



Research Article

IMPACT OF DETARIFFING OF INSURANCE SECTOR ON THE INSURANCE BUSINESS

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ABSTRACT

Tariff Advisory Committee was controlling the Tariff structure in Insurance sector. But with the opening up of this sector for private players in 1999 the whole scenario changed. To make this sector truly competitive general insurance sector was detariffed from April 1, 2007. The Rs. 348 billion Indian general insurance industry went through a challenging period during 2007-10 that was marked by de-tariffing of the Fire, Motor and Engineering lines of insurance, besides a slowdown in economic growth. The result was a compounded annual growth rate (CAGR) of 11.5% during this period, as against 16.8% during 2004-07. To attain scale and size, few players aggressively targeted the profitable lines of Fire, Engineering and Motor Own Damage in the de-tariffed scenario, which led to steep price discounts that ignored rate adequacy and risk-based pricing to a large extent. As a result, while premium growth remained muted, risk coverage increased and this led to a rise in claims for both public and private sector entities. This paper discuss in detail the impact of detariffing on General Insurance Sector.

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INTRODUCTION

Global integration of financial markets resulted from de-regulating measures, technological information explosion and financial innovations. Liberalisation and Globalisation have allowed the entry of foreign players in the Insurance sector. With the entry of private and foreign players in the Insurance business, people have got a lot of options to choose from. India's economic development made it a most lucrative Insurance market in the world. Before the year 1999, there was monopoly state run LIC transacting life business and the General Insurance Corporation of India with its four Subsidiaries transacting the rest. The general insurance business in the country was nationalized on January 1, 1973 by the merger and grouping of more than 107 non-life firms into four public sector companies. The IRDA (Insurance Regulatory and Development Authority of India) Act, 1999, paved the way for the entry of private players into the insurance market, till then the preserve of the public sector. There are now 30 insurance companies in the market, of which 14 are in the general insurance business. Till 2007 Pricing of General Insurance Sector was within the control of Tariff Advisory Committee. Internal Tariffs were introduced to protect the consumer's interests. But this system left very little scope for competition among Insurance players.

Thus Tariff Advisory Committee which controlled rates, terms, conditions and regulations applicable to fire, engineering, motor, workmen's compensation and other classes of business currently under tariffs have been withdrawn effective from January 1, 2007. However, the rates of premium applicable to Motor Third Party insurance business have been set out by IRDA.

Objectives of the Study

1. To appraise about the concept of Detariffing and its phase wise implementation
2. To Know about the Advantages and Disadvantages of Detariffing
3. To analyze the impact of Detariffing on the Business of various categories of General Insurance Business.
4. To analyze the changing market share of Public and Private sector undertakings in Post Detariffed Scenario

MATERIALS AND METHODS

The present paper is based on secondary data. The secondary data has been taken from IRDA Journals and Annual Reports of Companies and estimates given by ICRA.

What are Tariff Rates and Detariffing

Tariff is a schedule of premium rates and policy terms and conditions applicable to risks in a class of business. A Tariff

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rate in the Indian context is the minimum rates to be charged for a tariff cover with a prescribed wording; a reduced rate charged amounts to a breach of tariff provision. Detariffing means that the pricing of insurance policies are left to the individual insurance companies concerned, to decide and offer, based on their analysis and perception of risk.

The Detariffed Regime in India

The tariff rating structure applicable for the pricing of fire, engineering and motor insurance covers of the non-life sector has been freed from January, 1, 2007, with one provision that the rates for the statutory third party insurance covers would be prescribed by the IRDA. The motor third party insurance forms about 12% of the total market premium of Rs. 25,000 cr. in 2006 – 07. Used to tariff rate regime that has been in operation for over five decades, the insurers, with the new freedom given to them to price risks according to their risk perception's have been provided a huge opportunity to widen their customer base by selling covers without any statutory price restrictions. Competition with other in the insurance game is now on two aspects of customer received parameters: premium rates when insurance is bought and claims servicing, when claims do arise.

