

## A REVIEW OF THE MOTOR VEHICLE INSURANCE INDUSTRY IN INDIA

Uma Shankar Yadav\*; Dr. Ravindra Tripathi\*\*; Mano Ashish Tripathi\*\*\*

\*Senior Research Fellow,  
Department of Humanities and Social Sciences,  
Motilal Nehru National Institute of Technology Allahabad,  
Prayagraj, INDIA  
Email id: usyadav@mnnit.ac.in

\*\*Associate Professor & Head of Department  
Department of Humanities and Social Sciences,  
Motilal Nehru National Institute of Technology Allahabad,  
Prayagraj, INDIA  
Email id: ravindra@mnnit.ac.in

\*\*\*Senior Research Fellow,  
Department of Humanities and Social Sciences,  
Motilal Nehru National Institute of Technology Allahabad,  
Prayagraj, INDIA  
Email id: manoashish@mnnit.ac.in

**DOI: 10.5958/2319-1422.2022.00007.8**

---

### ABSTRACT

*Motor vehicle insurance, which is the most effective and widespread means of protecting personal property, has attracted a great deal of attention. It is crucial to understand the current development of Malaysia's motor vehicle insurance industry. Based on this context, this article examines the development model of the Indian motor insurance industry and its relationship with Indian economic development. This article reviews ways to achieve targeted product promotion and customization of motor vehicle insurance (VMI) according to regional characteristics. The purpose of this document is to lay a solid foundation for promoting the development of the Indian automobile insurance industry and its relationship with motor production in India. The article investigates the VMI policy's effect on the economy and the production of car motors in Malaysia compared with other advanced countries. In addition to that, the article highlights the effect of COVID-19 on the VMI industry*

**KEYWORDS:** *Motor Vehicle Insurance, India Insurance Industry, Insurance Economic, Motor Manufacturing.*

---

### INTRODUCTION

The insurance industry is very well spread nowadays. Motor vehicle insurance (VMI) is one of the most important branches in the non-life insurance category. In most countries, motor vehicle insurance is one of the most premium revenue earners and that includes Malaysia. Due to the increased number of motor vehicles production, the market for VMI is increasing rapidly [1][2]. Motor vehicle term is used usually in vehicle registration statutes and in financing which can be defined as a machine that can transport people from one place to another location and it is self-

---

driven by electrical or mechanical power [3][4]. What makes motor insurance for vehicles different from other insurance is that it is mandatory in most countries' governments. VMI is related to all types of motor vehicles-motorcycles, cars, jeeps, commercial vehicles, etc. it is mandatory by the government to guarantee the safety of the people [5][6][7]. Which is written in the law of VMI defined as follows:

“Motor Vehicle Insurance Law — any state law that addresses how third-party liability or first-party indemnity coverage must be offered, provided, or maintained concerning a motor vehicle (e.g., a financial responsibility, compulsory insurance, uninsured/underinsured motorists (UM/UIM), or personal injury protection (PIP) law). “[8]

