

5th Capacity Building Seminar on IFRS 17

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Deep dive session on Motor Insurance

Hiten Kothari, Senior Actuarial Director, WTW

Anubhav Chatteraj, Associate Director, PwC India



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Any examples or discussions of products are about coverages generally available in the marketplace and are not based specifically on the policies or products of any particular insurance company.



Agenda

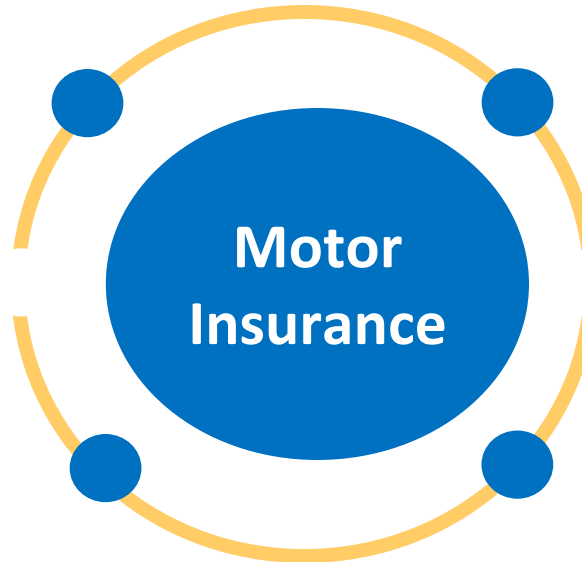
- Introduction of Motor Insurance
- Portfolio Consideration
- Ind AS 117 Standard and practice consideration
- Open Discussion



Introduction: Motor Insurance

Risk Covers

- Motor OD: Accidental Damage, Theft, Fire
- Motor TP: Third Party Death, Injury, TPPD



Contract Type

- Comprehensive and Standalone OD & TP
- Two Wheeler (TW), Private Car (4W), Commercial Vehicle (CV)

Add-On

- Zero Depreciation
- Engine Protection
- Road side assistance
- No Claim Bonus
- Tyre Protection

Rating Factors

- Vehicle Age
- Model & Make
- Geography
- Fuel Type
- NCB Type etc.

Portfolio consideration

1

Should Motor Own Damage (OD) and Thirty Party (TP) be considered as separate portfolios?

2

If yes, should comprehensive policies be split into separate portfolios for OD & TP?

3

Should Motor Two-Wheeler, Private Car and Commercial Vehicle be considered as separate portfolios?

4

Should Short-Term and Long-Term Motor policies be considered as separate portfolios?



View on Portfolio Consideration(OD & TP)

Single Portfolio Approach

- Motor OD and TP have similar underlying risk i.e. Vehicle involved in an accident.
- Primary difference is who is indemnified
- Both covers are managed together as pricing and channel remuneration are based on the combined profitability
- Under Comprehensive covers, Motor OD pricing is dependent on overall portfolio profitability. Also Standalone and Comprehensive OD pricing cannot be different

Separate Portfolio Approach

- Different risk as both have different reporting pattern, settlement pattern, inflations, pricing methodology.
- Managed separately as both Motor OD and TP are priced, reserved, settled separately.
- Both the covers Motor OD and TP can be priced and sold separately.

View on Motor Portfolio (TW, 4W, CV)

Single Portfolio Approach

- Underlying risk – accident – similar across all vehicle class
- Companies may have same sales, claims and servicing team for TW, 4W and CV.
- Segregating these may imply segregation of all classes by rating factor.
- Company's internal structure will be the deciding factor.

Separate Portfolio Approach

- Separate Pricing model for each of the segment
- Different rating factor for all three vehicle class
- Companies may choose to segment TW, 4W, CV for risk management tool and internal analysis.

Ind AS 117 Standard



Ind AS 117 para 14 states that a portfolio of insurance contracts “comprises contracts subject to similar risks and managed together”. It further states that contracts within a product line would be expected to have similar risks and contracts in different product lines would not be expected to have similar risks. There is no additional specific guidance within the standards or in associated materials of what is meant by “similar risks” or “managed together” and it is left to the judgement of insurance companies to ascertain the applicability of similar risk or managed together.

Ind AS 117 paras 15-16 further provide for formation of groups of insurance contracts within a portfolio. Other portions of Ind AS 117 provide for the measurement of insurance contracts (including calculation of loss components) at a group level.

Ind AS 117 para 9 provides for combining insurance contracts with the same or related counterparties which achieve or are designed to achieve an overall commercial effect.

Conceptual Framework para 4.62 uses similar language about combining contracts. It also states that “conversely, if a single contract creates two or more sets of rights or obligations that could have been created through two or more separate contracts, an entity may need to account for each set as if it arose from separate contracts, in order to faithfully represent the rights and obligations.”

Ind AS 117 paras 10-13 provide for separating components from an insurance contract. These provide for separating only embedded derivatives, distinct investment components, and promises to transfer distinct goods and services other than insurance contract services. The components which are separated out are to be accounted for using Ind AS 109 or 115 as applicable. [This is cited for completeness; however, as motor TP & OD will both be accounted under Ind AS 117, these paras are not relevant.