Why there was no need for Detariffing: Tariff regime controlled rates in the portfolio of fire (20%), motor (42%) and engineering (8%) of the insurance Market of about 25,000 cr in 2006-07. While the tariff rates in fire and engineering were comparatively higher than what the market forced would have kicked in, had these been left to them, the motor third party (TP) tariff rates, consulting about 12% of the market, were grossly inadequate, make up insurers incur over all mounting operating losses. While the combined loss ratios (Claim cost plus expenses on earned premiums as a percent age) in fire and engineering are about 75% and 80% respectively, the motor portfolio, including Motor TP, has a combined loss ratios of nearly 130% i.e. for every Rs. 1000 cr. Earned premium in motor portfolio, the insurers make a loss of Rs. 300 cr. Since the motor portfolio forms about 42% of the total market, the incurred losses at existing tariff rates produced operating losses of about Rs. 3000 cr. From the motor segment. The operating profits derived from the fire and engineering portfolios was too inadequate to cover the huge losses in the motor segment.

Detariffing occurred in three phases

Phase I: One of the significant milestones has been the withdrawal of premium pricing restrictions initiated from Jan 1, 2007

Phase II: From Jan 1, 2007 – Jan 1, 2009, insurers were permitted to structure the premium rates, but were not allowed to vary the coverage, terms, conditions, policy wordings etc. This period allowed to migrate towards risk based pricing

Phase III: From Jan 1, 2009 the IRDA allowed the insurers to file variation in deductibles, coverage amounts, etc. This phase has allowed flexibility in terms of breadth of coverage

Advantages of Detariffing

1. Insurers as a group have been unfair to all the customers due to the high uneconomic cost at which they conduct their business. More than 40% of the premium goes towards maintaining the huge infrastructure of insurers'

establishments and their business procurement with detariffing in order to keep their prices competitive, they have to reduce these expenses.

2. The lack of concern towards customers to reduce insurers' costs has prevented retail and rural sectors' business from growing. The cultivation of new markets is uneconomic at current insurers' costs and hence given up as useless, without making any attempt. With detariffing these sectors are expected to grow.
3. It is highly unlikely that courts would interface in the pricing mechanism of a totally detariffed regime, so long as the changes are not related to raising the minimum statutory tariff rates. Secondly when the entire tariff regime is abolished. Leaving the market forces to work on their own, courts would have little or no reason to intervene, as there are no statutory issues involved for them to adjudicate. Rates could go downward or upward depending on the individual track record of the insured and his individual track record of the insured and his individual risk exposure.
4. By continuing to encourage high risk customers to enjoy artificially lower rates at the expense of low risk customer, who are compelled to pay higher premiums, in the same class of risk band, insurers have allowed such discriminatory practices to continue and flourish. These tariff rates were only the minimum rates to be charged, and insurers had a legal right to raise rates for high risk carriers. With detariffing such unfair practices are expected to be stopped.
5. Insurers have till now played their roles only as distributors of insurance products and not as under writers. That function was assigned in favour of the TAC. As long as insurers do not take pricing mechanism as their basic responsibility, they can never bring in economic efficiency to their operations or financial stability to their organizations.
6. Insurance industry would charge rates based on their risk perceptions, and at a level that encourages a customer to involve himself in loss mitigation efforts to keep the price charged as low as possible.
7. Elimination of cross – subsidization, leading to independent pricing for each class/line of business.
8. It would encourage policy holders to invest in claims controlling and loss minimization initiatives/activities.
9. A higher premium rates would create incentives for the high risk – vehicle owners to make measures and invest in loss mitigation measures that they need to implement. Inadequate rates actually lead to risk less driving and irresponsible defence of TP claims. There is no pressure on the insured for safer driving leading to lesser number of road accidents to TP.

Threats with Detariffing

- (1) In view of the IRDA's restrictions against alteration of terms and conditions of the existing tariff policies, the broker community who are up in arms-mounting criticism on the regulator—might cause embarrassment in securing and retaining the business of the all important corporate clients, particularly in respect of profitable portfolios like Fire and Engineering.
- (2) The tricky exercise of preparation of "internals tariffs" by the respective insurers and acquainting their marketing and underwriting personnel with the new rates and also updating their computer database, etc., are likely to upset their day –