### **Motor vehicle insurance in India**

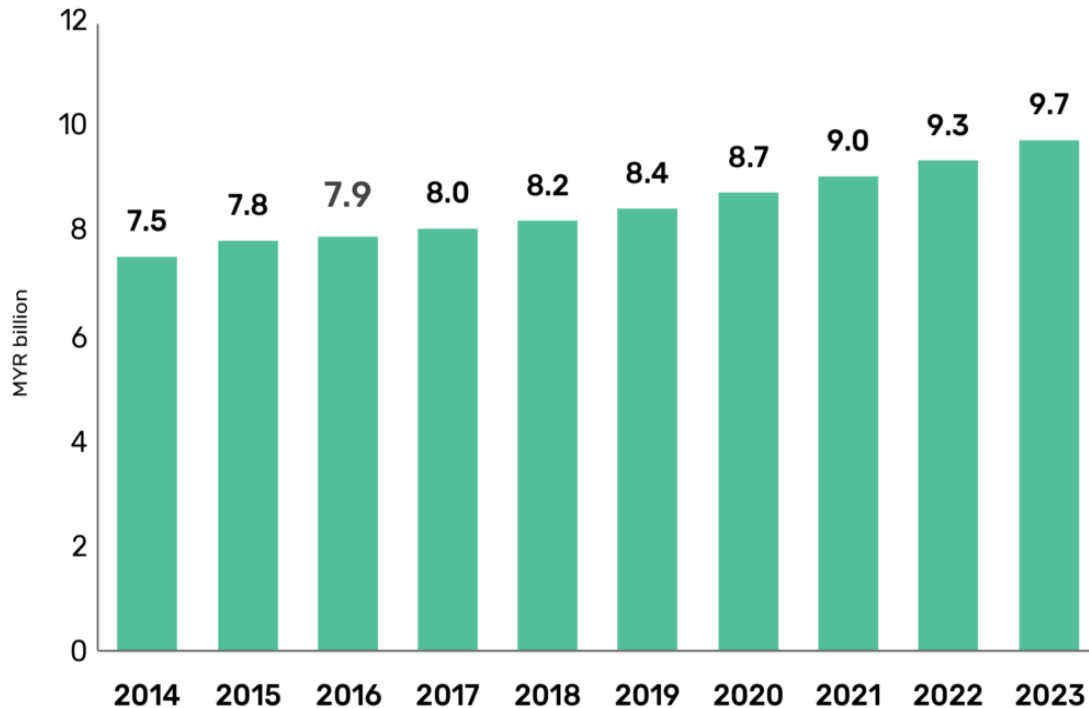
Motor insurance is compulsory for all vehicles in Malaysia when using Malaysian public roads under the Road Transport Act 1987 [9] [10]. There are three types of motor insurance available and the law requires that every driver has a minimum coverage of third-party liability. At the purchase of the motor vehicle, it is required to buy a VMI [11] [12] [13]. The most common type of motor insurance in India are: Act Cover: It is the minimum coverage that meets the requirements of the Road Transport Act 1987. The required coverage focuses on legal liability in the event of death or bodily harm to third parties (excluding passengers). This Policy is seldom drawn up by the Insurers [14].

Third-Party cover: This policy insures the owner against claims for personal injury or death by others (known as the third party). Along with loss or damage to third-party property caused by your vehicle [15].

Third-Party, Fire, and Theft cover: This policy provides insurance against claims of bodily harm and death, loss of property, or damage caused by third parties. And loss or damage to your vehicle as a result of fire or accidental robbery [16]. Comprehensive cover: it offers the widest coverage compared with the previous policies. Such as personal injury and death of third parties, loss or property damage of third parties, and loss or damage to your vehicle by accidental fire, theft, or accident [17].

### **Motor insurance sale in India**

Indian motor insurance is projected to grow from \$2.0bn in 2018 to \$2.4bn in 2023 according to Global Data. The growth in terms of net earned premium (NEP). Since motor insurance is compulsory in Indian law, at the end of 2018 it reported a contraction of 56% of the total general insurance NEP, which is more than half of the insurance NEP in India. It can be seen from Figure 1 the Indian motor insurance earned premium from 2014 until 2023 is growing steadily [18] [19].



*Figure 1 Indian motor insurance net earned premiums, 2014 -2023*

In general, the insurance industry has recorded a growth of 1.5% in 2018 from its two largest insurance industries in motor and fire. The amount of gross written premium is RM 17.92 Billion. Which makes the motor insurance industry the largest class in the insurance industry. The growth of motor insurance recorded gross is 1.8% supported by the increase in new vehicle sales in both private and commercial vehicle segments. Close to 600,000 new vehicles were sold in 2018 compared to 580,000 in 2017 as a result of increased demand during

the tax-free months from June to August 2018. For the Motor class, the general insurance industry paid out claims amounting to RM 5.45 billion in 2018 [20] [21].

