

# **STRATEGIES TO MINIMIZE DEFICIENCIES ON TRANSPORT RELATED INSURANCE CLAIMS**

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**A Dissertation Submitted to the Department of Civil Engineering for the Degree of Master  
of Science in Transportation**

**Department of Civil Engineering**

**University of Moratuwa**

**Sri Lanka**

**March 2010**

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This is dedicated to my husband, Sunil Siriweera and my Son, Geemal Siriweera.



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## ACKNOWLEDGEMENTS

It gives me an opportunity to express my sincere thanks to Mr. Janaka Senaratne, Attorney-at-Law and Miss. Shalika de Silva, Attorney-at-Law for sharing their valuable experience, views and their continuous support in making this thesis.

With a deep sense of gratitude, I thank my supervisor, Professor J M J S Bandara, for his encouragement, guidance, expertise, and his suggestions and views expressed at all times when writing of this thesis and his valuable support for me to complete the thesis on time. It is a privilege to have him as my supervisor.

My thanks are due to Dr. W K Mampearachchi, the Course Coordinator for his continuous support, advice and encouragement extended to me in writing this thesis.

I take this opportunity to thank Professor, Amal Kumarage, Chairman and Mr. M A Jeffrey, the Director General and the Management of National Transport Commission for nominating me to follow this course, MSc in Transportation, at the University of Moratuwa, without whose help, it was not possible for me to come up to this level.

My thanks are also due to Niranjala Dilrukshi of National Transport Commission, and all my colleagues who helped me in numerous ways to finish my thesis work.

Lastly, I offer my thanks and regards to my son, Geemal Siriweera, for his encouragement, help, and support extended to me in writing of this thesis and his assistance on the computer in completing the final version of this thesis.



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## LIST OF ABBREVIATIONS

CTP	-	Compulsory Third Party
DC	-	District Court
EU	-	European Union
IBS	-	Insurance Board of Sri Lanka
NRSC	-	National Road Safety Council
RDA	-	Road Development Authority
UK	-	United Kingdom



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## ABSTRACT

Road Traffic injuries are the leading cause of death by injury and leading contributor to the burden of disease worldwide. It is estimated that over one million men, women and children get killed, annually, in the world, as a result of road traffic accidents.

It has become a prominent social problem in Sri Lanka. At present, one in fifty deaths are due to road accidents and many more are injured or permanently disabled. Every four hours one person dies in Sri Lanka due to road accidents. According to the records maintained by the Police about 2200 persons are killed yearly, and over 3000 people are critically injured and another 12,000 suffering minor injuries as a result of road accidents.

The aim of this study is to bring it to the notice of interested parties that they need not silently suffer or bear the /damages or the injuries that they suffer due to someone else's negligence. They can always be remunerated for such losses and damages through insurance claims.

This study briefly explains as to what is an insurance agreement, the types of insurance policies, why people take insurance coverage, the motor insurance cover, the identified problem in motor insurance claims, present practice of claims and the benefits of insurance coverage .. The deficiencies of transport related insurance claim particularly, the accidents at road construction sites and hit and run accidents has been highlighted.

Construction zones are considered as the most dangerous places on our roads. Victims of road accidents at these sites could seek compensation from main contractor, the state or the Provincial Council and the driver. This study has also paid attention on the growing problem of Hit & Run accidents. It is revealed that one in eleven serious accidents are classified as hit and run and most of the victims of Hit & Run accidents are pedestrians and cyclists. The public concern so far was that since they cannot identify the runaway vehicle or the driver of the vehicle there are no possibilities for claims.

The National Road Safety Council of Sri Lanka established in terms of the Motor Traffic (Amendment) Act No. 5 of 1998 has created a National Road Safety Fund to assist such victims.

The deficiencies in insurance claims have been discussed and the implementation of the suggestions mentioned herein is essential for the provision of maximum benefits of insurance policies to the victims of road traffic accidents



## CHAPTER 1: INTRODUCTION

### 1.1 Insurance Contract

Insurance is a contract between two parties whereby one party agrees to undertake the risk of another in exchange for consideration known as premium and promises to pay a fixed sum of money to the other party on happening of an uncertain event. An insurer is a company selling the insurance and insured is the person buying the insurance. The insurance rate is a factor used to determine the amount to be charged for a certain amount of insurance coverage, called the premium.

The insurance contracts are designed by the insurer. The insured has no ability to make changes to the contract. It shows that the insurer bears the burden if there is any ambiguity in any terms of the agreement or the contract. Insurance works on the basic principle of risk-sharing. A great advantage of insurance is that it spreads the risk of a few people over a large group of people exposed to risk of similar type.

The insurance contracts are unilateral agreements. This means that only the insurer makes legally enforceable promises in the contract. The insurer is legally bound to pay the benefits under the contract if the insured has paid the premiums and fulfilled certain other requirements. The purpose of entering in to insurance contracts is to leave a person in the same financial position he was in immediately prior to the incident. In other words person will be remunerated according to the total sum he has assured. Buying an insurance coverage provides the insured with the peace of mind and assurance that he is protected against any damage or loss.

#### 1.1.1 What is an insurance policy?

The Insurance Agreement or Contract between the insurer and the insured which is put in writing is called a policy. The insured is known as the policy holder and he/she undertakes to make periodical payments and the insurer agrees to pay for damages/losses for the covered perils of the policy if certain defined events occur.

## 1.2 Why Insurance Is Needed?

All assets have some economic value. There is also a possibility that these assets may get damaged or destroyed or non operational due to risks like breakdowns, fire, floods, earthquake etc. Different assets are exposed to different types of risks. A vehicle has a risk of theft or meeting with an accident, a house is exposed to catching fire, a human is exposed to the risk of death or accident. Hence, insurance is needed to compensate the insured in future losses and damages against life and property.

### 1.2.1 Uncertainty

The basic need of insurance arises due to various risks. Risks are uncertain and unpredictable in nature. Any risk that could be quantified could be insured. Obtaining insurance for an asset actually implies that in case the asset suffers any loss or damage in value due to anticipated risk, the insurance company compensates the insured.

## 1.3 Essentials Of A Valid Insurance Contract

### 1.3.1 Offer and acceptance

When applying for insurance, the first thing to do is to get the proposal form from an insurance company and fill in the requested details. Then the form has to be forwarded to the company. This is the insurance offer. If the insurance company accepts the offer and agrees to insure the person, it is the acceptance. In some cases, insurer may agree to accept the offer after making some changes to the proposed terms.

### 1.3.2 Consideration

It is the premium or the future premiums that one has to pay to the insurance company. For insurers, consideration also refers to the money paid out to the insured in case he files an insurance claim.



### 1.3.3 Legal capacity

One needs to be legally capable to enter into an agreement with his/her insurer. If any person is a minor or a mentally ill, then he or she may not have the legal capacity to enter into contracts. Similarly, insurers are considered to be competent if they are licensed under the prevailing regulations.

### 1.3.4 Legal purpose

If the purpose of the contract is to encourage illegal activities, it is invalid.

### 1.3.5 Additional factors

There are some additional factors that also need to be considered, including under-insurance and excess clauses that create situations in which the full value of an insured asset is not remunerated.

**Excess:** To avoid small claims, the insurers have introduced provisions like excess. For example, if a person has a motor insurance with the applicable excess of Rs 50,000. If the car had an accident with the loss amounting to Rs 60,000, the insurer will pay the Rs. 10,000 because the loss has exceeded the specified limit of Rs 50,000. But, if the loss comes to Rs. 45,000 then the insurance company will not pay a single cent.

**Under-insurance:** This is to save on premiums. Ex: if a house is insured at Rs. 5 million when the total value of the house is Rs.8 million it is an under insurance. At the time of partial loss, the insurer will pay only a proportion of Rs.5 million while the insured has to cover the remaining portion of the loss. This is called under-insurance.

## 1.4 Principles Of Insurance Law

### 1.4.1 Doctrine of utmost good faith

All insurance contracts are based on the concept of "uberrima fidei" or the doctrine of good faith. It is the mutual faith between the insured and the insurer. In insurance

agreements, both the Insurer and the insured are required to observe this principle. When applying for life insurance, it is the duty of that person to disclose all past illnesses to the insurer. Likewise, the insurer cannot hide information about the insurance coverage that is being sold. Utmost good faith is of a continuing nature. No alterations could be made to the contract without the consent of both parties. The insurer cannot subsequently demand for high premium nor deny liability to avoid payments.

#### **1.4.2 Misrepresentation**

These are statements made by one party to another before entering in to an insurance contract. These statements are some matters relating to the contract but not an integral part of the contract. These statements are said to have been fulfilled when the final acceptance of the policy is conveyed to the insured. If representations are made on the essential part of the contract then it becomes a warranty and in case if those statement found to be false then the policy can be avoided.