- to – day work schedules and priorities and impact their overall performance in the initial stages.
- (3) The momentum of double digit growth consistently achieved by the non life insurers in the last five years might be forced to go in slow gears, arising out of intense accelerated competition that is likely to set in, due to possible slashing of premium rates by the insurers, which is most likely, out of their curiosity to retain their market share.
 - (4) The ensuring aggressive rate wars, among the players, would possibly lead to unhealthy competition at the marketplace, which would indirectly threaten to reduce the solvency margins of some of the insurers, particularly the private companies. The regulator, who cannot afford this to happen under any circumstances, might be forced to come out with more stringent measures against the defaulters and such eventualities would indirectly influence the operating results of free market regime in non life sector, in the crucial initial phase of the experiment.
 - (5) The revised guide lines of IRDA on “file and use” of the insurance products, issued in the context of scheduled de-tariffing of tariff rates, might inflict new challenges on the players in ensuring timely compliance of the set norms and in maintaining the marketing schedules of the “new look” products, before the competitors could make it to the market place.
 - (6) As the premiums in *Fire, Engineering and other property insurances is forecast to drop by at least 40%*, arising out of dispensation of tariff controlled prices, the international rating is likely to come under pressure and the leading global reinsurers, who are comfortable with the present controlled price structure of tariff advisory committee, may be compelled to review their existing treaty insurance arrangements with our country. As acceptance of all major risks by the non life insurers in India is directly linked with the global reinsurance market, the de-tariffing is sure to pose few indirect problems and therefore it has already triggered some serious thinking on the part of a section of the private insurers, in this regard.
 - (7) Meanwhile, the common man and the average consumer of insurance products, who is supposed to be the biggest beneficiary out of free market regime, is least delighted about the proposed changes pricing methodology. He is only apprehensive of some possible disturbed state of climate at the marketplace, where the competing sellers of insurance are sure to confuse the potential buyers to the maximum. The general perception is that it hardly matters to an average consumer, in our country, whether it is tariff controlled pricing or free market pricing, so far he is ensured of easy availability of simple and need based compressive products at the lowest price – which he can easily afford to pay and hassle – free settlement of his claims, if any, as expeditiously as possible.

The Indian general insurance industry was completely de-tariffed (with the exception of Motor Third Party Premiums) from January 1, 2007; initially, price discounts were allowed within regulatory limits, but later this provision was removed. This note seeks to capture the impact of de-tariffing on the various public and private sector players on their growth, profitability and pricing. For the purpose of segmental claims and overall profitability trend analysis we have considered the top three public sector entities and

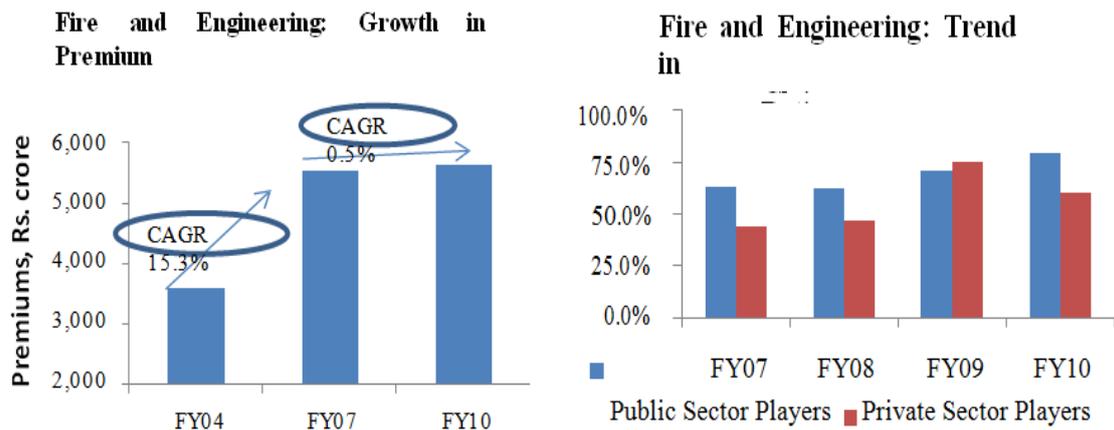
the top two private sector entities (which together cover 62% of the market) because of data constraints and to maintain consistency.

The Fire and Engineering portfolio, which constitutes around 16.1% of the general insurance market and was tariffed till the financial year 2006-07 (FY2007), saw drastic reduction in growth rates after de-tariffing. With Fire and Engineering premiums being de-tariffed, the industry saw various players offer steep price discounts to garner more clients and increase market share. In a few cases, the price discounts were as high as 70% and companies didn't adhere to risk based pricing norms. The price discounting practice was given further currency by the new players who saw in this an opportunity to scale up market share and consolidate their position for the long run. The increase in discounts was compensated to an extent by an increase in risk coverage by existing clients. The initial discounts offered after de-tariffing in 2007 and 2008 caused the softening pricing regime to continue even during 2009 and 2010. However, going forward, the pricing is expected to stabilise at the current levels and gradually evolve to risk-based pricing over the long run.