### **COVID-19 effect on the VMI industry**

The Motor Insurance industry has a strong relationship with the sales of cars. Based on the data released from the Indian Automotive Association (IMA) on the production of cars in 2020 and 2021 presented in Table 1 and the sales of the motor car presented in table 2. It can be seen from Table 1 that the production variance of Commercial vehicles is 1.40 comparing the production in 2021 with 2020 however for passenger vehicles PV is less than one due to the drop in production of PV in 2021. The sales variance in table 2 of PV is also less than 1 due to the reduction in production. However, for a CV it is more than one. although the crisis of the COVID-19 has affected most sectors in the market, cars sales did not decline. Due to the exemption from the SST the buyers still requesting care which is expected to last until 31 December. It is projected by the MMA that the sales are going to increase given that the production of vehicles is ramping up worldwide [22] [23] [24].

**TABLE 1 PRODUCTION OF MOTOR CARS IN INDIA [22]**

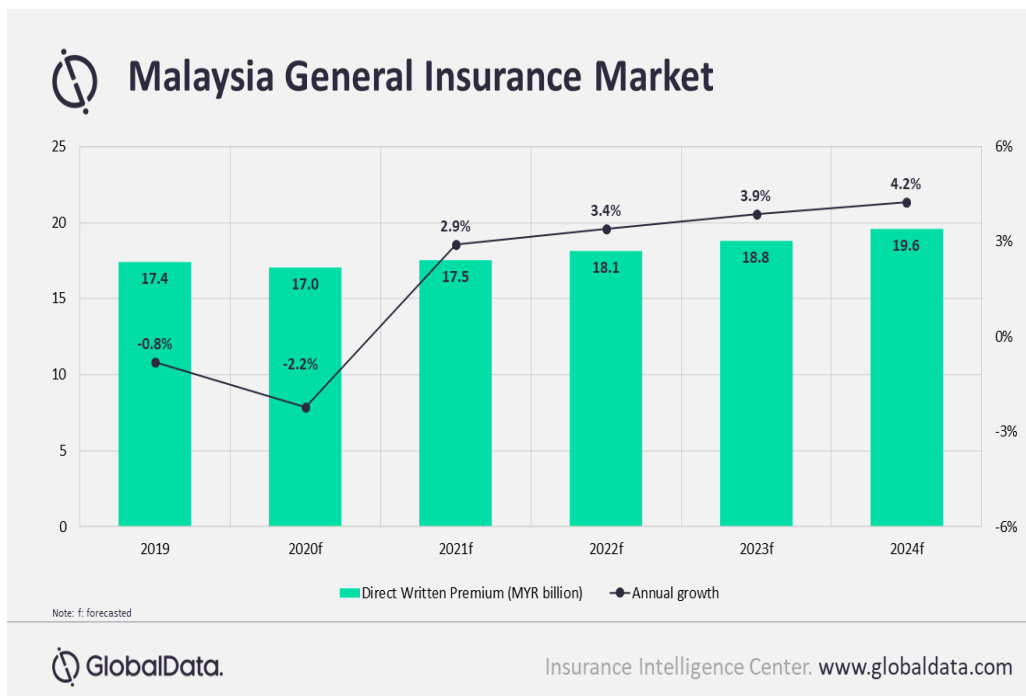
Segment	Year		
	2020	2021	Variance
<b>PV (passenger Vehicles)</b>	299,881	281,621	0.94
<b>CV (Commercial vehicles)</b>	15,982	22,375	1.40
<b>Total</b>	315,863	303,996	0.96

**TABLE 2 SALES OF THE MOTOR CAR IN INDIA [22]**

Segment	Year		
	2020	2021	Variance
<b>PV (passenger Vehicles)</b>	312,427	282,992	0.91
<b>CV (Commercial vehicles)</b>	31,592	35,882	1.14
<b>Total</b>	344,019	318,874	0.93

Due to the lockdown restriction in India in 2020 and 2021, it was expected a drop of 2.2% in the Indian general insurance industry. Due to low economic activity and weak demand from the consumer. India's

The general insurance business is expected to grow at a compound annual growth rate (CAGR) of 2.4% during 2019-2024 compared to the earlier forecast growth of 4.9%.