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#### **1.4.3. Warranties**

A breach of warranty will avoid the policy even if it may not relate to the risk insured. A Warranty may be expressed or implied. Implied warranties are mostly in relation to marine insurance. It is defined as a promise undertaken by the insured. The warranty should be in the policy or it must be incorporated by reference.

#### **1.4.4 Conditions**

Conditions are terms under which an insurance policy is granted. It specifies the duties of the assured. They can be conditions precedent or conditions subsequent. The conditions precedent is required for a valid contract. The non fulfillment of which will make the contract void. The conditions can be further classified in to implied and expressed conditions.



#### **1.4.5 Principle of subrogation**

Subrogation allows an insurer to sue a third party that has caused a loss to the insured and pursue getting back some of the money that it has paid to the insured as a result of the loss. For example, if someone is injured in a road accident that is caused by the reckless driving of another party, then the injured will be compensated by the insurer. However, the insurance company may also sue the reckless driver in an attempt to recover that money.

#### **1.4.6 Indemnity**

Most types of insurance policies other than life and personal are contracts of indemnity where insurer undertakes to indemnify the insured for the actual loss suffered on happening of an event.

#### **1.4.7 Insurable interest**

It is the legal right to insure any type of property or any event that may cause financial loss or create a legal liability. This is called insurable interest.

If a person is living in his Aunt's house and applies for home owners insurance believes that he/she may inherit the house later. Insurers will reject the offer because he/she is not the owner of the house.

It is also the principle of insurable interest that permits married couples to take out insurance policies on the lives of their spouses as they may suffer financially if the spouse dies. Insurable interest also exists in some business arrangements, between a creditor and debtor, between business partners or between employers and employees.

### **1.5 Problem Identification**

A motor vehicle accident can disrupt one's life on many ways. The injuries sustained may need time to heal. This means time taken away from work and family. This will

create financial problems and emotional strain for the victim of motor accident and his/her family members. It is also needed to consider the stress of dealing with the insurance companies responsible for covering damages to vehicle and other property etc.

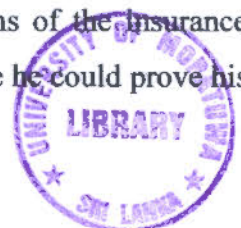
Auto insurance companies make money when a person pays his insurance on time and never claims. When a claim is filed the insurer wants to pay the minimum. If a person was in an accident and his car was destroyed and he was in hospital for some days the insurance company will pay the minimum unless the insured disagrees and goes for litigation. This is one of the problems that the insured will have to face with.

It should also keep in mind that the insurer is not only bound to pay covered claims for losses, but also to defend the insured if someone else files a claim against the insured. It reveals that many people obtain insurance policies mainly for the fulfillment of the legal requirement and most of them are unaware that the insurer's duty is also to defend them if there are actions against the insured.

Insurance is such a vast subject that a few people only familiar with the benefits that they could obtain through insurance. Therefore, it is necessary to investigate the present situation of motor insurance claims in detail. Insurance providers often have their own strategy to handle claims and they don't have a specific guide lines for the same.

The victims of accidents or their relatives sometimes are not aware of the terms and conditions of the insurance contract and also they are unaware that they could claim compensation from the insurer. Therefore, it is very important that a person is well conversant with the terms and conditions of insurance agreements. There are instances where the insured or his family members not proceeding with legal action to recover the loss when claims are denied by the insurers. It may be due to financial difficulties of the insured or his /her family members or due to the reason that they are unaware of the litigation procedure.

When there are disputes with regard to auto insurance, the terms of the insurance agreement provides for the insured to demand for arbitration where he could prove his



case to receive compensation which he is entitled to. It is very important that claims should be forwarded to the insurer within the specified time period. The claims forwarded to the insurers will be refused after the specified time. Therefore, insured must well aware of this situation as once the time lapses he/she has no way of making a claim for the loss or damage he/she suffered.

Insurer can deny policyholder's claim on bad faith insurance claims. Insurers are required to act in good faith with the people insured with them. If a person feels that he/she is treated unfairly then he/she will have no alternative but to go in to litigation. Bad faith may not be clear in every situation. It is defined primarily in case law.

- Undue delays in handling claims
- A biased investigation
- Refusal to defend a case brought against the insured
- Harassment or threats against the insured
- Refusal to make reasonable settlement
- Interpreting the policy in unreasonable manner
- Threatening to accept a low offer
- Denying legitimate claim
- Failure to inform the insured of additional benefits
- Altering policy without policyholders knowledge/consent

In settlement of personal injury cases, when the offer is made on the injury claim one must ensure whether his/her rights are violated and also whether he/she is receiving the full amount under the agreement.

The rising costs of car insurance are encouraging people to avoid obtaining a policy. It is noted that vehicle insurance is rising each year and the increase has been particularly unaffordable for young drivers. It is also noted that the cost of being caught without vehicle insurance is cheaper. This encourages some drivers to continue driving without motor insurance. Even in developed countries there are millions of drivers and it is said that these figures will go up if the motor vehicle insurance keep rising.

## 1.6 The Objective Of The Study

Motor vehicle accidents are the most common type of vehicular accidents in Sri Lanka and almost all countries in the world. The purpose of getting motor insurance is to minimize the financial burden that a vehicle owner suffers in an accident and this is why motor vehicle insurance is a must for all motorists. However, many motorists are not aware of the importance of the motor insurance and many of them may not even think of obtaining a policy due to the high cost.

The objective of this study is to briefly explain what the motor insurance policy is, why it is important to obtain a policy, what has to be considered in obtaining a policy and also to discuss the benefits of such a policy. An attempt has also made to identify the deficiencies/ weaknesses or loopholes in the present system of motor insurance and finally the recommendations/suggestions to rectify these situations.

The law says one must have a basic motor insurance liability if he/she owns or drives a motor vehicle. Motor insurance protects motorists in the occurrence of accidents they may cause. It can also provide cover for the motorist's own vehicle. The Motor Traffic Act requires all motorists to be insured against their liability for injuries to others (including passengers) and for damage to other people's property resulting from use of a vehicle on a road. It is an offence to drive a car or allow others to drive it without insurance.

However, many of the motorists do not realize the role motor insurance plays in protecting them against a loss or damage in an accident. Many of the insured have not realized the fact that when a motor insurance is purchased, it protects one's investment at today's price. Motor insurance policies are mostly purchased as a legal requirement and therefore, much attention is not paid to understand the many benefits of it. The Policy Document sets out the terms and conditions of the policy. Though the policy must be read carefully to ensure as to whether it gives the level of cover that one is seeking, it is hardly being done. The insured must always get a clear picture as to the policy does or does not cover and get it explained by the insurer if there are any thing unsure about the policy.

One can shop around and decide as to the insurer from whom the insurance policy is taken. However, it is important to see what is and is not covered by the policy. It is not advisable to go for a cheaper policy as they may not offer the same level of protection. Most policies have a standard excess i.e. the amount one has to agree to pay the first part of any claim. Higher the excess one is agreeing to pay, a cheaper the policy he /she might get.

Many different types of motor insurance cover are available. The comprehensive cover offers protection for accidental damage, theft, fire damage as well as liability towards third parties.

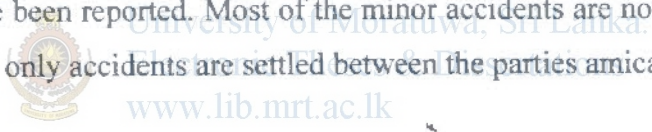
Third party - this is the minimum legal requirement and covers the insured for injuries to third party, including passengers or their property, but does not cover damage to the vehicle.

To receive this protection, the policy holders, have to pay a premium to the insurer. The insurer then accumulates all premiums collected into a fund. This will be used to compensate the policyholder who would suffer a loss or damage from a motor accident. In other words the loss is paid from the monies collected from the policy holders who have contributed but not met with accidents.

## CHAPTER 2: LITERATURE REVIEW

Road accidents in Sri Lanka have become a major social and economic problem. It is noted that increasing demand for transport services and rapid increase in vehicle kilometers have resulted in increased number of road accidents. According to the available statistics there have been 24,303 persons injured or killed in road accidents in Sri Lanka in 2002. It further reveals that there were 2,175 deaths including pedestrians and the passengers travelling in vehicles. Of 815 pedestrian fatalities 5% of them have been due to the fault of the pedestrians and 95% have been due to the fault of the drivers or the riders (**Analysis of Road Accidents in Sri Lanka – Analysis for 2001 & 2002**).

As shown in Table 1 the numbers of reported accidents to the Police were 26,196 in 1989 and it has increased to 43,171 in 2005. It is noted that these are figures based on the accidents that have been reported. Most of the minor accidents are not reported to the police and damage only accidents are settled between the parties amicably.



