta Bahadur, employed as a chowkidar at the Hydel Project in Sikidri, tragically lost his life in a vehicular accident. His sons filed a compensation claim under Section 110A of the Motor Vehicles Act 1939. The Motor Accidents Claims Tribunal (MACT) awarded ₹72,000 as compensation with 12% interest per annum, directing payment within 60 days. In case of nonpayment, an 18% interest rate was stipulated. The insurer contended that its liability was limited to ₹50,000 as per Section 95(2)(b)(i) of the Act and challenged the imposition of penal interest.

## 5.1 Challenges faced by the Insurance Companies:

**1. Statutory limit on liability:** The insurance company argues that their liability should be limited to Rs. 50,000 as prescribed under Section 95(2) (b) (i) of the Motor Vehicle Act, 1939. The Tribunal and High Court had initially directed the insurance company to pay the entire compensation of Rs. 72,000, exceeding the statutory cap. The company is in a legal dilemma, i.e. Without proof of enhanced premium for extended coverage, the insurer had to defend against expectations of paying beyond their legal obligation.

**2. Imposition of Panel Interest:** The Tribunal imposed an 18% panel interest rate for delay in payment beyond 60 days. It is a challenge because this high rate of interest increases the financial burden significantly and is not explicitly sanctioned under the Motor Vehicles Act.

**3. Ambiguity in Policy terms Vs. Tribunal orders:** The insurance policy did not indicate coverage beyond the statutory minimum, yet the Tribunal interpreted the liability more broadly.

**4. Balancing legal duty and public expectations:** There was a public expectation that insurance companies should fully compensate victims, regardless of policy limitations. The insurer had to balance its contractual obligations with societal expectations of fairness, often leading to reputational risks even when acting lawfully.

**5. Delay and legal cost:** The extended legal battle from the Tribunal to the High Court and finally to the Supreme Court necessitated lengthy litigation costs and delays in closure, which will affect case processing for the insurer across other claims.

## 5.2 Impact

The company had to prove the limits of its liability based on the specific terms of the contract and defend its adherence to legal provisions despite emotionally charged circumstances (death of the insured).

## 5.3 Outcomes and Benefits:

It clarifies insurers' liability limits and provides a final compensation structure. The Court struck down the Tribunal's direction to impose an 18% penal interest for delayed payments. The Court permitted interest at 9% per annum from the date of claim till the Tribunal's judgment, but capped the insurer's payout at ₹50,000.

Strengthens insurer's position in limiting liability to statutory caps unless extended coverage is purchased. Prevents tribunals from imposing excessive penal interest that can financially burden insurers. Reinforces the importance of clearly written policy terms and their strict adherence in court. Helps tribunals stay within the bounds of statutory provisions when awarding interest, provides a reference for similar third-party motor accident claims where liability limits are in question. It also benefits policyholders and victims by educating them about the importance of knowing the insured amount and its limitations. It may motivate vehicle owners to opt for enhanced coverage by paying higher premiums, ensuring better protection.

## VI. Case study: United India Insurance Vs. Inder Singh Chauhan

Inder Singh Chauhan borrowed money from Swami Financers to buy a bus. The bus was not being used for public transportation, but rather as a privately owned vehicle. United India Insurance provided extensive insurance coverage for it. An insurance claim was the accident that occurred on the bus. The surveyor hired by the insurance company valued the loss at Rs. 1,26,500. Nevertheless, the company still subtracted Rs. 33,125 from the projected sum because the driver's license lacked an endorsement allowing him to operate a transport vehicle. The lender received this sum straight. Chauhan, feeling wronged, lodged a consumer complaint, which eventually made it to the National Commission. It was decided that a person was eligible to operate any kind of transport vehicle, including a public service vehicle, once they had a licence to operate a heavy goods vehicle. As a result, an insurance firm was ordered to pay the remaining sum plus Rs. 5,000 in charges and 12 percent interest. Additionally, the Commission decided that it is not acceptable for insurance companies to pay the financier immediately without notifying or getting the Insured's permission. There is no need to pay the financier the whole sum right away if the policy of insurance is put out in the buyer's name [United India Insurance Co Ltd v/s Inder Singh Chauhan – IV (2006) CPJ 15 (NC)]

## 6.1 Challenges:

**1. Regulatory and compliance issues:** Regular changes in laws and regulations (IRDA) call for continuous adjustment. Complying with national and global standards (e.g solvency criteria and data privacy statutes) raises operational expenses.

**2. Rising false claims:** In health and vehicle insurance, especially, the growing frequency of overstated or false claims causes major losses.

**3. Rising frequency of devastating occurrences;** challenges in properly evaluating the risk linked to new and developing industries or technologies (e.g., autonomous vehicles, cyber insurance).

**4. Digital Transformation:** Difficulties in incorporating artificial intelligence, blockchain, and IoT, among other sophisticated technologies, into older systems. Throughout digitalization, there is more exposure to cyberattacks and data breaches.

**5. Customer Previews:** Customers anticipate custom-made goods and more rapid claim settlement.

High competition compounds the challenge of keeping policyholders; perception of dishonest practices—including claim denial or vague policy wording—destroys trust.

**6. Financial and economic constraints:** Investment risks: Low-interest environments lower returns on investments, which are vital for insurers' profitability. Financial stability could be strained by guaranteeing enough reserves for future claim liabilities. Rising medical, maintenance, and other payouts reduce profit margins.

