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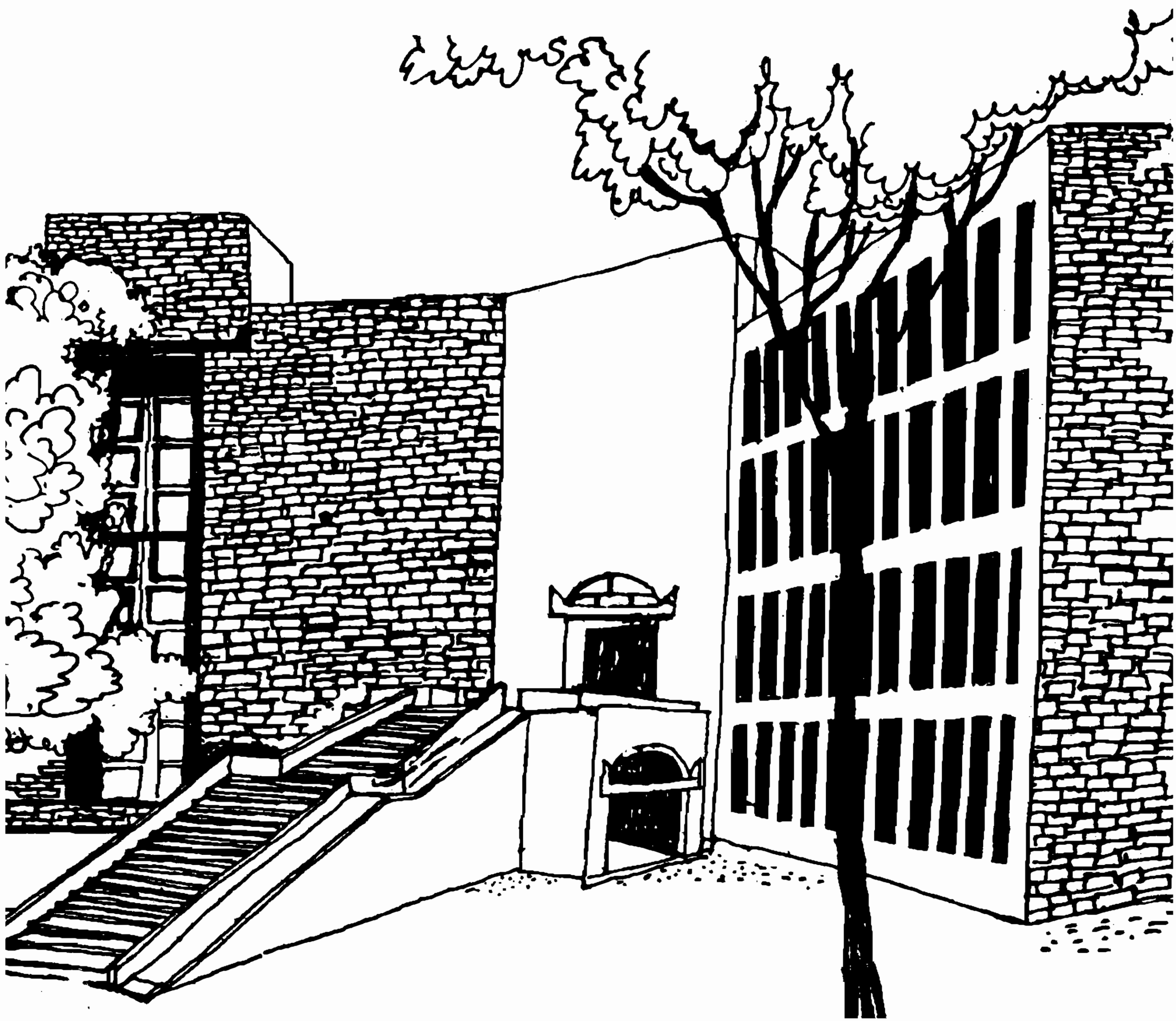