**Table 1: Number of Reported Accidents in Sri Lanka (Unit=Cases)**

Year	Fatal Accidents	Grievous (Accidents involving serious injuries)	Non-Grievous (Accidents involving slight injuries)	Damaged Only (Property Damage only)	Total Accidents
1989	1,454	1,287	2,233	21,222	26,196
1990	1,714	1,703	9,462	21,584	34,463
1991	1,255	1,899	9,685	21,305	34,144
1992	1,302	2,112	10,386	23,977	37,777
1993	1,346	2,299	1,687	26,163	31,495
1994	1,414	2,554	11,992	27,855	43,815
1995	1,481	2,588	12,233	31,837	48,139
1996	1,560	2,615	11,510	32,990	48,675
1997	1,705	3,310	10,037	34,481	48,533
1998	1,874	2,393	14,417	35,275	50,959
1999	1,913	3,144	16,258	34,129	55,444
2000	1,992	3,006	11,765	16,724	54,250
2001	1,952	34,013	11,560	16,109	52,092
2002	2,029	3,719	12,935	36,348	55,031
2003	1,933	39,019	13,744	39,848	59,444
2004	2,116	4,560	13,918	32,864	53,458
2005	2,141	4,968	14,376	21,686	43,171

**Source: Police Headquarters, Colombo, 2006**

The accidents which occurred on hourly basis due to driver fatigue/falling asleep for the years 2005-2007 are shown in Table 2. The highest number of accidents i.e. 213 has been reported in the year 2005 where as there has been only 179 accidents in 2007 and 171 accidents in 2006. In 2005, the highest number of accidents has been occurred between 0100hr and 0200 hrs. It also reveals that between 2400 hrs and 0600 hrs of the day has been the crucial time.



We could see a reduction in accidents due to driver fatigue/ falling asleep in the year 2007. The table further reveals that 0100 - 0500 hrs in the morning there have been many accidents and highest number of accidents was recorded between 0100 hrs and 0200 hrs and 0400 - 0500 hrs in the morning.

**Table 2: Motor Accidents due to Driver Fatigue/Falling asleep (2005 - 2007)**

Time	2005	2006	2007
00-01	17	10	6
01-02	18	15	15
02-03	12	10	13
03-04	12	9	13
04-05	16	13	15
05-06	13	10	6
06-07	8	12	8
07-08	13	7	7
08-09	7	4	8
09-10	5	3	5
10-11	5	4	5
11-12	9	4	7
12-13	9	8	6
13-14	13	4	7
14-15	2	8	6
15-16	12	12	7
16-17	10	5	7
17-18	6	6	4
18-19	3	3	6
19-20	0	1	2
20-21	4	5	2
21-22	3	1	4
22-23	4	7	7
23-24	12	10	13
Total	213	171	179

**Driver Fatigue and Fatigue related crashes – By Lucky Peiris,  
Senior Superintendent of Police, Director Traffic Administration  
and Road Safety**



Table 3 highlights the severity of the accidents due to driver fatigue/falling asleep during the period 2005-2007. The most number of fatal, non grievous injury and damage only accidents due to driver fatigue/falling asleep has been recorded in the year 2005. The highest number of grievous injuries has been recorded in the year 2006.

**Table 3: Class of Accidents due to Driver Fatigue/Falling asleep (2005 - 2007)**

Highest Severity	2005	2006	2007
Fatal	23	13	22
Grievous Injury	26	44	28
Non Grievous Injury	77	46	54
Damage only	87	68	75
Total	213	171	179

Driver Fatigue and Fatigue related crashes – By Lucky Peiris, Senior Superintendent of Police, Director Traffic Administration and Road Safety



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Table 4 indicates the number of accidents that has been recorded during the period 2005-2007 according to driver gender. It is interesting to know that male drivers are responsible for the highest number of accidents where female drivers record the least number of accidents. The highest number of accidents i.e. 213 have been occurred in the year 2005 for which the male drivers were responsible.

**Table 4: Motor Accidents due to Driver Fatigue/Falling asleep by Gender (2005 -2007)**

Driver Gender	Fatigue / Falling asleep			
	Year	2005	2006	2007
Male		213	168	176
Female		0	3	3
Total		213	171	179

Driver Fatigue and Fatigue related crashes – By Lucky Peiris, Senior Superintendent of Police, Director Traffic Administration and Road Safety

Table 5 shows that the drivers between the age group of 26-30 years were responsible for the highest number accidents in 2005. It indicates that 12500 accidents have been caused by the drivers between 26 - 30 yrs old and this has been the trend in 2006 and 2007 as well.

It is also estimated that there are over 1000 road accidents reported per week. Therefore, the insurers have a major role to play in protecting motor vehicle accident victims.

**Table 5: Motor Accidents by Driver's Age Group (2005-2007)**

Driver Age	2005	2006	2007
00 (Hit & Run)	3619	3063	2704
11-15	347	276	275
16-20	2439	2013	1923
21-25	10027	8027	7372
26-30	12500	10689	10351
31-35	10401	8613	8059
36-40	8583	7157	6891
41-45	6796	5593	5184
46-50	4910	4353	4262
51-55	3536	2971	2774
56-60	2142	1820	1812
61-65	1126	937	932
66-70	510	451	431
71-75	224	193	209
76-80	87	64	79
81-85	16	19	27
86-90	9	7	12
91-95	0	0	0
96-100	1	2	0
<b>Total</b>	<b>67273</b>	<b>56278</b>	<b>53297</b>

**Driver Fatigue and Fatigue related crashes – By Lucky Peiris,  
Senior Superintendent of Police, Director Traffic Administration and  
Road Safety**

Table 6 shows that dual purpose vehicles were involved in highest number of accidents in the year 2005. In the year 2006 and 2007 motor cycle has created the history by recording highest number.

**Table 6: Accidents by vehicle type (2005 -2007)**

ELEMENT TYPE	2005	2006	2007
Not Known	622	425	365
Motor Car	10603	8612	8281
Dual Purpose Vehicle	13466	10170	8689
Lorry	9148	7464	6821
Cycle	3593	2947	2781
Motor Cycle/Moped	12225	11940	13023
Three Wheeler	8071	6494	6018
Articulated Vehicle, prime mover	449	403	386
SLT Bus	1365	1377	1484
Private Bus	6735	5544	4893
Intercity Bus	150	99	83
Land Vehicle/Tractor	682	587	560
Animal drawn vehicle or rider on animal	19	24	14
Pedestrian	6395	6147	6773
Other	328	326	396
<b>Total</b>	<b>73851</b>	<b>62559</b>	<b>60567</b>

**Driver Fatigue and Fatigue related crashes – by Lucky Peiris, Senior Superintendent of Police, Director Traffic Administration and Road Safety**

## 2.1 Type Of Accidents

According to Table 7 the total number of accidents i.e. 54,911 accidents were reported to Police in the year 2002. Of these, 2308 were fatal, 3,286 were grievous, 12,725 and 36,862 were reported as non-grievous and damage only accidents. **(Analysis of Road Accidents in Sri Lanka- Analysis for 2001 & 2002)**

**Table No.7: Accidents by No. of vehicles involved (2002)**

	Class of Accident				Total
	Fatal	Grievous	Non-Grievous	Damaged Only	
Single Vehicle Accidents	1,180 58%	1,527 47%	6,459 51%	9,784 27%	18,950 35%
Two- Vehicle Accidents	794 39%	1,666 51%	6,036 47%	25,869 70%	34,365 63%
Multi – Vehicle Accidents	64 3%	93 3%	230 2%	1,209 3%	1,596 3%
	2,308	3,286	12,725	36,862	54,911

(Analysis of Road Accidents in Sri Lanka- Analysis for 2001 & 2002)

Table 8 highlights the class of accidents reported during the years 2005-2007. The highest number of fatal accidents and grievous injury accidents has been recorded in the year 2007 and highest number of non grievous injury and damage only accidents have been recorded in the year 2005.

**Table 8: Class of Accidents (2005 - 2007)**

Highest Severity	2005	2006	2007
Fatal	2101	2069	2219
Grievous Injury	4795	4729	5089
Non Grievous Injury	13213	12158	11876
Damage only	20423	14801	12797
Total	40532	33757	31981

**Driver Fatigue and Fatigue related crashes – By Lucky Peiris,  
Senior Superintendent of Police, Director Traffic Administration  
and Road Safety**

The Annual Research Journal of ALSAJ, Issue 6 - the Article "Trends of road crashes in Sri Lanka" reveals that "In Sri Lanka, road accidents injuries are a major but neglected public health issue causing more than 2,000 deaths and 14,000 injuries a year, during the past 25 years, all types of road traffic crashes have increased markedly in Sri Lanka. The highest increase of 114.6% is seen in the grievous injury while total crash has increased by 70.5%. The non grievous injury rate has increased by 18% and the damage only crash rate has risen from 84.1% in 1980 to 168.4% in 2004".

It further reveals that the population of the country from 1981- 2004 has increased by 32.2% and vehicle population has increased by six-fold.

