

## IRDA Relaxes Mandated Wordings for Fire, Engineering and Motor Insurance

November 18 2008

Between 60% and 70% of the Indian general insurance market was previously subject to a tariff that required insurers to sell certain lines of business on the terms and at rates notified by the Tariff Advisory Committee. The insurance market regulator (IRDA) announced in December 2006 that rates for tariffed products would be freed as of January 1 2007, with the expectation that insurers would be permitted to depart from the committee's mandated wordings from March 31 2008.

Since rates were detariffed the premiums charged for different lines of business have changed significantly. For example, motor rates saw dramatic increases and property rates sharp falls, with rumours of discounts exceeding 90% of the former tariff rate. Whether because of this or for other reasons, the IRDA announced on March 31 2008 that free wordings would now not be allowed and that it had instead asked the General Insurance Council to formulate new common wordings. Reaction to the proposed common wordings was mixed. Some thought that the new common wordings contradicted the desire for a detariffed market and were unnecessary. Others felt that if there is a need for a common wording, then the market should continue with the wording which is at least familiar.

In an announcement issued on November 7 2008 the IRDA appears to have opted for a third way. The IRDA has announced the following relaxations in respect of the committee's mandated wordings for fire, engineering and motor insurance, effective from January 2009:

- Insurers may amend deductibles as long as there is written disclosure to and acceptance of the amended deductible by the insured before inception;
- Insurers may extend the cover available under the committee's mandated wording subject to 'appropriate additional premiums';
- Insurers may extend engineering insurance to portable equipment; and
- The minimum insured limit of Rs1 billion under the industrial all risks (IAR) tariff has been removed and insurers may now provide IAR products to all industries, including the petrochemical industry.

The relaxations allow extended cover for specific lines of business. Insurers may not restrict the scope of cover available under the committee's mandated forms.

Further, any proposed amendments are subject to the 'file and use' procedure that applies to all non-tariff business. In other words, no change from the tariff can be made unless the proposed change has been filed with the IRDA and the IRDA has been given an opportunity to consider it. The IRDA has also asked that when filing proposed changes, insurers also file a projection of the volume of business that the changes will generate and the expected profit margins of the revised products.

In terms of implementation, there is an express prohibition against insurers cancelling policies to give effect to amended covers, although an insured can cancel a policy to benefit from the enhanced cover on offer.

It is expected that the IRDA will receive a raft of proposed amendments from general insurers before the January 2009 effective date and the market will see a marked increase in the choices of cover available.

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