General Insurance Policies

IRDA Relaxes Norms

Insurance Regulatory and Development Authority (IRDA) has given General insurance companies more freedom to design their own products. In a circular to General insurance companies dated November 6, 2008, IRDA has announced relaxation of terms and conditions in coverage of the General insurance products.

This is the second phase of the two phase detariffing of the Indian General insurance industry.

The first phase started on January 1, 2007 when IRDA allowed companies to charge their own premium for all classes of business that had been under a tariff until then. The exceptin was Motor Third Party Liability insurance (Motor TP) for commercial vehicles.

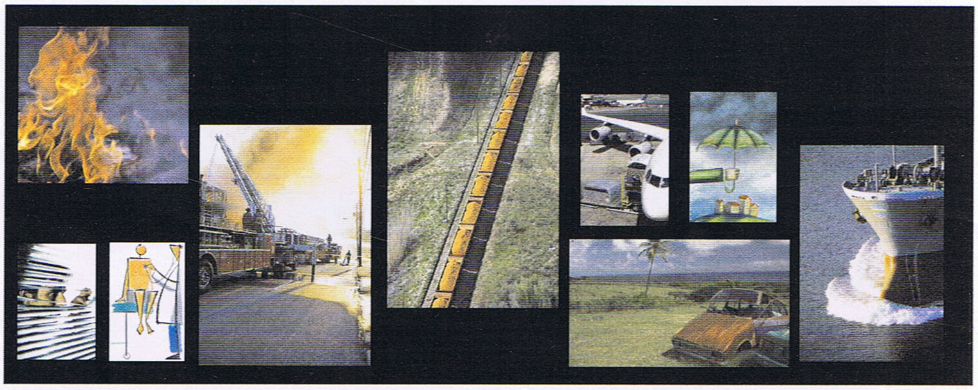
A pool was formed for Commercial vehicle Motor TP business called the Indian Motor Third Party Insurance Pool (IMTPIP,) with the tariff being under the control of IRDA itself. All General insurance tariffs were earlier set and administered by the Tariff Advisory Committee (TAC,) a statutory body.

Phase II of detariffing was scheduled to be from April 1, 2008, but IRDA did not implement it then.

Instead it has been implemented now through this circular with effect from January 1, 2009. What the circular means is that General insurance companies will be free to offer certain covers outside the scope of the descriptions in the erstwhile tariffs.

IRDA's circular lists three specific relaxations. Now insurance companies can offer:

- Deductibles different from what is en visaged under the tariff.
- Add-on covers like 'waiver of deprecia tion' or 'loss of use'
- Engineering covers can be extended to portable/ movable equipment



- Higher total sum insured under Indus trial All Risk (IAR) covers

Any changed policy can only be issued at the time of renewal and existing policies cannot be cancelled for this purpose, the circular has said.

What difference does it make?

Vehicle insurance

Policyholders who service their cars regularly can expect better terms from the insurance company. The benefits might include lower rates of depreciation for the vehicle or a better no-claim bonus.

"Earlier, even if the car was only one-day old and it was damaged in an accident, the depreciation applied on rubber parts was 50 per cent. Now the insurance company can choose whether or not it wants to make this clause applicable," says Mr Radhakrishna Chamarty, Managing Director, India Insure Risk Management Services, a leading broking company headquartered in Secunderabad.

Innovations are also possible. For example, depreciation could be covered for higher premium, says Mr G V Rao, retired Chairman and Managing Director (CMD,) The Oriental Insurance Company.

Innovations can be made in depreciation structure and new parts replacement value.

Additional facilities like tow charges or compensation for expenditure on relief vehicles or discount for a fleet of cars being insured can be given, said Mr K Ramachandran, Director, J P Boda Insurance Brokers Pvt Ltd.

Variations in deductibles

Insurers are now permitted to file variations in deductibles and not just what is set out in the tariffs. A 'deductible,' usually called an 'excess' in India, is a stipulation in an insurance policy that requires an insured to bear an initial portion of a loss before making an insurance claim.

With higher deductibles, the insurance company can give good discounts on premium. "The insurance company can provide a wider menu to the client and the client gets to decide how much the self-imposed limitation should be. In the case of the insurance company, this works out well as there won't be the small, petty claims to deal and the number of claims will go down," says Mr Chamarty.

"Earlier the limit was Rs 10,000, below which claims were not paid. Now there is no ceiling! The policyholder can say I don't want cover for losses below Rs 50,000, Rs 5 lakh, Rs 5 crore or even more," says Mr Rao.