**7. Technological disturbance:** Competitors from insurance startups providing ingenious, client-centric solutions upset conventional insurance models. Challenges in keeping up with artificial intelligence and machine learning for claim processing and consumer service.

## 6.2 Outcomes of the Case Study:

The case **United India Insurance Co. Ltd. Vs. Inder Singh Chauhan** establishes important outcomes regarding insurance claims, the rights of insured individuals, and the responsibilities of insurance companies. Below are the key outcomes:

**1. Payment of Claims Must Be Made to the Insured:** The insurance company was found at fault for directly paying the financier (Swami Financers) without informing or obtaining the consent of the insured (Inder Singh Chauhan). The National Commission ruled that insurance companies cannot divert the insured and directly pay the financier unless there is a clear authorization or contractual agreement. This decision emphasizes that the **insured retains primary rights** to receive the insurance claim unless agreed otherwise.

**2. Recognition of Validity of the Driver's License:** ₹33,125 was subtracted from the claim by the insurer due to the driver's absence of a specific endorsement to operate a transport vehicle. A driver who holds a license to operate a large goods carriage vehicle also qualified to operate a transport vehicle, including a public service vehicle, the Commission said. There was no longer any doubt about the credentials of drivers with heavy vehicle licenses thanks to this judgement.

**3. Accountability of Insurance Companies:** The insurance firm was ordered to reimburse the insured for the pay the deducted amount of ₹33,125 that was withheld, plus 12% annual interest for the payment delay. The insured was compensated for the disruption with Rs.5,000 in large fees. The ruling reinforced that insurance companies must follow fair claim settlement practices, avoid arbitrary deductions unless legally justified, and ensure transference in payouts.

**4. Protection of Consumer Rights:** The decision highlighted the role of consumer protection laws in safeguarding the rights of insured individuals. It demonstrated that insured parties could challenge insurance companies' decisions if they felt aggrieved by unfair practices. The case set a precedent for consumer-friendly rulings in insurance-related disputes.

**5. Impact on Insurance Companies' Practices:** The judgment discouraged the **arbitrary practice** of paying financiers directly without the insured's consent. It underscored the need for better communication between insurance companies, financiers, and insured individuals.

**6. Encouragement of Legal Recourse:** The ruling encouraged policyholders to seek redressal for unfair treatment by filing complaints with consumer forums. It showed that insurance companies could be held accountable for lapses in their processes.

**7. Strengthening of Consumer-Insurer Relationships:** By establishing transparency and accountability in claim settlement, the case helped strengthen trust between insured individuals and insurance companies. It also underscored the importance of fairness in resolving disputes, ensuring that injured parties are not left disadvantaged.

## VII. Findings:

1. The findings suggest that Insurance companies can simplify policy terms and offer clearer explanations through simplified documents or digital platforms.
2. Customer-friendly tools, like interactive online calculators or chatbots, could help buyers select the right coverage more effectively.
3. Encouraging insurers to innovate through tiered premium models based on customer behaviour, location, and usage could help reduce premiums. Also, better risk management practices and advancements in repair technologies may bring down the costs over time.
4. The government should ensure that insurance becomes compulsory for individuals and business organizations. This will provide more insurance premiums pooling, potentially increasing investments and leading to economic growth. The insurance industry's future business plan would center on professionalism, new distribution methods, service, and product variety. In addition to managerial abilities in other fields, including claims settlement, reinsurance, product development, distribution, and fraud prevention, there is a need for a high level of expertise, professionalism, and imagination.

## VIII. Suggestions:

1. All private and public sector insurance companies should try to evolve a mechanism to stop fraudulent claims in this sector.
2. The insurance companies must launch targeted awareness and education programmes, especially in rural and semi-urban areas to the vehicle owners about the importance of motor insurance and the legal requirements of third-party insurance.
3. Encourage policyholders, especially commercial vehicle owners, to opt for comprehensive insurance over third-party coverage.
4. The Insurance Regulatory and Development Authority of India (IRDAI) should offer timely and clear communication of policy changes to insurers and the public.

## IX. Conclusion:

Motor insurance, while indispensable for individual and societal well-being, faces numerous challenges that require collaborative efforts from policymakers, insurers, and consumers. By addressing these challenges and leveraging technological advancements, the sector can achieve greater efficiency, transparency, and trust among stakeholders.

The motor vehicle insurance sector in India has seen significant growth in recent years, but it still faces several challenges that hinder its full potential. By addressing issues like low insurance penetration, fraud, rising premiums, and regulatory inefficiencies, the industry can move toward becoming more inclusive, affordable, and transparent. Digital transformation, combined with strong consumer education, could also lead to better outcomes for both policyholders and insurers. With the right interventions, motor vehicle insurance can continue to be a vital safeguard for India's growing number of vehicles and drivers.

Encouraging insurers to innovate through tiered premium models based on customer behavior, location, and usage could help reduce premiums. Also, better risk management practices and advancements in repair technologies may bring down the costs over time. Insurance companies and government authorities must focus on awareness campaigns and financial literacy programs to educate the public about the legal and financial implications of not having insurance.

This case study focuses attention on how targeted interventions can address the challenges of low insurance consumption, emphasizing the importance of awareness, affordability, and accessibility in increasing penetration rate.

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