

Partial De-tariffication: Greater Flexibility for Insurers

April 14 2009

The progress of the insurance market's movement away from the tariff-based regime has been somewhat halted. The first phase of de-tariffication began on January 1 2007 when the market regulator, the Insurance Regulatory and Development Authority (IRDA), freed pricing (except the premium rating for third-party motor insurance). The second phase, which was intended to allow insurers to sell products outside the forms mandated by the Tariff Advisory Committee (TAC), did not proceed as planned in March 2008. However, at the beginning of 2009 a measure of flexibility for insurers was introduced.

With effect from January 1 2009, the IRDA has permitted an amendment to certain TAC-mandated forms for the fire, engineering, motor (own-damage) and industrial all risks sections of policies. The relaxations for these classes are as follows:

- Insurers may vary deductibles, provided that they have disclosed the varied deductible to the insured and obtained the insured's consent. This must be evidenced in writing and occur prior to inception;
- Insurers may file add-on covers and charge additional premiums;
- Insurers may extend the scope of engineering insurance to cover movable equipment; and
- The minimum total sum insured limit of Rs1 billion under the industrial all risks tariff has been removed and insurers may sell all risks cover for all industries (including the petrochemical industry).

The foregoing is still subject to the file and use system, whereby all amendments must be filed with the IRDA and can be offered for sale to the market only if the IRDA does not object to the filing.

Although these relaxations have been permitted, there are two further caveats. Firstly, insurers cannot abridge the scope of the TAC-mandated forms. The intent is to expand the scope of coverage, not restrict it. Secondly, insurers cannot cancel existing policies and replace them with new wordings. They will have to wait until the end of the policy period.

The changes have been welcomed by the industry at large. While some would have preferred to see complete de-tariffication in one move, the majority view appears to be that there are worthwhile benefits to the slow but steady approach in terms of channel education and market stability.

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

Originally edited by, and first published on, www.internationallawoffice.com