The slowdown in growth that happened in the Fire and Engineering portfolio during 2007-10 was accentuated by increases in claims outflow as risk coverage remained at the prior levels even as the premium rates dropped. As Figure 1 shows, the claims ratio for both public and private sector players has increased over time. The private sector players, who have a better claims ratio as compared with their public sector counterparts because of superior risk mechanism and flexibility in managing operations, saw a spurt in Fire and Engineering loss ratios during 2007-10. In fact, the claims ratios of a few private sector players were even higher than those of the public sector players in FY2009. Overall, the claims ratio increased from 40-50% prior to de-tariffing to 70-75% after de-tariffing, thereby impacting the profitability of the general insurance industry as a whole. The increase in the loss ratio also led to hardening of reinsurance rates and commissions, which impacted the overall profitability further. With price discounts on the retreat and the economic climate improving, the growth rate for the Fire and Engineering portfolio has improved to 16.8% during April-September 2010 and is expected to report a CAGR of 12-15% over the next five years, although pricing sufficiency may remain under strain in the near term.

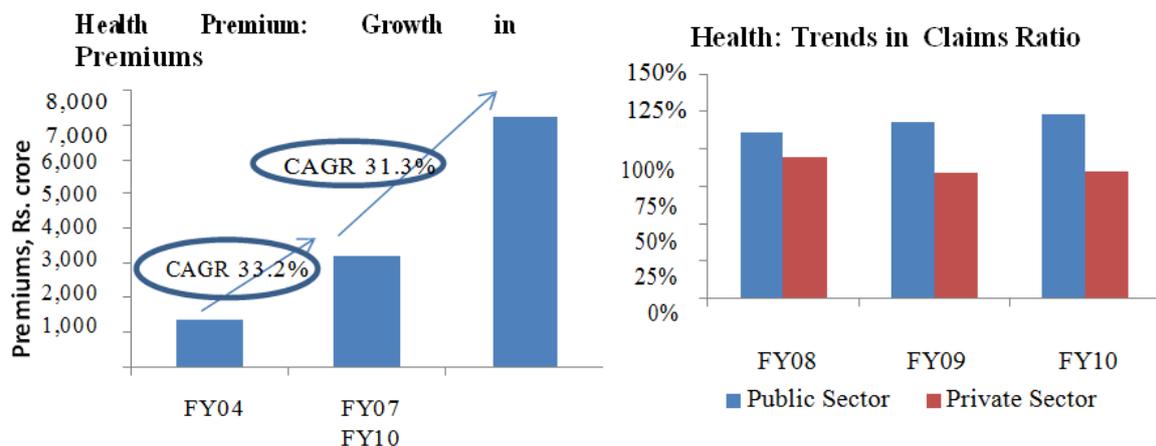
Health Portfolio

The Health portfolio, which accounts for 20.8% of the general insurance market (as of FY2010), has maintained its high growth trajectory over the last few years, led by positive demographics, rising income levels, and increasing health awareness. The Health portfolio is the fastest growing portfolio currently in the Indian insurance industry with a CAGR in excess of 30% over the last six years. The share of the Health portfolio has almost doubled over the last five years from 10.9% in FY2006 to 20.8% in FY2010. The growth during the last few years was aided by the positive pricing bias for Group Health policies as the business was becoming unviable for most insurers. Prior to the recent de-tariffing, Group Health premiums used to be cross-subsidised with the profitable and tariffed lines of Fire and Engineering business and used to be