### 2.1.1 Fatal accidents

Road fatalities have been increasing in Sri Lanka over the past two decades. The table below clearly shows that there has been an increase from 11.06 (per 100,000 population) in 1980 to 21.5 (per 100,000 population) in the year 2000. Overall, there has been an increasing trend except in 1987 and in 1993. It is also seen the number of registered motor vehicles increased by four-fold and the population in Sri Lanka by 25% totaling 1 706 074 registered motor vehicles and 18 467 000 people.

**Table 9: Fatalities, registered motor vehicles and population of Sri Lanka from 1980 to 2000**

Year	Fatalities	Registered Vehicles	Population ('000)
1980	1,106	337,382	14,738
1981	1,247	374,110	14,988
1982	1,257	403,014	15,189
1983	1,374	439,661	15,416
1984	1,310	478,099	15,599
1985	1,311	523,723	15,537
1986	1,286	569,222	16,117
1987	1,230	587,515	16,361
1988	1,385	630,373	16,586
1989	1,596	714,058	16,806
1990	1,795	819,943	16,267
1991	1,532	904,373	16,448
1992	1,515	1,003,047	16,631
1993	1,421	1,086,821	16,850
1994	1,611	1,162,313	17,089
1995	1,681	1,274,653	17,280
1996	1,660	1,324,161	17,490
1997	1,753	1,407,532	17,702
1998	2,023	1,511,207	17,935
1999	2,058	1,614,353	18,208
2000	2,150	1,706,074	18,467

**Data from the Statistics Division Records – Sri Lanka Police**

Motor cycles are the most frequently involved vehicle in fatal accidents accounting for 20.2% and the second highest vehicle type are light vehicles and Lorries are the third and private buses are the fourth type of vehicles.

Of these 3.4% were fatal accidents while 27% were injury related accidents. It is also noted that 9% of all fatal accidents and a further 9% of all injury related accidents were recorded as hit and run cases.

It is revealed from police records that 49,985 drivers were at fault in 54,911 accidents. Drivers of 4 wheel vehicles were associated with causing over 73% of the fatal accidents in the year 2002. Motor cycle riders were involved in 371 fatal accidents. In 2001 it was noted that 150 drivers were involved in fatal accidents. **(The Road Accidents analysis in Sri Lanka- analysis for (2001 & 2002)**

## 2.2 The Types Of Insurance Policies

Insurance is a basic form of risk management which provides protection against anticipated future loss to life or physical assets. In other words it is a promise to reimburse the loss or damage to the insured by the insurer on payment of premium agreed by the insured. There are some major kinds of Insurance Policies such as Life Insurance, Health Insurance, Business Insurance, Travel Insurance and other.

### 2.2.1 Life insurance

Insurance against risk of loss to one's life is covered under Life Insurance. Life insurance is also known as life assurance. It includes Whole Life Assurance, Endowment Assurance, and Assurances for Children, Term Assurance, and Money Back Policy etc. Life insurance includes plans which are directly related with the person's life.

Life insurance is a contract between the policy owner and the insurer. The insurer agrees to pay an agreed sum of money upon the occurrence of the insured death, terminal illness or critical illness. In return, the policy owner agrees to pay an agreed amount called a premium. In some countries bills and death expenses plus catering for after funeral expenses are also included in Policy Premium. Insured events that may be covered include:



- Serious illness Life policies are legal contracts and the terms of the contract describe the limitations of the insured events. Specific exclusions are often written into the contract to limit the liability of the insurer; for example claims relating to suicide, fraud, war, riot and civil commotion.
- Protection policies are designed to provide a benefit in the event of specified event, typically a lump sum payment
- Investment policies - Proceeds from the policy may be paid as a lump sum or as an annuity, which is paid over time in regular recurring payments for either a specified period or for a beneficiary's lifetime.

### 2.2.2 General insurance

Insurance against risk or loss to assets like car, house, accident etc. is covered under General or Non-life Insurance. General insurance includes fire insurance, marine insurance, motor insurance, theft insurance, health insurance, personal accident insurance etc.



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### 2.2.3 Health insurance

Like other kinds of insurance are a form of collectivism by means of which people collectively pool their risk.

### 2.2.4 Business insurance

Insurance is needed to protect the business, whether person is a tradesman, shopkeeper, or factory owner. Business Insurance covers are in many forms. They are designed to cover different aspects of the business.



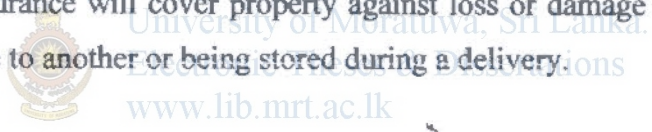
### **2.2.5 Public and employers liability**

Public Liability is designed to cover businesses against legal action from a member of public. The basic concept of public liability is, it will cover the business in the event that it causes injury or death to a third party and his/her property. Public liability is an essential cover that all businesses need. The cover is fairly cheap. It will cover a person in the event that he is pursued by a third party. Employers Liability insurance is a compulsory insurance policy which all business owners must have if they have any employees.

Employer's Liability is designed to cover the employees in the event they suffer any physical injury or death. Employers Liability is not designed to cover a person against the risk of being sued for claims such as sexual discrimination or wrongful dismissal.

### **2.2.6 Goods in transit insurance**

Goods in Transit insurance will cover property against loss or damage while it is in transit from one place to another or being stored during a delivery.



### **2.2.7 Fleet insurance**

Motor fleet insurance is for businesses with many vehicles and also different types of vehicles, such as Cars, Vans, Motorcycles, minibuses etc. The cover is no different than insuring a private car and comes in the form of comprehensive, third party fire and fire and third party only.

### **2.2.8 Travel insurance**

Travel insurance is the insurance that is intended to cover medical expenses and financial and other losses incurred while traveling, either within one's own country, or overseas.

Temporary travel insurance can usually be arranged at the time of the booking of a trip to cover exactly the duration of that trip. It is sometimes used to include insurance

covering disability or long-term nursing or custodial care needs. It may be purchased on a group basis (e.g., by a firm to cover its employees) or purchased by individuals. In each case, the covered groups or individuals pay premiums or taxes to help protect themselves from unexpected healthcare expenses. Similar benefits paying for medical expenses may also be provided through social welfare programs funded by the government.

The insurance can be purchased from travel insurance companies, travel agents or directly from travel suppliers. However, travel insurance purchased from travel suppliers tends to be less inclusive than insurance offered by insurance companies.

Travel insurance often offers coverage for a variety of travelers. Student travel, business travel, leisure travel, adventure travel, cruise travel, and international travel are all various options.

The most common risks that are covered by travel insurance are:

- Medical expenses
- Emergency evacuation/repatriation
- Trip cancellation/interruption
- Accidental death, injury or disablement benefit

Travel insurance can also provide helpful services, often 24 hours a day, 7 days a week and emergency travel assistance. The travel insurance for the duration of a journey costs approximately 5-7% of the cost of the travel.

### **2.3 Vehicle Insurance**

Since this thesis is focus on transport related insurance claims, attention is particularly drawn on Vehicle Insurance. It is an insurance purchased for different kinds of vehicles mainly to provide protection against losses/damages that are incurred as a result of traffic accidents.

### 2.3.1 What is auto insurance?

Auto/vehicle insurance is an agreement with an insurer whereupon regular payment of premiums, the insurer agrees to offer compensation for a financial loss that occurs when involved in an accident. It is to remunerate the owner of the vehicle against the losses or damages arising for various future risks which one anticipates.

In other words when an insured pay the insurance company then he/she is buying a security blanket for his/her car. If he/she is in an accident the insurance company pays for repairs of his/her car. This shows that whatever happens to the car is covered by the policy. Why this is important? If a car slips and damaged another car the cost of repair of that car amounting to Rs. 50,000/- will have to be paid by someone. Then only insurance company has to take care of getting repaired the car. The vehicle insurance cover includes:

- The insured
- The insured Vehicles
- Third Parties - Vehicle and people and also No fault auto insurance.



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Liability is offered for bodily injury or property damage for which insured driver is deemed responsible.

### 2.3.2 Bodily injury liability

This coverage provides protection if the driver or policyholder or the policyholder's family member causes any bodily injury to someone else. Liability coverage insures the owner of the vehicle, spouse, family members and anyone who uses the vehicle with the owner's permission. Coverage is limited to the terms and conditions contained in the policy. If one selects limits that are too low, then he /she is putting him/herself at risk financially. If the damage exceeds the limits then he or she is responsible for the sum above the limit.

### 2.3.3 Personal injury protection

If a person is involved in a road accident through no fault of his, whether as a driver, passenger or pedestrian, he could be entitled to claim compensation. This policy covers the cost of treatment and may also cover lost wages, cost of replacing services and funeral costs. Car accidents, construction site accidents, medical malpractice are some of the personal injury accidents.

### 2.3.4 Collision coverage

This compensates for damage to the policy holder's vehicle as a result of collision with another automobile or any other object. There is generally a deductible. Even if you are at fault in an accident, this policy will cover the repairing cost of the vehicle minus the deductible. If you are not at fault, then the insurer will try to recover the cost from the faulty driver's insurer. Even if the car collides into a tree the person is covered under this coverage.



