

Title: Information in Automobile Insurance Market

Author: Dhanjal Ikmandeep Kaur

ABSTRACT

In the Kenyan insurance industry, the reported mean loss ratio for general insurance business for the five year period from 2005 to 2008 was 58.4%. The lines of business above mean and adversely contributing to the industry loss ratio were mainly motor private (73.04%) and medical (79.6%) (Association of Kenya Insurers, 2012).

Whereas review of mortality experience can help improve loss ratio and premium pricing, there are other methods that an insurer can use, including collecting data on observable indicators that could explain the propensity to loss such as demographic factors (age, gender) or driver specific factors (geographical location, driving history). There is lack of data for the latter two in Kenya since geographical location would require a valid GPS system and proper road conditions whereas driving history needs to be digitalized and well captured by the traffic police system.

Conversely, gender and age are easily collected and verifiable. This paper seeks to evaluate whether the use of gender, could provide relevant information that can be used in pricing of motor private business and hence lead to a reduction of loss ratio.

By analyzing data collected from one insurer, we conclude that gender is a significant factor in explaining claims amounts, that is, there exists significant correlation between gender and claim amount. This finding is further supported by evidence collected from drivers about their claim experience and perception of gender as a factor of claims. Of interest is that females have a higher claim frequency in value and occurrence negating some of the products offering benefits to female drivers in Kenya.

We therefore conclude that there is a case for using gender; however, an insurer will need to consider other competing market factors that come with differentiation in the small general insurance market size in Kenya of 2.08%. The study also focused on data from one insurer controlling 11.4% motor private market share by gross premium. Results could differ in a wider scale review and this is recommended as further research area.