QUASI-SOCIAL PRODUCTS WITH LEGAL IMPLICATIONS: A CASE OF INSURANCE MARKETING

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Introduction

In developing societies very many new practices and norms have to be introduced in the course of the "modernization" process. While we desist from defining modernization or even defending it, suffice it to say that industrialization and modernization have gone hand in hand. And such a large change has witnessed effects on the social, cultural and economic, amongst many other aspects of life of these societies. Some of these changes have been brought about by legal means (i.e. through legislation) some through organisational means, yet others through well intentioned though sporadic advertising campaigns. The specific route(s) adopted would depend upon the seriousness and urgency of the issue concerned. Such changes have covered health, education, industrial practices, women welfare, caste structure, family planning, drug abuse and other such issues. Such interventions leading to changes in "societal mindset" have in their wake affected service sectors like banking, and insurance as much as industrial manufacturing.

In fact, services themselves have been a relatively new concept in many of the developing countries. India is no exception. In areas like insurance and banking, to get people to use these services and form a habit of doing so has not been an easy task. Something like insurance particularly has been difficult to institutionalize. The life insurance concept took a good 40-50 years to be accepted in the United States (Zelizer, 1978). The concept of life insurance "as a capitalization of affection" meant a large shift in the orientation towards death for most people of 19th century United States. General insurance business is further removed from the everyday life of an average individual. It's acceptance by people as a necessary aspect of business and to some extent part of everyday life (like motor insurance) has been fraught with difficulties.

In the developing country context wherein underinformed and monetarily deprived individuals resist committing of resources to activities such as insurance, introducing new policies or convincing people to insure is an uphill task. To induce a positive attitude toward such `quasi-social' services with legal implications would need an infrastucture for facilitating compliance. It is possibly like providing an adequate number of dustbins, suitably dispersed, for promoting cleanliness and upkeep of any premises or environs.

A case in point is the recently introduced `Act Only' policy for two-wheeler insurance of General Insurance Corporation. This case has been described in the following section.The issues that the case raises relate to the organisational responses,through the marketing function, to changes in the legal environment.

One Act Only...

The reader paused... "Now your long term `Act Only' insurance policy can last as long as your two wheeler" screamed the headline in an advertisement in the morning newspapers.

"Another change in policy? More botheration ...?" These thoughts raced through the reader's mind as he settled down to read the advertisement copy (please see Exhibit 1 for advertisement.)

The reader was looking at the beginning of what could be a revolution in the general insurance business in India. It was this incredible change, probably, that caught the attention of the vehicle owner.

The long arm of insurance in India struggled in a constant attempt to reach the masses. In this particular case, the story began in the state of Maharashtra.

In 1985, the government of Maharashtra, took a decision to change a section of the Motor Vehicles Act (of 1939). It was a section pertaining to the road tax that vehicle owners were to pay annually to the state government. Maharashtra is the state with the largest number of vehicles plying on its roads (Please see Exhibit 2 for details on motor vehicles and accidents statewise). It is probably a natural corollary to the extent of industrialisation the state has seen. Bombay city particularly had almost 588000 vehicles plying on its roads (For details on motor vehicles and accidents in metropolises please see Exhibit 3). This resulted in a substantial amount of work for the Road

Transport Authority (the road tax collecting agency of the government). And of the total number of vehicles, two-wheelers constituted a staggering 70 %. Such a large number meant low value and high volume work. This spurred the government into action.

To reduce the workload for itself and also to remove one irritant (of the many in life) for the owners, road tax was made a once-in-a-lifetime affair. In other words, road tax had to be paid at the time of the purchase of a two-wheeler which would serve the purpose for the entire period of the vehicle's life ! The amount was, therefore, enhanced to cover this longer period. It came as a relief for most vehicle users. However, on the grounds of justice and fair play, the Bombay High Court struck off the amendment based on a petition. At the same time, leave was granted for appeal to the Supreme Court. In this round, government of Maharashtra won the case and the amendment to the MVA came to stay. The year was 1987. As expected, many other states followed suit and at present (1991) ten states have amended the MVA to this effect. The changed section pertains to two wheelers only; four wheelers and other commercial vehicles are not covered under this section (because road worthiness checks differ).