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### 2.3.5 Comprehensive coverage:

If someone suffers a loss due to theft or a damage caused by something other than collision with another vehicle, like fire, explosion, earthquake, windstorm, and the like then this policy provides coverage. While Comprehensive motor insurance policy is the widest form of cover available. The Comprehensive insurance policy also gives a number of other types of protection including loss or damage to the motor vehicle as a result of fire or theft. Car owners are advised in detail with their insurers on these additional coverage and others as these involve additional premiums. Under comprehensive cover the payments will be made by the insurer minus the deductible. Coverage is limited to the terms and conditions contained in the Agreement.

Comprehensive Motor Insurance Policies usually cover:

- Liability for injuries to other people, including passengers
- Liability for damage to other peoples' property
- Liability of passengers for accidents caused by them



- Fire damage and/or theft
- Accidental damage to one's own car

### 2.3.6 What is meant by deductible?

Deductible is the money that the policyholder will have to pay in for the policy before the insurer pays on a claim. The deductible will be differing from one policy to another. If the policy is taken for an imported car for which the parts are not easily accessible, the repair cost of such vehicles will be costly. Then the deductible on that policy would also be higher than the policy taken for a car that is made locally.

An excess payment is also known as a deductible. It is the fixed amount that one has to pay before the insurer settles the claim.

It is important to enquire about the vehicle insurance deductible at the time when entering in to an agreement for insurance. The policy has its own deductible as to how much the policy holder has to pay and what circumstances. Hence, one has to be very clear about all aspects of the insurance policy.

### 2.3.7 Third party motor insurance

It provides protection against damage to the property of a third party and certain specified legal costs. Under the Third Party cover, a policyholder includes protection for loss or damage to own vehicle due to fire or theft only. However, most policyholders have found it worthwhile to pay a little more and be protected under the Comprehensive cover. Under third party insurance the property damage or bodily injuries will be paid after a Magistrate Court case if the accused admits the offence.

### 2.3.8 Uninsured/underinsured motorist coverage

Individuals who buy cheap motor insurance are often underinsured and cannot get enough money to pay for losses when involved in an accident. If an uninsured or

underinsured or a hit-and-run driver hits someone, this policy will reimburse the cost of damage. A person will also be protected if he/she is hit as a pedestrian.

Underinsured Motorist coverage provides compensation to anyone occupying the vehicle if that person is injured by a negligent driver who has no insurance. If the other driver has insurance but not enough to cover all of the injuries then under insured coverage will come in to play. This allows covering funds for personal injuries, medical bills, lost wages and other damages.

#### 2.4 Present Practice Of Claims

When someone has been in an accident he needs to inform his insurance company or its agent and files a claim. The insurance company or the agent may give insurance claim advice to make the process easier and faster. Accordingly, procedure has to be followed giving the most accurate information of the incident that has happened.

The procedure followed earlier was to get a police officer to visit the scene and to start the process from there. At present, this is not required. However, following procedure has to be followed.

If an accident occurs, the following procedure has to be followed for one's protection. Firstly, stop the vehicle and exchange particulars with all the other people involved in the accident. It is essential to take the following steps.

- Obtain names and addresses of other drivers involved.
- Note their vehicle registration numbers and make of vehicle.
- Take down the name of their insurers and their policy or certificate number.
- Note names and address of independent witnesses and make a rough diagram of the accident
- The Certificate of Insurance if police requires the same. If this information is not available at the scene of the accident, it has to be produced to the police at a later date.



- If there is injury to any person or damage to another vehicle, or other property, give the name and address of the owner of the vehicle and its registration number to anyone who has reasonable grounds of wanting them.
- Do not discuss whose fault it was as this may create difficulties for the insurers in their handling of claims.
- Inform the insurers as soon as possible. This is a condition of the policy

#### **2.4.1 How it happens in other countries**

In developed countries, an insurance claim could be lodged by a simple phone call. Almost all companies have online claim submission process. Making an insurance claim as soon as possible after the accident is important in getting the car repaired fast.

Most insurance companies release claim information through e-mails or official reports. The status of the claim could also be obtained from the company through a telephone call. A damage estimate can be obtained from any of the body shop certified to do so by the insurance company. The body shop that does the estimate will need all insurance information to process the claim. The estimates performed by the body shop process electronically with the insurance company for payment. This will speed up the payment procedure.

#### **2.4.2 Making a road accident claim**

There are many different types of Road Accident Claims. The more common are as follows:-

##### **Motorcycle and Motorbike Accident Compensation Claims**

- Passenger Accident and Injury Claims
- Bicycle Accident Compensation Claims
- Bus Accident Compensation Claims
- Pedestrian Accident Compensation Claims

- Car Accident Compensation Claims
- Accidents Involving Hit and Run and Stolen Vehicle

Road Traffic Accidents are one of the most common forms of accidents and many people are killed and injured as a result each year. Drivers, passengers, pedestrians, cyclists and motorcyclists all sustain various injuries due to road accidents.

If a person is unfortunate enough to be involved in a horrific road traffic accident, which was not due to his/her fault, then he/she may be entitled to make a personal injury compensation claim.

If a passenger is involved in a collision, the personal injury compensation claim would be made against the insurance company of the person responsible for the accident, whether that is the driver of the vehicle or a third party driver or even both.

If a person is a pedestrian, a motorcyclist, a pedal cyclist or a driver, the claim would be made against the insurance company of the person driving the vehicle.



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### **2.4.3 Bus accident compensation claims**

If a person is involved in an accident and are injured whilst a passenger on a bus it is possible to make a claim against the person who caused the accident. However, one needs to be able to prove negligence on the part of either the Bus Driver or any other motorist or party involved. It is important to obtain witness details of any of the passengers on the bus and/or the bus driver's details. Also it is necessary to take down details of the bus travelled on, the route taken and the time of the accident.

### **2.4.4 What will it cost to make a claim?**

There is no cost involved. This means that you will receive 100% of the compensation you are awarded.



#### **2.4.5 What are the different claims?**

- Injury to the driver or a passenger
- Trauma or distress to the driver or a passenger
- Loss of income/and or future income
- Damage to the car
- Damage/loss of personal property
- Expenses such as prescription costs or travelling expenses.

#### **2.4.6 How long will the claim take?**

It is hard to estimate how long any claim will take. The time scale depends on a variety of factors such as the severity of the injuries, how long, it take to recover from the injuries and whether liability is admitted by the Third Party. As a general rule it is possible to conclude a straightforward claim in less than 3- 6 months.

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#### **2.4.7 Motor vehicle accident claim**

A number of passengers who suffer personal injury in car crashes believe that they cannot make a motor vehicle accident claim for compensation if it was their driver that was at fault and responsible for causing the collision and injuries to the occupants of the car. The fact is that compensation can be claimed by anyone who has been injured as a result of another person's negligence as long as a passenger has not deliberately distracted the driver. Then, they can claim damages.

Passengers almost always get paid out quickly by insurance companies even when there is a liability dispute between the drivers. The insurers generally settle passenger claims at an early stage to prevent the passengers becoming involved in litigation and also considering the increasing legal costs. Once liability has been decided the insurers then do an accounting process to balance the relative responsibility between the drivers but the passenger's claims will be settled well before that.

#### **2.4.8 Accidents at construction sites**

Construction sites on roads are dangerous places of road accidents. The general rule is that if there was no injury to the driver or the passengers in the vehicle, damages cannot be claimed. However, a claim could be filed for repairs of the vehicle.

Construction sites on roads create accidents due to following lapses. Accidents can occur at construction sites to pedestrians, vehicles or other non construction workers. In these types of cases, a construction company or worker, contractor, sub contractor may be responsible for such injuries. If someone is injured at a construction site, it is important to take the following steps which will helpful in filing a claim.

- Take pictures of the construction site of where the accident took place.
- Write down everything that happened when the accident occurred as soon as possible.
- Write down all of the names and contact information of witnesses who witnessed the event.



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Construction sites on roads create accident due to following lapses.

- Lack of information or inadequate information to road users
- Poorly marked or unmarked construction areas
- Improperly installed or missing guardrails
- Uneven road spaces, Potholes
- Gravel or debris on the road
- Sudden lane restrictions
- Unexpected traffic congestions

#### **2.4.9 Hit and run accidents**

Hit and run cases are special cases where the person responsible for the accident would run away and leave the burden of damages with the person who met with the accident. Although there are many insurance policies only full coverage and uninsured vehicle policies cover this type of accidents.

It reveals that 1 in 11 serious accidents are classified as hit and run. It also reveals that in most instances are pedestrians and cyclists accidents. In the case of pedestrian accidents that have resulted in deaths, nearly 1 in 6 accidents have been reported as hit & run. The vehicles that run away after hit and run accidents have been identified as motor cycles and light vehicles.