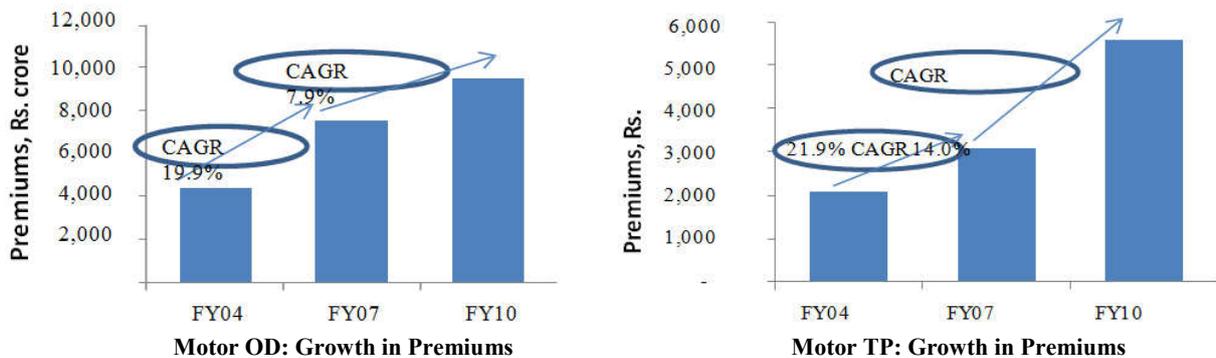
Source: Insurance Regulatory Development Authority (IRDA), Annual Reports of Companies, ICRA's estimates

Figure 1. Fire and Engineering Portfolio—Premium Growth and Claims Ratio



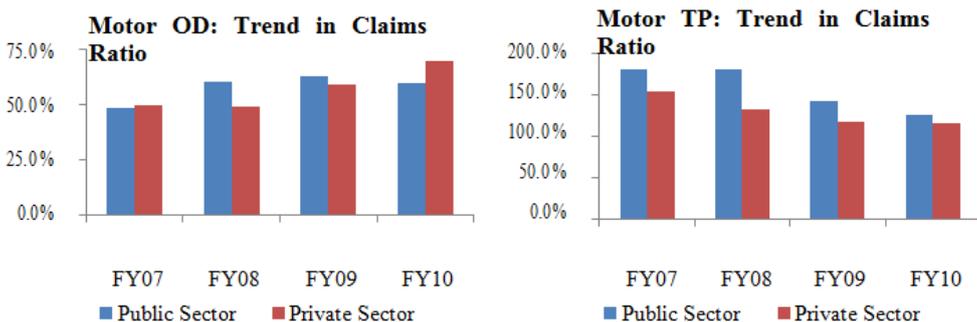
Source: IRDA, Annual Reports of Companies, ICRA's estimates. Premiums in Rs. Crores

Figure 2. Health Portfolio—Premium Growth and Claims Ratio



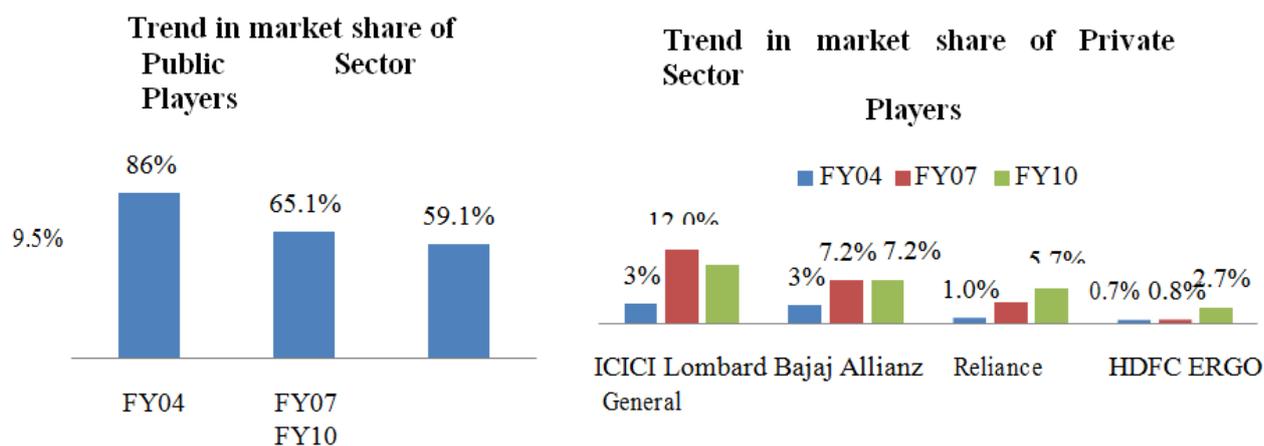
Source: IRDA, ICRA's estimates. Premiums in Rs. Crores