**Figure 2 India General Insurance Market**

According to IAA 48.3% of the insurance industry is from the motor insurance class reported in 2019. Due to this big share in the insurance industry, the decline in the sales of PV cars in 2020 has affected the insurance industry by 2.2%. the growth of the insurance market gets back to its normal rate in 2021. The decline in the insurance industry is not only due to VMI it is also affected by property insurance which recorded a 31.5% decline in the first half of 2020 [23] [24].

## DISCUSSION

The auto insurance industry in Malaysia started as old as the 1930s when it was required legal by the government for the vehicle driver to have insurance that covers any liability caused by their car [25]. This explains how this insurance has grown to be the largest sector in the general insurance market [26]. In general insurance industry have a great influence on economic stability. It has been proven that insurance hardly falls in times of economic crisis [27]. The previous data demonstrated in Figure 2 exhibit that motor insurance has not been affected by the crisis of COVID-19 from 2019 until 2021 India's motor insurance has earned around 26.1 billion and the market is growing steadily [28] [29]. The only drop was in the insurance market in general in the first half of 2020 recording a Premiums written reduced by 3.6% in general insurance later on the growth of the market recovered.

Many factors influence the growth of the motor insurance industry [30] [31]. Such as the Government made it mandatory for anyone driving a car on an Indian road to own a VMI. On the other hand, the motor insurance industry policies evolve every year which gives the insurance industry the flexibility to come up with new products every year to sell to the consumers. In 2020, the value of gross written premiums in the motor insurance sector in India reach the amount of RM 8.4 billion. When comparing the motor insurance sector to other sectors in the Malaysian market it will still be the dominating one.

## CONCLUSION

In the insurance industry in India, there are four sectors that dominate the insurance market the largest sector is the one with the highest premium contributions which is the VMI. The VMI has the main contribution towards the general insurance industry taking 54% of the total net premium contribution in the general insurance market this average was reported until 2009. However, no matter what is the change in the market VMI remains the highest dominating the insurance industry. Due to the fact it is compulsory by the Malaysian Government for every driver who drives a car on Malaysian roads. A correlation between the Motor insurance industry and car sales and production in Malaysia was presented in the review. The sales of auto vehicles affect the motor insurance industry's growth. The research shows that motor insurance provides stability to the market due to its consistency in growth even under economic crises.

## REFERENCES

1. Lesmana, E., Wulandari, R., Napitupulu, H., & Supian, S. (2018). Model estimation of claim risk and premium for motor vehicle insurance by using the Bayesian method. In IOP Conference Series: Materials Science and Engineering (Vol. 300, No. 1, p. 012027). IOP Publishing.
2. Lesmana, E., Wulandari, R., Napitupulu, H., & Supian, S. (2018). Model estimation of claim risk and premium for motor vehicle insurance by using the Bayesian method. In IOP Conference Series: Materials Science and Engineering (Vol. 300, No. 1, p. 012027). IOP Publishing.
3. Dorsen, N. (1974). The National No-Fault Motor Vehicle Insurance Act: A Problem in Federalism. *NYUL Rev.*, 49, 45.
4. Marson, J., & Ferris, K. (2017). Motor vehicle insurance law: ignoring the lessons from King Rex. *Business Law Review*, 38(5).