According to the statistics available there were 5,301 hit and run accidents in the year 2002. It is revealed from Table 10 that out of total hit and run accidents 1411 were due to a single vehicle accident involving a pedestrian or a fixed object. **(Analysis of Road Accidents in Sri Lanka- Analysis for 2001 & 2002)** The responsible party not reporting the accident is a serious situation.

**Table 10: Number of Single Vehicle Hit & Run Accidents by Object of Collision**

Object of Collision	Fatal	Class of Accident			Total
		Grievous	Non Grievous	Damaged only	
PEDESTRIAN	122	117	578	1	818
Other Objects	9	12	83	489	593
total	131	129	661	490	1411

**“Analysis of Road Accidents in Sri Lanka- analysis for 2001 & 2002)**

There are 3844 accidents reported as hit and run accidents among accidents involving two vehicles. Two vehicles hit and run accidents mostly involve the cyclist as a victim. Therefore, it is clearly seen that pedestrians and cyclists are highly vulnerable to being the victims in hit and run accidents. It is also noted that Motor Cycles and Light Vehicles are the vehicles that run away and the bicycle is a hit vehicle. **(Analysis of Road Accidents in Sri Lanka- Analysis for 2001 & 2002)**

In terms of Section 161 of the Motor Vehicles Act 1988 the General Insurance Corporation of India provides payments in accordance with the provision of this Act and the scheme of compensation in respect of the death or grievous hurt to persons resulting from hit and run motor accidents.

“In a claim under Section 161 of the Act there must be proofs that the identity of the vehicle or vehicles cannot be ascertained in spite of the reasonable efforts in that behalf. When identity of the vehicle is ascertained it may not be a case of “hit and run motor accident” **Theethi vs. Motor Accident Claims Tribunal, Palakkad, AIR 1996 Ker 237.**



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### CHAPTER 3: ANALYSIS OF PRESENT PRACTICE

In many countries it is compulsory to have vehicle insurance before using or keeping a motor vehicle on public roads. Most jurisdictions relate insurance to both the vehicle and the driver.

**Australia** - In Victoria, Third Party Personal insurance is included, through a levy, in the vehicle registration fee. In New South Wales, Compulsory Third Party Insurance (commonly known as CTP Insurance) is a mandatory requirement and if not insured the vehicle will not be considered legal. Therefore, a motorist cannot drive the vehicle until it is insured

**In Queensland** - CTP is a mandatory part of registration for a vehicle. There is choice of insurer. The price is government controlled.

These state based third party insurance schemes usually cover only personal injury liability. Comprehensive vehicle insurance is sold separately to cover property damage and cover can be for events such as fire, theft, collision and other property.

**Canada** - Several Canadian provinces (British Columbia, Saskatchewan, Manitoba and Quebec) provide a public auto insurance system. The rest of the country insurance is provided privately. Basic auto insurance is mandatory throughout Canada.

Accident benefits coverage is mandatory everywhere except for Newfoundland and Labrador. All provinces in Canada have some form of no-fault insurance available to accident victims.

**Germany** - Since 1939 it is compulsory to have third party personal insurance before keeping a motor vehicle in all federal states of Germany. Besides, every vehicle owner is free to take out a comprehensive insurance policy. All types of car insurances are provided by several private insurers. The amount of insurance contribution is determined by several criteria, like the region, the type of car or the personal way of driving.

**Hungary** - Third-party vehicle insurance is mandatory for all vehicles in Hungary. Vehicle insurance policies from all EU-countries and some non-EU countries are valid in Hungary.

**Ireland** -The Road Traffic Act, 1933 requires all drivers of motor vehicles in public places to have at least third-party insurance, or to have obtained exemption by depositing a (large) sum of money with the High Court as a guarantee against claims. In 1933 this figure was set at £15,000. The Road Traffic Act, 1961 (which is currently in force) repealed the 1933 Act but replaced these sections with functionally identical sections.

From 1968, those making deposits require the consent of the Minister for Transport to do so, with the sum specified by the Minister.

Those not exempted from obtaining insurance must obtain a certificate of insurance from their insurance provider, and display a portion of this on their vehicles windscreen. The certificate in full must be presented to a police station within ten days if requested by an officer.

Those injured or suffering property damage/loss due to uninsured drivers can claim against the Motor Insurance Bureau of Ireland's uninsured driver's fund, as can those injured from hit and run offences.

**South Africa** - South Africa allocates a percentage of the money from gasoline into the Road Accidents Fund, which goes towards compensating third parties in accident.

**United Kingdom** - In 1930, the UK government introduced a law that required every person who used a vehicle on the road to have at least third party personal injury insurance. Today UK law is defined by the Road Traffic Act 1988. It was last modified in 1991. The Act requires that motorists either be insured, have a security, or have made a specified deposit (£500,000 as of 1991) with the Accountant General of the Supreme Court. This is a deposit against their liability for injuries to others including passengers and also for damage to other persons. **(Vehicle Insurance - Wekepedia)**

**Third Party Insurance** - The minimum level of insurance cover commonly available and which satisfies the requirement of the Act is called third party only insurance. The level of cover provided by Third party only insurance is basic property, it is an offence to drive a car, or allow others to drive it, without at least third party insurance whilst on the public highway.

**Road Traffic Act Only Insurance** - is not the same as Third Party Only Insurance and is not often sold. It provides the very minimum cover to satisfy the requirements of the Act. For example Road Traffic Act Only Insurance has a limit of £1,000,000 for damage to third party property - third party only insurance typically has a greater limit for third party property damage.

Vehicles which are exempted by the Act, from the requirement to be covered, include those owned by certain councils and local authorities, national park authorities, education authorities, police authorities, fire authorities, health service bodies and security services.



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**The Insurance Certificate** or cover note issued by the insurance company constitutes legal evidence that the vehicle specified on the document is insured. The law says that an authorized person, such as the police, may require a driver to produce an insurance certificate for inspection

Most motorists in the UK are required to prominently display a vehicle licence (tax disc) on their vehicle when it is driven on public roads. This helps to ensure that most people have adequate insurance on their vehicles because an insurance certificate must be produced when a disc is purchased.

**The Motor Insurers' Bureau** compensates the victims of road accidents caused by uninsured and untraced motorists. It also operates the Motor Insurance Database, which contains details of every insured vehicle in the country.

**United States** - In the United States, auto insurance covering liability for injuries and property damage done to others is compulsory in most states. The state of New Hampshire, for example, does not require motorists to carry liability insurance.

The residents in Virginia must pay the state a \$500 annual fee per vehicle if they choose not to buy liability insurance. Penalties for not purchasing auto insurance vary by state, but often involve a substantial fine, licence and/or registration suspension or revocation, as well as possible jail time in some states. Usually, the minimum required by law is third party insurance.

**Sri Lanka** - Sri Lanka Insurance Corporation was established in 1962 in terms of Insurance Corporation Act No. 2 of 1961 as a state entity and it was converted to Limited Liability Co. for six years and was vested in the state again in 2009. It is the strongest and the biggest insurance provider in the country.



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The Motor Insurance Department of the Sri Lanka Insurance Corporation provides its clients with the best services in the country. There are standard policies as well as tailor made policies those who interested in those.

The third largest general Insurance Company in Sri Lanka offers unmatched business continuation and Risk management solutions.

- Its “Full Option” cover provides range of benefits to the owner of the vehicle, occupants and even pedestrians. It gives more than that is being usually offered from a comprehensive Insurance cover. “Full Option” cover is branded as the most innovative service in the insurance industry in Sri Lanka.
- Full Option’ cover is also the first to accept No Claim Bonus from other companies and offers the highest percentage of No Claim Bonus up to 75%.
- New vehicles owners are also given 15% No Claim Bonus upfront.
- Zero interest installment Plan, to ease the problem of paying premiums in one lump sum.



- Policy holders are given a grace period of 15 days after the expiry of the payment period of the policy in case they have forgotten to renew the policy.
- Full option also provides highest discount for multiple vehicles and loss of income support for owners of buses and three wheelers.
- It is the first insurer to offer personal accident protection and Hospitalization benefits to the passengers of the vehicle.
- The companies Federation scheme compensates the next of kin in the event of death of a fatal pedestrian in an accident whether he is at fault or not.
- Cash is also provided if the vehicle is in garage for more than 4 days.

An insurance company which is world famous “on the spot” policy avoids the hassle to the policy holders and provides the best service within the shortest period as fast as possible.

- It introduced the direct sales of insurance instead of the traditional methods.
- It has also introduced package policies instead of selling insurance policies separately and introduces additional insurance packages on travel for the benefit of its clientele.

The Travel Classic now offers 18 insurance covers under 5 different categories. In addition to these there are thirteen other insurance companies in the country.

### **The Insurance Board of Sri Lanka**

**Legislation** - The insurance industry is regulated and supervised in terms of the provisions of the Regulation of Insurance Industry Act No.43 of 2000. The Insurance Board of Sri Lanka was established under this Act. It is the Regulator of all Insurance companies in Sri Lanka. IBS manages all the matters related to various insurance companies in the country. It is a powerful body which oversees important aspects of the functions of all insurance companies. It also adjudicates the disputes between insurers and intermediaries.