This change had implications for organisations providing services related to the MVA and its legal outreach. For, the MVA also stipulates that every vehicle shall be covered under an insurance at any given time. Such a stipulation is essentially meant to protect any innocent third party victim of a motor vehicle accident. It is expected that even if the party responsible for the accident is not in a position to pay the compensation that may be awarded by a competent court to the victim or his/her kin, the insurance company would. As this is a part of the MVA, such an insurance cover is called an `Act Only' policy. It essentially covers the victim (other than the vehicle driver or owner).

In a developing country context such as India, this takes on special significance. Bad roads (in some cases the absence of roads), numerous kinds of vehicles, improper checks on road worthiness and an inadequate traffic sense have lead to one of the highest accident rates in the world. `Act Only' insurance is therefore an attempt to spread this risk over society since every additional vehicle on the road adds to the overall societal risk (Please see Exhibit 4).

Till the change in the act (MVA) had come about, the check for insurance cover was done annually when the road tax was paid. In other words a mechanism for control over insurance cover for vehicles existed at least in the case of those owners who regularly pay their taxes. With the amendment in the laws, the emergent situation was problematic in terms of ensuring compliance on the insurance front.

As a result of the change one option open to the insurance company was to remain passive, i.e. let the public absorb the risk. Another route was, to continue with the existing system but add substantially to the control systems (since vehicle-owners would have to specially keep this in mind in the absence of the behaviour of paying the road tax). A third option was to eliminate the requirement of annual premium payment.

The company decided to adopt the third route despite the fact that motor vehicles insurance as a whole and two wheelers business in particular was marginal in monetary terms.

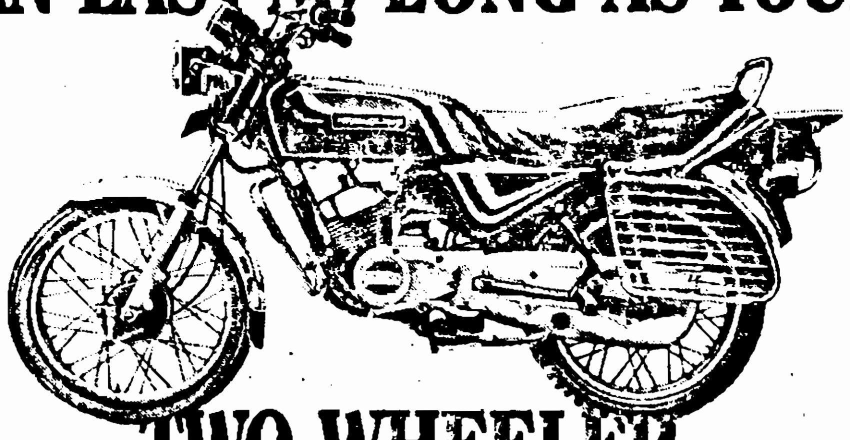
A one time premium meant a substantially reduced total premium (Please see Exhibit 5) accompanied by reduced controls. This meant that there would be a shift in product characteristics. Maybe even a change in company characteristics.

Though the decision had been taken, the Insurance Manager wondered, "Should the organisation have gone thus far ? Would not a more moderate option have been better ?" GIC and its subsidiaries had promised refund in the case the vehicle was sold, lost etc. " Was there any other option ? Or should the buyer beware of the risks?"

The Manager's thoughts turned to the long meetings before the launch of the product. " Would it not have been more prudent to retain the annual system and build up control systems to support it? This probably would have made the bottom line a solid black." A nagging question kept coming back to his mind from an article he had read long ago, " What business are we in ? " And more importantly, "Can marketing be done in sociological vaccum?" Somehow the answer to this seemed to be of essence.