Figure 3. Growth in Motor Own Damage and Third Party Premiums



Source: Annual Reports of Companies, ICRA's estimates

Figure 4. Claims Ratio for Motor Own Damage and Motor Third Party



Source: IRDA, ICRA's estimates

Figure 5. Movements in Market Share—Public and Private Sector Players

Table 1. Contribution to Profitability—Underwriting vs. Investment Income

Public Sector				
	FY10	FY09	FY08	FY07
Underwriting Surplus/Net Earned Premium	-28%	-27%	-23%	-20%
Net Investment Income/Net Premium Earned	20%	22%	23%	24%
Realised Gain/Net Premium Earned	18%	11%	25%	25%

Private Sector				
	FY10	FY09	FY08	FY07
Underwriting Surplus/Net Premium Earned	-9%	-10%	-4%	-2%
Net Investment Income/Net Premium Earned	11%	11%	10%	9%
Realised Gain/Net Premium Earned	6%	4%	3%	3%

Source: Annual Reports of Companies, ICRA's estimates

loss-making. However, as de-tariffing led to a reduction in Fire and Engineering premiums, the Group Health premiums failed to keep pace with the same. Almost all players in the industry resorted to price increases, although independent pricing for Group Health policies remains a key concern area for all players. Moreover, new entrants use Group Health to make an entry into large corporate entities and solicit the larger business of Fire and Engineering insurance. As a result, Group Health continues to be loss making for most insurers. Further, concerns such as moral hazard plague the overall Health portfolio. The claims ratio for the Health portfolio for public sector players has been in excess of 100% and has been on an increasing trend over the last three years. The private sector players are in a relatively better position because of their strong systems, flexibility in managing operations, product innovation and efficient claims monitoring and settlement procedures. The Health portfolio has been one of the largest contributors to underwriting losses for public sector players both because of the factors discussed and legacy issues as well.

The public sector players, in the recent past, have undertaken several measures to bring down the loss ratios of their Health portfolio by screening hospitals for cashless service and seeking to form in-house Third Party Administrators (TPAs) to plug various leakages. Overall, the Health portfolio for the industry is expected to report a CAGR in excess of 25-30% over the next five years, with Group Health pricing likely to improve in the near to medium term. The anticipated growth would be aided by mass market, Government-sponsored schemes like Rashtriya Swasthya Bima Yojana (RSBY), which proposes to provide healthcare access to families below the poverty line (BPL). However, claims trend and pricing sufficiency would need to be monitored over a longer term horizon for these schemes.

During the first half (H1) of FY2011, the Health portfolio of the industry grew by 41.9%. The key critical success factor to build a strong Health franchise would be to build business model that is scalable, makes efficient use of technology, incorporates innovative product designs, and lays down strong claims and servicing standards.

Motor Portfolio

Accounting for 43.5% of the general insurance market (as of FY2010), Motor is currently the largest segment of the domestic general insurance industry, and consists of Motor Third Party (TP) and Motor Own Damage (OD) premiums. Motor TP continues to be tariffed while Motor OD premiums are de-tariffed since 2007. Following de-tariffing of the OD business, premiums in this segment reported a decline of 20% initially (within the allowed regulatory limit), but have dropped further with the restrictions being removed. Volume growth in Motor OD, which is a function of new commercial and passenger vehicle sales apart from renewal premiums, has been healthy, although price discounts have pulled down the CAGR to 7.9% during FY2007-10 from 19.9% during FY2004-07. Moreover, Motor OD being a profitable portfolio, private sector players have aggressively targeted customers, including those of their public sector rivals, through price discounts. The Motor OD portfolio of the industry reported a much lower CAGR of 7.9% during FY2007-10 as compared with the 19.9% enjoyed during FY2004-07, reflecting the deep impact of de-tariffing on the Motor OD portfolio. On the other hand, in the case of Motor TP, the regulator implemented an increase of up to 70% for TP premiums during 2007, which led to the CAGR for Motor TP premiums during FY2007-10 being much higher than that for Motor OD during the same period. Going forward, the Motor

Premium Garnered by Private Sector Players

Year	Fire	Motor	Motor OD	Motor TP	Health/ PA	Total
2008-09	1,238	6270	4390	1880	2715	12,572
2007-08	1,378	5574	4035	1539	2220	11,229
2006-07	1543	3712	3116	596	1224	8716
2005-06	1235	2097	1747	394	539	5426
2004-05	927	1234	1023	210	304	3558

Premium Garnered by Public Sector Players

Year	Fire	Motor	Motor OD	Motor TP	Health/ PA	Total
2008-09	2181	7189	3994	3195	4278	18031
2007-08	2126	7224	4048	3175	3515	16282
2006-07	2914	6966	4470	2496	1974	16289
2005-06	2517	6605	4410	2195	1718	14994
2004-05	2375	6271	4147	2124	1366	13972