**Insurance Ombudsman** - The insurance ombudsman plays an important role in regulating and smooth functioning of the insurance companies. All complaints relating to insurance companies and the grievances of the insured could be addressed to the insurance ombudsman for settlement



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## **CHAPTER 4: DEFICIENCIES IN INSURANCE CLAIMS**

The policy document is a legal document. Therefore, it must specify the terms precisely and clearly the obligations of parties, the insurer and the insured. However, it is seen in the insurance agreement a lengthy sentences an average reader finds it difficult to understand.

The policyholders get to know or they realise that they are not covered under a particular situation when they make a claim and when it is rejected by the insurer referring to the paragraph or sentences in small prints in the agreement. At this time only the policyholders come to realise that whether they have bought what they really needed.

### **4.1 Disputes Between The Insurer And The Insured**

There are instances where disputes between the insured and the insurer exist as to the coverage, the liability or the damages that have been claimed by the insured. It can be due to non receipt of sufficient or required information needed for the processing a claim, then the insurer will have to send written notice to the insured requesting all required information within a specified period.

Failure by an insurer for providing payments to health care provider pursuant to insurance policy, cannot be denied unless there is legitimate dispute exist as to coverage or the damages have been deliberately or caused or contributed to the loss.

### **4.2 Obligations Of The Insurer**

It is an obligation of the insurer to explain the main benefits and exclusions to the customer before the contract is entered into. It is obvious that some people do not know what they are insured for. This becomes apparent at the claim stage when the claims are rejected as they were not covered by the policy. The problem could be the ignorance of the policyholder or misrepresentation or it could be the policy design and documentation.

### 4.3 Exclusion Of Claims

It is discussed that the policyholders get to know the specific details of the contract at the claim stage and not at the time when the insurance is purchased. It is also discussed that the insurer's aim is to reject the claims at the outset. When examining the terms of the contract it is clearly seen as to why the insurer is not accepting the claim. In some cases the policy holders feel that the insurers are trying to reject or reduce claims and not accepting the claims in terms of the agreement at the initial stage itself. However, at a later stage they not only reconsider but also allow the claims.

**Yangalmodera bus - train accident in 2005** is a good example to confirm the fact that the insurers are reluctant to settle claims at the outset. When the above accident occurred, the insurer initially took the position that they were not liable to make compensation to the victims as the driver of the bus has failed to take due care of the passengers in terms of the agreement. However, in the end they compensated the victims.



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It is also seen that some policy holders go for the cheapest policies. They make an issue when it comes to the claim stage when claims are denied. When people shop around for insurance it must be kept in mind as to why a particular insurer is offering cheaper policies than the others in the market.

It is also important to notify the insured of the key exclusions in the policy. It is the right of the insurer to bring it to the notice of the insured prior to conclusion of the agreement and at the renewal of the agreement.

Many insurers are also seeking to reduce the cost of claims which would result in lower premium ratios.

### 4.4 Treatment Of Policy Holders

Many policy holders feel that they are distrusted by their insurers and they are not treated alike. Minimizing claim costs and failing to provide the agreed sum of payment is a general complaint that is being seen in the industry. Insurance frauds



also still prevail in the industry. It reveals that 10% of the claims in UK relate to the events that have been deliberately done or which have not happened.

#### **4.5 Legal Action To Recover Damages**

After an accident the victims will have to initiate action in Magistrate Courts against the driver who caused the accident. If the accused pleads guilty the next step would be to initiate action in the District Court for recovery of damages. This is a legal requirement under the Motor Traffic Act. In terms of Section 106 of the Motor Traffic (Amendment Act) No. 8 of 2009 when initiating action in District Court, the insurer will have to be made a party and 106 Notice has to be served on the insurer together with the plaint. If this procedure is not followed the insurer will not get involved in this action and even if the judgment is delivered the insurer will not be bound to make the payment. Therefore, one has to well aware of the procedure that has to be followed before filing action in District Court.

Going in to litigation is expensive and time consuming. Unless it is settled at the beginning it can take more than a year to conclude the case due to various reasons. In the meantime there can be many changes with regard to the condition of the victim, the victim may not even living by that time and if there are dependants, they may not have any income for their basic needs even during the litigation period.

#### **4.6 Can The Litigation Procedure Be Changed?**

This is not an easy task as the need has to be approved by the government. The legal requirement has been introduced under an Act passed by the Parliament i.e. Motor Traffic Act. In case if the amendments are required then the Law has to be changed and the procedure is fairly similar to passing a New Act.

#### **4.7 Investigating Evidence Of Road Construction Safety Violations**

Carelessness by a motorist can turn a hazardous road into a deadly one. Unfortunately, many of the contractors and crews responsible for the safe repair of

our highways have an imperfect understanding at best of the safety regulations that apply to their work.

Road construction accident litigation therefore often turns on showing that the contractors most directly responsible for maintaining a safe work site either violated specific safety regulations or had inadequate training for carrying out the proper safety regulations.

It is important to identify the party responsible for the accidents in road construction sites as to whether it is the Central Government or the Provincial Council, the Engineering Company, the Contractor or the Sub Contractor carrying out the construction work

The Road Development Authority, in charge of doing new roads and developments is involved in many road projects namely World Bank Projects, Asian Development Bank Projects and various other joint venture projects and other Miscellaneous projects. These projects are awarded to the Contractors by the RDA. As per the contract documents signed between the RDA and the Contractor, it is the contractor who has to obtain insurance coverage for the anticipated future events that occur at these sites.

It is also noted from the contract documents that the contractors pay large sums of monies as premiums in respect of these insurance policies. However, the RDA is unaware of any motor accidents claims settled by the contractors. It may be due to two reasons. One is that there might have been negligible sums of monies that have been claimed from with compare to the premiums that are being paid. The other may be that though there have been accidents at these sites victims would not have been come forward to claim insurance.

Highway construction or maintenance zones are dangerous both for the people working there and for the motorists passing through namely workers, drivers and other road users.

#### 4.8 The Deficiencies In Hit & Run Accident Claims

Although hit and run claims cover under uninsured vehicle cover and also under the full coverage it has to be kept in mind that the details of the driver who did the damage and also the details of the vehicle should be known to trace the details of such car and the person who drove the vehicle. Without having such details the claim will not be successful. In most hit and run cases the details of the driver of the vehicles cannot be traced. Therefore the victims under these type accidents are left with no benefit. Hence this is also deficiency in insurance claims. In other countries such as Ireland, United Kingdom and Thailand there are special legal provisions for such claims and there are special funds maintained for this purpose.



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## CHAPTER 5: SUGGESTIONS TO MINIMIZE DEFICIENCIES

This study explains and helps better understanding and awareness of the insurance system in general, and particularly, the transport related insurance policies/motor insurance and investigates the deficiencies in such claims. Adoption of the following strategies by the authorities, insurance companies and the road users in general could help minimize the deficiencies in insurance claims.

### 5.1 Strategies For Authorities

It is important that the authorities should also be aware of road crashes and initiate action to reduce road traffic actions and also to take care of their employees through different kinds of insurance policies.

#### 5.1.1 Make pedestrians and passengers adequately covered

By making it compulsory to have a comprehensive motor insurance in order to register a vehicle is a sensible step. Introduction of New Laws, regulations and guide lines to have safer roads and also to make the parties involved in constructing and maintaining of roads responsible in carrying out their duties is very important.

**Passenger Accident & Injury Claims:** Passengers are regarded as the innocent victims of vehicle accidents, and are in a legally strong position. If someone suffered an injury while travelling as;

- a passenger in a car
- a passenger in a taxi
- a passenger on a bus
- a passenger on a train

The following actions could be suggested in order to encourage road users, particularly the motorists, pedestrians, passengers and other users to obtain motor vehicle insurance covers and also to make claims in case if they are to experience unfortunate road traffic accidents



The pedestrian can file a claim against the driver's or owner's auto insurance liability policy. Making it is required that owners and drivers to carry liability insurance cover personal injuries to third parties and damage to third parties property is vital in this regard. A separate fund can also be maintained to make payments out of this special fund for the pedestrians who are not insured.

#### **5.1.2 Make drivers to be more careful**

Introduction of new rules, regulations are very important. This is a great way to learn the road rules and manners. It also refreshes the knowledge. Making drivers responsible for their negligence is another way of making them more careful of road traffic accidents.

#### **5.1.3 Encourage young drivers to be more careful**

The Researches carried out for this purpose show that young drivers aged 17-24 years are twice more likely to be involved in fatal accidents than drivers aged between 25 to 59 years.



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In order to reduce this type of accidents the New Laws could be introduced to help learner drivers gain more knowledge and on-road experience before a young driver sits behind the wheel.