5. Litman, T. (2007). Distance-based vehicle insurance feasibility, costs, and benefits. Victoria, 11.
6. Litman, T. (2011). Distance-Based Vehicle Insurance Feasibility, Costs and Benefits: Comprehensive Technical Report.
7. Christmann, A. (2005). On a strategy to develop robust and simple tariffs from motor vehicle insurance data. *Acta Mathematicae Applicatae Sinica*, 21(2), 193-208.
8. Stapleton, J. (1995). Tort, insurance, and ideology. *The Modern Law Review*, 58(6), 820-845.
9. Mahmood, N. R. (1990). The Law Relating To Compulsory Third Party Motor Insurance In Malaysia. *Journal of Malaysian and Comparative Law*, 17, 79-108.
10. Act, L. C. (2015). *Laws of Malaysia*. Percetakan Nasional Negara Malaysia Berhad. Part V, Section, 29-33.
11. Jawi, Z. M., Isa, M. H. M., Mohamed, N., Awang, A., & Osman, M. R. (2015). A Systemic Analysis on the Usage of Safety Items among Malaysian Private Vehicle Users: Where to from now?. In *Proc. 3rd International Conference on Recent Advances in Automotive Engineering & Mobility Research*, Melaka.
12. <https://www.irmi.com/term/insurance-definitions/motor-vehicle-insurance-law>. (accessed on OCT, 2020)
13. Abraham, K. S., & Rabin, R. L. (2019). Automated Vehicles And Manufacturer Responsibility For Accidents. *Virginia Law Review*, 105(1), 127-171.
14. Priest, G. L. (1986). The current insurance crisis and modern tort law. *Yale LJ*, 96, 1521.
15. Mohamed, M., Ismail, H., Razali, A., Ismail, N., & Ganiyat, A. (2011). Own damage, third party property damage claims, and Malaysian motor insurance: An empirical examination.
16. Handbook, W. I. P. (2004). *Policy. Law and Use*, 2.
17. Lemaire, J. (2013). *Automobile insurance: actuarial models* (Vol. 4). Springer Science & Business Media.
18. Global data. <https://www.globaldata.com/general-insurance-business-malaysia-contract-2-2-2020-due-covid-19-says-globaldata/> (accessed on OCT, 2020)
19. CHEONG, P., JEMAIN, A. A., & ISMAIL, N. (2008). Practice and pricing in non-life insurance: the Malaysian experience. *Journal of Quality Measurement and Analysis JQMA*, 4(1), 11-24.
20. Malaysia motor insurance market - growth, trends, covid-19 impact, and forecasts (2021 - 2026) <https://www.mordorintelligence.com/industry-reports/malaysia-motor-insurance-market> (accessed on Oct 2020)
21. Lock, L.H., 2010. "The Insurance Industry in Malaysia", A Study in Financial Development and Regulation, Oxford University Press, Kuala Lumpur.
22. <https://paultan.org/2021/10/18/september-2021-malaysian-vehicle-sales-up-by-153/>
23. Cavana, R., B. Delahaye and U. Sekaran, 2001. *Applied Business Research: Qualitative and Quantitative Methods*, John Wiley & Sons, Australia Ltd.

24. Sekaran, U., 1992. Research method for business: A skill-building approach. New York: John Wiley & Sons Inc.
25. Hair, J.F., R.E. Anderson, R.L. Tatham and W.C. Black, 1992. Multivariate Data Analysis, 3rd Edition, Macmillan, New York.
26. Churchill, G.A., 1979. A Paradigm for Developing Better Measures of Marketing Constructs. Journal of Marketing Research, 16(1): 64-73.
27. Malaysia's Insurance Sector Outlook Positive, Business Times (Malaysia), July 20, 2012, [www.btimes.com.my/Current\\_News/BTIMES/articles/.../index.htm](http://www.btimes.com.my/Current_News/BTIMES/articles/.../index.htm)
28. Alridge, S. and J. Rowley, 2001. Conducting a withdrawal survey. Quality in Higher Education, 7(1): 55-63.
29. Anderson, E.W., C. Fornell and S.K. Mazvancheryl, 2004. Customer Satisfaction and Shareholder Value, Journal of Marketing, 68: 172-185.
30. <https://www.statista.com/statistics/1015778/malaysia-motor-insurance-gross-written-premium-value/> (accessed on OCT, 2020)
31. <https://www.mordorintelligence.com/industry-reports/malaysia-motor-insurance-market> (accessed on OCT, 2020)