Premium Garnered by Non- Life Insurance (Private & Public Sector) Players

Year	Fire	Motor	Motor OD	Motor TP	Health/ PA	Total
2008-09	3420	13458	8383	5975	6993	30603
2007-08	3504	12797	8083	4714	5735	28058
2006-07	4157	10678	7585	3093	3197	24998
2005-06	3753	8702	6157	2544	2257	20421
2004-05	3302	7504	5170	2334	1670	17531

portfolio is expected to remain one of the growth drivers for the Indian general insurance industry, with the anticipated economic growth providing for higher automobile sales and policy renewals. The prevailing regime of softening prices led to a rapid increase in the claims ratio for both public and private sector entities. The claims ratio for the Motor OD portfolio witnessed deterioration during the last three years with the figure increasing from 40% in FY2007 to 60-70% in FY2010. On the other hand, losses for Motor TP have declined progressively during 2007-10 because of the increase in premiums, although the portfolio is still generating losses at the net level.

Private Players Increase their Market Share Post-Detariffing

The four public sector insurance companies, which enjoyed collective monopoly and tended to focus their effort on maintaining a strong status and market position prior to de-regulation, had lost significant market share up to 2007. Post-detariffing of Fire, engineering and Motor OD portfolio in 2007, the public sector companies lost further market share although the pace slowed down, and now they appear to be consolidating their market positions at the current levels. Their loss of market share is attributable to several factors, including lack of efficiencies and IT support systems, flight of talent, long winding processes and weak underwriting practices, all of which came into greater prominence once the private sector players were allowed to enter the General Insurance sector. However, most of the public sector players have tightened their systems and processes and improved their claims management since then. Among the private sector players, the individual market shares have also undergone change. Players like ICICI Lombard have seen their market share reduce while they focused on improving their efficiency and profitability. ICICI Lombard however remains the largest player in the industry, although its

market share has shrunk from 12.5% in FY2007 to 9.5% in FY2010. On the other hand, HDFC ERGO General Insurance Company, which saw its earlier international partner CHUBB exit and then ERGO team up with it in 2009, has found its market share rising to 2.7% in 2010 from less than 1% earlier. As for Reliance General, it raised its market share to 6.9% during FY2008, capitalising on the de-tariffing opportunity and expanding its distribution channel. Subsequently however, its market share has been on the decline, and fell to 5.7% in FY2010 and further to 3.9% in H1 2010-11. With underwriting losses mounting and capital requirements on the rise (because of network expansion and to maintain solvency), the company has been focusing more on profitable growth rather than increase in market share. The newer entrants are also seen as aggressive on pricing in order to garner more business and sometimes resort to large price discounts, only to eventually incur higher underwriting losses. With the General Insurance sector poised for healthy growth over the next few years, more players including monolith players are expected to enter the fray in the near future. The last few years have seen the emergence of specialised health insurers such as Star Health and Allied insurance, Apollo DKV and Max Bupa. Further, new players such as HDFC ERGO and SBI General Insurance Company, which are supported by banks (HDFC Bank and State Bank of India, respectively), would be in a relatively better position to compete in the market as compared with other players owing to cross-selling opportunities available to them. Overall, the public sector players are expected to maintain their dominant position over the medium term, even as the private sector makes further inroads into the industry on the strength of flexibility in operations, superior claims servicing, aggressive marketing, and cost competitiveness.

Underwriting Losses supported by Investment Income

Historically, the profitability of the public sector general

insurance companies has been supported by strong investment income even as their underwriting performance has been weak. This trend continued for the public sector entities in FY2010 as well with underwriting losses increasing further. The profitability of the private sector entities in contrast suffered during the last three years following sharp deterioration in underwriting performance, brought about by rising contribution from the Motor (including Motor TP) and Health portfolios, among other factors. Within the private sector however, there are significant differences in performance among individual players, with aggressive market share gains being typically associated with high acquisition costs and weak pricing power.