#### **5.1.4 Make roads safer for all road users**

By introducing intelligent transport systems in transport are new technologies that could be used to improve efficiency and safety of the drivers and road users.


#### **5.1.5 Vehicle standards**

Improved standard of the vehicles is also important as vehicles with poor standards gets involved in accidents very often. However, this has beginning to fade away with the introduction of the motor vehicle covers such as "Full Option", "On the Spot" and "Call and Go".

## 5.2 Strategies For Insurance Companies

In order to minimize deficiencies in insurance claims the insurance companies have an important role to play.

### 5.2.1. Management of customer relationship

- i. The procedure that has to be followed in filing claims should be simple and hassle free. In developed countries it can be done through on line or by telephone. All necessary information could be obtained by visiting the respective web sites of the insurers. The use of on-line service, maintaining a customer database system and maintaining channels of access to customers will make the insurance companies at a distinct advantage.
- ii. The persons or group of persons acting as unofficial brokers is not a good practice as the trained staff of the companies will have fewer complaints than those groups of persons. Sri Lanka. Electronic Theses & Dissertations  
  
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- iii. Understanding its business strategies to changing customer behavior is vital for its future success. In this respect different operational strategies have to be initiated. Business has to be run profitably for all stakeholders and customer's needs must not be forgotten.
- iv. Delivery of quality service through better marketing systems and new technology is also vital
- v. In addition, the staff training and development and reward systems maximize the employee satisfaction which in turn resulted in better service to its customers.

### 5.2.2 Compensation for victims under the age of 18

With regard to the children under 18 it could be suggested that a special insurance policy be implemented particularly, for bus passengers including children under 18 and other non - employment categories a scheme through

National Transport Commission could be worked out after discussions with the relevant authorities and the insurance companies.

### **5.2.3 New compensation table**

It reveals that the compensation table which is adopted by the insurance companies needs to be updated.

### **5.2.4 Hospitalization allowance for victims**

The allowance paid to the victims whilst they are hospitalized has also need to be increased. The duration needs to be extended up to 30 days at least.

## **5.3 Strategies for The Customers (Public)**

- i. Customers have to be well aware of insurance in order to have the maximum benefit of insurance. They have to know the terms of the agreement which they enter in to with the insurer. Though it is the duty of the insurer to explain the exclusions the person concern too has the right to get everything cleared before he or she enters in to agreement.

Just after an accident it's the duty of the customer to keep the insurer informed of it. When filing a claim, necessary information and documents have to be given to the insurer.

- ii. The claims will have to be filed within the specified period which is two years. Failing to adhere to this legal requirement would leave the victim with no benefits.

It should also be stated that many people who are not familiar with the terms in the insurance agreement and also the claim process are advisable to obtain the services of an attorney conversant with insurance claims.

- iii. when a claim is filed it is seen that it is rejected by the insurers at the first instance. The insured will have to be careful in such instances. If he/she feels that he/she has a genuine case then t next step is to file

action in District Court to recover damages. It should also keep in mind that according to the Motor Traffic (Amendment) Act No. 8 of 2009 the insurer will have to be made a party to the case and Notice under Section 106 has to be served on him together with a copy of the Plaint. If this legal procedure is not followed the insurer may not held liable for the payment even if the judgment is entered against the insurer.

- iv. It is also the practice of the insurer to offer payments as out of court settlement when a case is pending in court and sometimes before a case is filed. The insured will have to be careful in accepting such a settlement as he or she may not get the amount he or she supposed to get.
  
- v. The victims of accidents should also bear it in mind that in terms of the contract they could go for arbitration when there is a dispute between the parties. Make an appeal to the Ombudsman is also possible for settlement of disputes.

## CHAPTER 6: CONCLUSION AND RECOMMENDATIONS

This study provides road users with necessary information on motor insurance and its benefits. Although there are many people purchasing different types of insurance policies a few of them only fully aware of the benefits of these policies. Insurance covers are something that one should fully aware of.

### 6.1 The Benefits Of Motor Insurance

Each individual motor insurance policy can influence the eventual premium that is purchased. It is seen that with the current global financial situation drivers are keen to get maximum value for the insurance premium.

Following are the benefits of purchasing a motor insurance policy.

- The owner and the vehicle are insured during the time of the accident, theft or fire.
- The liabilities to victims and third parties are also insured.
- The general consensus is that more you pay for the motor insurance the more protection you receive.

In addition to these there are additional benefits. One can receive No -Claims discount if he or she has had no claims for one year or more. Breakdown facilities and other benefits are granted for the insured.

In general, the insurance policy provides protection against risk, loss and insecurity and provides the following benefits.

- Diffusion of risk - as the burden of loss is spread over a large group of members.
  - Investment opportunity - as some of the risks could be transferred to the insurer the insured could invest monies in different projects or savings.
- Insurance is also needed for the following.



### **6.1.1 As a social security tool**

Insurance acts as an important tool providing security to the society. It is the right of every human-being to have basic facilities like food, clothing, housing, medical care, standard of living and right to security in case of unemployment, disability, sickness etc. In case the head of the family, who is the only source of income, dies, the family suffers from financial loss as there will not be any other income. As a result, family's economic condition gets affected unless there are other arrangements to support the family.

Life insurance is one alternate arrangement that offers some relief to the family. Otherwise this family would have been fallen into the lowest group of the society. This would become an additional cost to the society as subsidies would have to be given to the family. This is a cost to the society. Therefore, insurance compliments the government in social management efforts.

### **6.1.2 Economic development**

The premium paid by people to the insurance companies is a part of their savings. Insurance, thus, act in promoting savings and investments, particularly within the lower and middle-income groups. These savings are ultimately used as investments showing the economic growth.

## **6.2 Awareness Programs To Educate The Public**

Insurers cannot be expected to ensure that every policyholder understands fully the insurance policy which he/she has bought. Though it is the responsibility of the policy holder the insurers should make the policy easier to understand for the benefit of the public.

It reveals that most of the pedestrians and other road users who meet with unexpected accidents do not aware of the fact that they could make claims against the insurers for the injuries or damages they suffer. It is noted that Insurance is still new to the people living in rural areas in the country. Public transport is not freely available in those

areas and they have to find alternate transport facilities to go to the city centers for their basic needs. They are unaware that they could obtain insurance cover for future risks in using their own vehicles. Therefore, educating rural public is vital in this regard.

The victims of accidents at road construction sites and also accidents due to bad or poor road constructions many of them are unaware that they could be monetarily benefitted from insurance for the loss or damage they suffer. Hence, it is the duty of the authorities to educate the public on such legal measures. The insurance industry should also take necessary steps in this regard.

### **6.3 Special Care Must Be Taken For Driver Training And Testing Programs**

Among the victims of road accidents the highest number of deaths i.e. 815, have been recorded in the year 2002, 95% of those were due to driver/rider errors. Therefore driver training and testing of vehicles is very important in reducing road accidents.

Formulating a system to make drivers to be more careful is vital so that the drivers who cause accidents will not be able to get away easily with a small fine or to walk away without any problem. A system of charging errant drivers will also be more effective.

### **6.4 Introduction Of New Laws And Regulations**

Introduction of new laws and regulations are required to cover all who suffer road accidents and also to improve the efficiency of insurance claim procedures. The introduction of new Laws will encourage all motorists/vehicle owners to have continuous liability coverage for their vehicles and thereby to reduce the number of uninsured vehicles.

The data base provides online facility for enforcement and any interested person to check the insurance status of the registered vehicles.



It must be stated that introduction of new legal provisions to compulsorily cover psychological harm caused to victims is an essential requirement. This should also include claims for pain of mind by victims as the existing law does not cover claims for pain of mind. This needs an amendment to the existing Law. The criteria and standards in this regard will also have to be formulated in this regard.

**6.5 Proper Guide Lines And Procedures** - It reveals that insurance companies in Sri Lanka have no proper guidelines for settlement of claims and it will differ from one insurer to another. Therefore, it is very important to have such guide lines in order that there will not be any mismatch between different insurance companies in granting payments.

Instead of the old procedures, fast and efficient methods should be introduced. The procedure adopted by other countries to make a claim is just a matter of one telephone call to the insurer or its agent. Many countries have the systems on line so that everything takes place so fast and hassle free. In case of vehicle repairs the list of body repair shops that may facilitate repairs to the vehicles could also be obtained on line.


It is also important to have insurance claim advice on line for the people who are interested in having such information before they lodge their claims with the insurer. There may be instances where the cost of the repair is less than the insurance deductible. In such a case it is not advisable to file a claim.

- To avoid the delay in obtaining insurance claims it would be very useful if the status of the auto insurance claim could be obtained on line or by a telephone call made to the insurer. This would definitely minimize the delays.

**The National Road Safety Council** established under Motor Traffic (Amendment) Act No.5 of 1998 has taken steps to assist hit and run accident victims by way of monetary settlements through the National Road Safety Fund. However, it is not clear as to how many are familiar with the steps that have to be taken by the victims or their



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