Exhibit-1

NOW YOUR LONG TERM 'ACT ONLY' INSURANCE POLICY CAN LAST AS LONG AS YOUR



TWO WHEELER

The Long Term 'Act Only' Policy for two wheelers lets you pay your statutory insurance under the Motor Vehicles Act all at once. You need not worry about non-renewal of insurance which could result in contravention of the law and make you liable for costly third party compensation.

Why Act Only? It is obligatory for every 2 wheeler to be insured under the 'ACT ONLY' Policy against third party liability. If you forget to renew your Act Only Insurance, you could be fined upto Rs. 1000/- or imprisoned upto 3 months, or both.

The Third Party Liability:- If you are riding your vehicle and accidentally knock down someone who gets injured, maybe fatally, you are liable to pay compensation for the injury or death. This could sometimes be a very large amount. The Act Only Policy indemnifies you against this liability. But only if it is valid. Non-renewal could expose you to the complete risk.

Why Long Term? Many State Governments have started accepting a one-time road tax. To increase your convenience and security, you can opt to pay the Act Only Insurance at one time, and save yourself the exercise of annual renewals.

Further Benefits:- Your lumpsum payment gets you a reduction in the cumulative amount you would have otherwise paid year after year. And if the registration of the vehicle is cancelled due to the total loss or transfer of the vehicle, the policy can be cancelled and you will receive an appropriate refund of premium.

Take the strain off your mind and opt for miles of smiles

*If you are involved in an accident and some one is injured please * Promptly inform the insurance company describing the nature of injury. * Do not promise any compensation to a third party without seeking the advice of the insurance company. * In case of Police prosecution, seek legal counsel and keep the insurance company informed. * Send all notices and summons concerning the accident you may receive to the insurance company, who will attend to them on your behalf.*

LONG TERM
PEACE OF MIND
ACT ONLY POLICY

Be alert-avert road accidents

भारतीय साधारण बीमा निगम

General Insurance Corporation of Ind..

CANCO-91

Exhibit 2

Motor Vehicle (Two wheeler) and Accident statistics of different States (1988)

States	All Vehicles	Two Wheelers	No. of Motor Vehicle Accidents	Persons Killed	Persons Injured
Andhra Pradesh	944819	714777	11912	4058	12836
Arunachal Pradesh	-	-	147	61	184
Assam	216157	88698	1861	865	2621
Bihar	643023	327363	9890	2401	5065
Goa	93506	61276	1816	154	621
Gujarat	1400040	920969	19758	3004	20681
Haryana	349837	172240	3898	1587	3991
Himachal Pradesh	51850	23218	909	386	1427
Jammu & Kashmir	85012	39115	3494	563	3800
Karnataka	1031131	705520	17134	3281	21461
Kerala	473789	185349	14327	1653	19346
Madhya Pradesh	898450	631010	21445	2902	18175
Maharashtra	2056357	1263191	31696	6237	24741
Manipur	29760	20409	426	88	603
Meghalaya	24251	5351	202	70	347
Mizoram	7230	1646	214	104	393
Nagaland	9970	2101	69	17	54
Orissa	198189	149149	5069	971	6463
Punjab	964746	613665	1482	908	1058
Rajasthan	712874	483717	8394	2601	9417
Sikkim	13617	9019	120	49	225
Tamil Nadu	1005240	625237	28581	5791	26285
Tripura	13963	4488	393	103	596
Uttar Pradesh	1256236	835727	15014	7420	11870
West Bengal	621487	247228	8780	2243	5893
Union Territories					
A & N Islands	5633	3382	144	12	173
Chandigarh	179061	151114	253	91	194
D & N Haveli	4294	2157	88	13	85
Daman & Diu	Included in Goa		4	33	7
Delhi	1284196	889438	6716	1474	6830
Lakshadweep	-	-	3	-	3
Pondicherry	64189	51758	578	104	589
All India	14638907	9228402	214817	49244	206034

