Removal of Tariffs: One Month On

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In November 2006 the Insurance Regulatory and Development Authority (IRDA) (the insurance regulator) announced that it was preparing to liberalize the rates charged for insurance business written on tariff terms (ie, rates and wording set by the Tariff Advisory Committee) (for further details please see "New Guidelines Signal the End of Tariffs"). On December 4 2006 the IRDA formally confirmed the liberalization of tariffs for rates for all tariff business as of January 1 2007. However, the committee's forms (regarding terms, conditions, clauses, warranties, policy, endorsement wordings and marine hull business) are to be used until March 31 2008. The IRDA has yet to announce when insurers can begin to file proposed changes to forms for use after that date.

The IRDA has also announced that the committee has already started to compile a national data registry and is to manage the insurance industry's data. So far, the task of data compilation has focused on motor and health insurance. Although no data has been published as yet, the IRDA has stated that the results are encouraging so far.

As yet there are no firm statistics on the overall effect of the rates liberalization. However, third-party motor insurance was expected to be a problematic area, and this has proven to be the case. In fact, when confirming the removal of tariffs, the IRDA urged insurers to "be mindful of the concerns expressed by vehicle owners about both the rates and availability of insurance".

In order to deal with concerns as to what might follow the removal of tariffs, on December 4 2006 the IRDA established a pool for third-party motor insurance risks (ie, parties which could not obtain mandatory third-party cover, even under the tariff). All general insurers will now automatically participate in a pooling arrangement to share the third-party motor insurance business underwritten by all general insurers. According to the IRDA, insurers will participate through a multilateral reinsurance arrangement between the underwriting insurer and all other registered insurers carrying on general insurance and reinsurance business. The specific procedure to be followed will be set out by the General Insurance Council and the pool will be administered by India's reinsurer, GIC.

Following the liberalization of tariffs, the revision of third-party rates saw transportation companies being asked to pay between 126% and 150% more for cover. They responded with the threat of a nationwide strike, which would have had an adverse impact on commodity prices and inflation. The finance minister stepped in and directed the IRDA to limit the rate rises. Therefore, on January 23 2007 the IRDA issued the motor rates to be charged by insurers. Unusually, the notification has retrospective effect to January 1 2007.

Insurers have voiced concerns, noting that:

- the original increases in third-party cover were barely sufficient in view of previous experience;
- third-party cover could not be viewed in isolation; and
- discounts on own-damage cover may have to be withdrawn.

They have called for amendments to the statutory framework for dealing with third-party motor claims in order to make the process more efficient.

In other lines of business where tariffs have been removed, there has been some confusion among the public. In December 2006 the IRDA informed insurers that although it was considering their proposed rates for the new non-tariff lines, insurers could quote a discount of up to 20% for the purposes of renewal notices that had to be issued before the new proposed rates received regulatory approval. As the IRDA notified approved rates on December 30 2006, it would logically follow that the interim discounts for December 2006 renewal business no longer apply. However, this did not appear to filter down to all sectors of the public and on January 5 2007 the IRDA issued a press release confirming the position.

The removal of tariffs is a major event in the Indian insurance industry. Following so many decades of state control the liberalization of rates was certain to be eventful, and this has proved to be the case. The coming months should see the restoration of a degree of stability to the market and the emergence of a clearer picture of the effects of the tariff removal on insurers and the public.

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