Insurance & Reinsurance

Date for Detariffication of Policy Wordings Pushed Back

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The Indian general insurance market is in the midst of a transition from a tariff-based regime to a more market-driven system. To this end, the Indian insurance market regulator (IRDA) announced in December 2006 that rates for tariffed products would be freed as of January 1 2007.

Under the original plan, the Tariff Advisory Committee mandated that policy wordings (ie, insurance terms, conditions, clauses and warranties) be used until March 31 2008. It was intended that after this date policy wordings would also be freed (for further details please see "Detariffication Continued: Minimum Standard Wordings").

Following detariffication, the first steep premium rises were seen in third-party rates for motor policies. Transporters were reportedly being asked to pay 126% to 150% more for third-party cover. Transporters threatened a nationwide strike and on January 23 2007 the IRDA stepped in to regulate the motor rates that insurers could charge with retrospective effect from the date that rates were freed (January 1 2007).

In other market lines premiums have seen a marked decline. Firm statistics are difficult to obtain, but market feeling following the renewal season that coincided with the Indian financial year end on March 31 2008 is that rates for medium to large-size customers have come under severe pressure for a number of reasons, including the following:

- Insurers are anxious to gain market share in a new market;
- Brokers are aggressively driving down rates (and their own commissions) to retain clients; and
- Insureds are showing a remarkable willingness to allocate business to the lowest bidder.

In a tariff market with each insurer obliged to sell the same product, the only differential that an insured will focus on and negotiate is price, and this is what has happened.
Policy wordings were intended to be detariffed on March 31 2008. However, the IRDA has announced that it is pushing this date back. In a letter dated March 26 2008 and addressed to all general insurers, the IRDA announced that:

"pending examination of common market wordings proposed by the General Insurance Council, insurers shall continue to use the coverage, terms and conditions, wordings, warranties, clauses and endorsements of the erstwhile tariff classes of insurance covers until further orders."

There was a view among some that the General Insurance Council common wording contradicted the desire for a detariffed market and was unnecessary. Others felt that if there is a need for a common wording, the market should continue with the tariff wording, which is at least familiar. A third group expressed the view that a common wording should not be rushed. It would seem that the IRDA shares this view. However, the issue remains of whether the market will now be following the tariff wordings for an indeterminate period. The IRDA has given no other explanation of the reason for the postponement of detariffication and no indication of how long the review of the General Insurance Council wording will take.

One of the unintentional effects of partial detariffication - leaving the policy wordings fixed but allowing free pricing - seems to be the pressure on premiums that has characterised this latest renewal season. It will be interesting to see what the effect will be if partial detariffication continues through another renewal season.

For further information on this topic please contact Neeraj Tuli at Tuli & Co by telephone +91 11 2464 0906, fax +91 2464 0904 or email n.tuli@tuli.biz

www.tuli.biz

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