Compiled from <u>Motor Transport Statistics of India 1987-88 & 1988-89. Transport Research Division, Ministry of Surface Transport, Government of India, New Delhi.</u>

Exhibit 3

Motor Vehicle (Two wheeler) and Accident statistics of different metropolises

Metropolitan Cities	All Vehicles 1989	Two Wheelers 1989	No.of Motor Vehicle Accidents	Persons Killed	Persons Injured
Ahmedabad	289110	209030	2916	150	2575
Bangalore	460875	343733	5985	504	4926
Bombay	588158	221531	27191	520	8087
Calcutta	424372	167813	7061	425	3541
Delhi	1465592	1008924	6716	1474	6830
Hyderabad	484355	392112	1189	271	965
Jaipur	211270	146797	1116	225	1064
Kanpur	143079	122321	779	215	819
Lucknow	150979	118025	717	167	641
Madras	485029	338486	5568	390	4020.
Pune	268446	201614	3202	316	1468
Nagpur	138554	111981	1293	130	881
Total	5109819	3382367	63733	4787	35817

Compiled from Motor Transport Statistics of India 1987-88 & 1988-89. Transport Research Division, Ministry of Surface Transport, Government of India, New Delhi.

Exhibit 4

Note on 'Act Only' insurance *

Vehicle owners are required to insure their vehicles for covering third party liability as per the motor vehicles act. This is expected to take care of the compensation that a vehicle owner may have to pay to a victim of any accident that the vehicle may be involved in. In order to provide for the eventuality of any owner pleading insolvency, all countries have a legally obligatory motor vehicle insurance. At the minimum, this insurance is to cover the compensation that would need to be paid to make good the economic loss inflicted on the family of and/or the person involved in the accident. Naturally, the consequences could be range from temporary disability to death. This minimum requirement is covered under the 'Act Only' policy of the insurance industry in India. Two other levels of cover available are the Third Party cover and the Comprehensive cover. While the Third Party policy covers the victim's property also for some predetermined amount, the Comprehensive scheme covers the owner's vehicle in addition to the cover provided under the Third Party policy.

However, as per the law, any vehicle owner is required to get the vehicle covered at least under the 'Act Only'. The insurance premium is calculated based on

(a) The accident rate of vehicles in the country.
(b) Age of the vehicle
(c) Value of the vehicle

* For a more detailed write-up on the topic please refer K.G. Agaram, " Motor Insurance in Relation to Motor Vehicles Act " , Journal of Transport Management, July 1989.

Exhibit 5

Act Only - Premium Rates for two wheelers

Age of vehicle (in years)	Capacity greater than 25Ø cc Rs.	Capacity less than 25Ø cc Rs.
less than 1	488/-	39Ø/-
1-2	469/-	475/-
2-3	448/-	358/-
3-4	425/-	34Ø/-
4-5	4Ø1/-	321/-
5-6	376/-	3Ø7/-
6-7	349/-	279/-
7-8	32Ø/-	256/-
8-9	289/-	231/-
9-1Ø	255/-	2Ø4/-
more than 1Ø	22Ø/-	176/-

* For the purpose of actuarial calculation average life of the vehicle is taken as 15 years

** The premium rates before the new policy was introduced were as follows

Capacity greater than 25Ø cc - Rs 5Ø/- p.a.

Capacity less than 25Ø cc - Rs 4Ø/- p.a.