Conclusion

In the near term, the soft pricing regime prevailing post de-tariffing is expected to stabilize at current levels posing challenges to domestic general insurance industry with regards to strain on underwriting profitability before eventually moving to risk based pricing. Pricing sufficiency in several business lines is expected to remain under stress because of competition for market share and the entry of new players. The smaller private players in particular are likely to feel more acutely the need to scale up and thereby achieve long-term sustainability. But this, in turn, could also lead to higher competitive pressures in the industry. Over the long term, the pursuit of profitable growth and maintaining sound underwriting profitability by various players will ease out pricing pressure.

With the general insurance sector poised for significant growth, more players, including monolith players, are expected to enter the fray in the near future. Already, companies specialising in health insurance, such as Star Health & Allied Insurance, Apollo DKV and Max Bupa, have come up during the last two years. Further, among the new players, those promoted by banks would have an advantage over the others, given the strong cross-selling opportunity available to the bank-promoted entities. Among product lines, Motor and Health, benefiting from a favourable economic climate and demographics, are expected to be the main drivers of future growth. While new lines of business, such as micro insurance, targeting the rural market could emerge as a potential opportunity, having a cost-effective distribution network would hold the key here. The currently prevailing free pricing regime in the Indian general insurance industry provides the backdrop for risk-based pricing to emerge over the longer term. Gradually, the industry players are expected to focus more on franchise building (via improved client servicing), cost competitiveness, and product differentiation, which in turn is likely to help them better face increased competition if and when the industry is opened up further to foreign direct investment. The near-term challenges notwithstanding, the long-term outlook for the domestic general insurance industry is supported by several factors, including the currently low levels of insurance penetration and the country's long-term economic growth potential.

Observations

- The private sector players gained a market share of nearly

40% in a span of less than six years and proved that in a tariff rate regime, it was easier to compete with the public players. The market changed its appearance from 2007.

- Once the tariff rates were freed, the fire premium dropped from Rs. 4200 cr in 2006-07 to Rs. 3400 cr in 2008-09 due to rate competition, though the value of risk exposure accepted grew. The manner of risk evaluation and pricing was more arbitrary and was almost wholly subjective based on the risk appetite of the insurers for cash flow.
- The motor premium grew by Rs 3100 cr between 2004-05 and 2006-07 in a two year span. In the next two years the motor premium despite the huge increases permitted in motor TP Premiums from 2007 grew by only Rs. 2600 cr.
- The motor OD de-tariffed in 2007, which had grown by Rs. 2400 cr in the earlier two year span, grew by only RS. 600 cr in the next two year span after de-tariffing.
- The motor TP premium, which had grown by only Rs. 600 cr in the earlier two year span, grew by about Rs. 3000 cr in the next two year span due to IRDA raising them by a steep margin.
- Private players have incurred losses before taxes for the first time despite a massive increase in their earned premiums.
- The freedom given to price products has been used to raise loss ratios as well as expense ratio. With investments incomes down in 2008-09 due to global financial meltdown, the overall performance looks weak.
- Insurers have made little effort to control the rising operating losses as they have continued to adopt the policy of cash flow underwriting as in the past.
- The accountability thrust on the insurers has been poorly discharged and there is no certainty if the market has seen the worst yet. With past high growth rates, Insurers have made massive investments in staff; which is adding to incurred costs without adding to premium volumes.

Recommendations

Though Indian insurance professionals are highly rated for their knowledge of insurance theory, the applications of such knowledge to meet the market realities is found to be inadequate. The tariff rating structures that dominated the market for over five decades made them neglect the finer nuances of risk management, accident prevention and risk mitigation. They need to relearn their risk management lessons and build rating models based on quality and extent of risk exposures. Insurers need to focus from merely selling insurance products to selling services to differentiate themselves. Claim settlement services, the core issue for insurers should be outsourced for the purpose of processing and not decision making. New innovations have to be brought in. Claims issues impinging on liability have to be determined fast. An insurer would need to know whether the product purchased is reliable or effective. Mass customization of the products is the best way to sell in rural market. Insurers must be the voice for their customers in matters such as service tax imposition, making it more expensive to sell insurance to the needy. The regulator must have an agenda of its own for the development of the market with full cooperation of the insurers. Customer Segmentation must be created and strengthened by deliberate efforts. Price reductions are offered by insurers voluntarily as they could not differentiate themselves on products or services. Hence differentiating is

the most important lesson to learn. The General Insurance Council of all non- life insurers set up under the Insurance Act 1938 with specific objectives to pursue must get serious about their responsibility. The market reforms needed must be initiated by the council rather than leaving it entirely to IRDA.

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