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बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY

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23rd September, 2005

Enclosed is a detailed note outlining the Road map for a tariff free regime. The note outlines the various steps to be taken by the insurers to ensure that the transition is smooth. If there are any suggestions on the various issues raised in the paper and the milestones indicated therein, please feel free to write to me so that they could be considered and modifications, if any, effected. You would notice that the intention is to see that there is an orderly movement from the present regime to the future set up.

Yours sincerely,

C.S. Rao 23.9.05
(C.S. Rao)

To All CEOs of Non-Life Insurers

23rd September, 2005

Road Map for a Tariff free regime

General insurance companies and other stake holders in the insurance market have been voicing the demand for removal of tariff as the existence of tariff was considered contrary to free market principles and insurance products need to be priced based on market forces. The Authority has accordingly considered moving to a tariff free regime in due course. A draft approach note is given below for the consideration of the insurers and the public.

MOVEMENT TO A TARIFF – FREE REGIME

In a market free of tariffs, any responsible insurer should have in place, the following internal capabilities, procedures and controls. The Authority would like to highlight the various steps to be taken by the Insurers to ensure that the shift from a tariffed market to a market where the insurers are free to fix the rates and determine the terms and conditions of contract is as smooth as possible. While this note assumes that all lines of business would be detariffed, it is likely that, to start with, it may be limited to lines other than motor in view of the sizeable share the motor premium commands in the overall premium collected by Insurers and the large number of policyholders involved in this line of business. Whether the motor premium is detariffed or not it would be necessary to put in place sufficient safeguards to ensure that all vehicles get insurance cover at reasonable rates as motor tariff would be impacted in either scenario.

UNDERWRITING

The function of underwriting and rating of insurance business should be independent of the business development function and not be made subservient to the business development function.

For operating convenience, every insurer will require to have an internal guide tariff for the smaller valued risks and the simple risks. Staff with authority to accept business will be trained to evaluate proposals and underwrite and rate risks as per the guide tariff. Risks not covered by the guide tariff must be referred to nominated underwriters stationed at higher offices of the insurer. These underwriters will be specially trained in evaluating risks, securing required inspection reports or risk evaluation reports and underwriting and rating of the risks and determining the terms and conditions of cover.

The nominated underwriters with authority to accept or decline risks and to quote rates and terms will not report to any officer with business development responsibility but will

only report to a senior level officer whose work and performance will be assessed on the basis of the results of the business underwritten.

There will be a core team of well qualified underwriters who will do an internal audit of the underwriting efficiency of the nominated underwriters. Where a nominated underwriter is found wanting in skills, he will be further trained. Where he is found to be careless or lacking diligence, his authority will be withdrawn.

The insurer will have a risk inspection team within the organization or may use the services of outside experts for risks evaluation. These persons will be totally independent of the business development staff and will only report to the head of the underwriting function.

All management reward schemes must be profit based.

RATING SUPPORT

The Appointed Actuary, in association with experienced senior underwriters of the insurer, will be responsible to list out the rating factors to be looked at for every sub class of business and every type of risk. He will also be responsible to draw up the internal guide tariff and for its periodic review.

Having identified the risk factors, the Appointed Actuary should ensure that all required data on the rating factors is captured in respect of every insurance underwritten by the insurer and in respect of every claim. He should work with the IT Department Staff to design the system for collection and compilation and analysis of data on premium and claims by the several risk factors. Such analysis should lead to a periodic review of the internal guide tariff and also serve as the technical input to nominated underwriters.

The Claims manger should be required to bring to the notice of the underwriting staff, any information of importance to underwriting of risks. Similarly, reports produced by the Loss Prevention Association of India should be studied by the underwriting staff and their underwriting policy should take note of any relevant information form such reports.

POLICY TERMS AND CONDITIONS

To begin with, all insurers will start with the policy terms and conditions as per existing tariffs. However, an insurer may review the terms and conditions and make changes therein for use after they are approved by IRDA. The IRDA will look at the changes from the point of view of the simplification of the language of the cover, underwriting prudence and technical soundness of the changes.

Risks which are rated on the basis of international market terms may continue to the governed by terms and conditions acceptable to the reinsurance markets of repute.

CORPORATE GOVERNANCE

Every report of the CEO to the Board of Directors on the business development must also comment on the emerging claims experience of the business and adequacy of the current underwriting and rating levels. Such reporting should be done at least once every half year.

Each insurer should have a Compliance Officer who will ensure that the system functions as it is expected to.

TARIFF ADVISORY COMMITTEE

With the abolition of tariffs, the role of the Tariff Advisory Committee will undergo a change. It can perform the following useful functions:

1. Collection of data on premiums and claims, analysis of such data and dissemination of the results to the insurers;
2. Report to IRDA on the underwriting health of the market and any aberrations in market behaviors;
3. Constitution of Expert Groups at the request of the General Insurance Council, to look into underwriting issues and recommend necessary action;
4. Organise training to underwriters at the market level; and
5. Attend to public grievances on non – availability of insurance and try to resolve the issues by discussion with insurers.

TIME SCHEDULE FOR IMPLEMENTATION

In order to prevent disruption of the smooth functioning of the market after removal of tariffs, all necessary actions should be taken in a time bound manner with target completion dates as follows:

Date of discontinuation of tariffs: **31st December, 2006**

Underwriting function

1. Insurer to decide on the underwriting set up within its organization: **01 Dec 05**
2. Insurer to decide on the classes of risks to be governed by internal tariffs and the classes that will be underwritten individually: **01 Dec 2005.**
3. Preparation of interim internal tariffs based on available underwriting information within the company: **31st March, 2006.**

4. Training of underwriting staff: **01st August, 2006.**
5. Training of nominated underwriters: **01st October, 2006.**
6. Set up the underwriting audit procedures, identify the auditors and train them: **01st November, 2006.**
7. Set up the risk inspection machinery and train the inspectors: **01st Aug, 2006.**

RATING SUPPORT

1. Identify the rating factors for every sub-class of business: **1st Dec, 2005.**
2. Modify the input screens of the company's IT system to capture information on all rating factors in respect of premium and claims: **31st Dec, 2005.**
3. Write and test the necessary programme for compilation and analysis of the captured data: **01st April 2006.**
4. Commence data capture and analysis from: **01st April 2006.**
5. Prepare first edition of guide tariffs based on analysis of compiled data, to the extent possible, for every sub-class of business: **01st Nov, 2006.**
6. Prepare guidance notes on underwriting for nominated underwriters for risks that will be individually rated: **01st June 2006.**

POLICY TERMS & CONDITIONS

1. Review current tariff policy terms and conditions and recommend changes therein: **01st May 2006.**
2. Adopt new policy terms and conditions after approval by IRDA: from the date of detariffing to be announced.
3. Train underwriting and claims staff in the use of the new wordings: **31st Oct, 2006.**

CORPORATE GOVERNANCE

1. Prepare a detailed document of all activities related to the move over to a tariff free regime for submission to the Board: **01st December, 2005.**

2. Secure guidance and approval of the Board to the proposed activities: **01st Jan, 2006.**
3. Prepare the outline of the periodic report to the Board on the underwriting performance of the insurer: **01st April, 2006.**
4. Set up the system to compile information for the purpose of the report referred to in 3 above: **01st June 2006.**

All Insurers are hereby advised to implement the guidelines given above and comply with the milestones indicated. The Authority will monitor the response of the insurers to the guidelines in order to finally decide the date for moving to detariff regime. The Authority also welcomes feedback on the above in order to have a smooth transition from a tariff to a non-tariff regime.

C S Rao

(C.S. Rao)
Chairman