Exhibit 6

General Insurance - A Primer*

General insurance business deals with insuring all activities and goods other than the life of an individual person. Unlike an assurance (which is what all so called LIC policies are), general insurance policies only promise to make good any loss incurred by the insured either in the course of performance of an activity or outright loss of a good or other infrastructure. No money is payable at the end of any pre-specified loss- free period. Almost every general insurance policy has a time frame of one year. The one known exception is the policy which covers losses during the course of implementation of any construction project. It is a policy which covers the activity phase rather than any physical entity. Hence, all policies covering risks like fire, motor vehicle, accidents, theft etc. are for a period of one year.

Explaining the nature of general insurance business Benjamin (1977) writes :

" The premium for general insurance contract may vary at each renewal either because of these changes of individual circumstances or because the general level of premiums for a particular class of business needs to be reviewed in order to ensure, for example, that the insurer is not operating at a loss or making excessive profits or that premiums are at such a level that loss of business to a competitor may be likely. Such general changes become necessary in times of inflation (monetary depreciation) and also when overall risk conditions change, for example when a general worsening of traffic conditions increases the frequency of accidents. " (p.2)

* For a detailed exposition on general insurance business, the reader may refer to B.Benjamin General Insurance, Heinemann : London, 1977.

Issues for Discussion

I The three routes possible as a result of the environmental change are:

(a) To remain passive : The consumer would therefore have to remember to pay the premium every year. If he/she defaults any time, the consequences are in terms of the personal liability in case of an accident. Thus there would be times where the customer pays up a massive amount and other times when the third party does not receive any compensation whatsoever. This is because in case of default it ceases to be the liability of the insurance company.

The economic consequences to the insurance company could be in terms of a fall in premia collected but since M.V. Insurance (especially two wheelers) is marginal business, this might not matter much. To the society at large, the risk would increase simply due to the fact that the variance in compensation (as explained above) would increase. Also, without the insurance company as a mediator transactions between parties would be uncomfortable.

b) To react by strengthening controls : The second route would be to strengthen the control systems so as to ensure that the customer does not default. This would mean, taking measures such as:

* Sending periodic reminders to customers.
* Introducing a penalty for default or a reward for prompt payment.

*   Advertising the virtues of MV insurance to the society and the vices of defaulting etc..

Such interventions would lead to greater costs for the company thus marginalising the business further. This might lead to a further increase in controls so as to increase revenue, more avoidance and more costs. Thus the circle would become viscious in a context where

- abiding by tax laws/insurance laws etc. is not an ingrained habit.
- adoption of "quasi social" products with a bit of effort from consumer's side is not institutionalized (Here MV insurance is a quasi social product in the sense that it is not a fully social product and nor is its aim solely to earn profit).

This route might ultimately lead to product failure.

c) <u>Alter the product characteristics in tune with environmental change</u>: In such a case the options could be one point premia or two point premia etc. and this would mean changing the product attributes and the design of the organisation which interfaces with this aspect.

What are the alternatives facing the organization and why have they offered specifically the attributes listed in the advertisement.

1. Refund is to assure the customer that he would not stand to lose in relation to the earlier system.
2. One time payment to keep product in tune with environmental

change and to minimize consumer worry (effort).

3. Reduced premium so as to cover the actuarial amount and yet make the single lumpsum premium amount within the reach of the average two wheeler owner.

II Insurance as a product deals with the innermost fears and hopes of the individual and the objective is as much to assure the individual as to reduce the total societal risk by distributing it over a large population. Thus the product is "quasi social". These kind of products having legal implications need to be compulsorily institutionalized among specific public. Thus there is a need to change their mind set. Atleast two routes are possible:

(a) The attitude change route : Wherein through awareness creation and advertising (both educatively and persuasively) an intervention is made which will hopefully lead to a positive behaviour.

(b) The behaviour modification route : Wherein a behavioural intervention is made which can be coercive (through introducing controls) or supportive (through taking advantage of situational variables) and which hopefully will lead to a change in attitude (though cognitive consistancy route) and hence change in mindset of the society over a period of time.

III Also, given that the victim's (third party's) ability to fight is low and the pondorous legal system, does the organization not have a role beyond the usual?