Insurance companies can also introduce add-on covers, over and above the erst-while tariff covers with appropriate additional premiums.

Small business

The biggest gainers from the move are small businesses. The insurance regulator has removed the minimum sum insured limit of Rs 100 crore for the industrial all-risk (IAR) policy.

An IAR policy, a package cover, is convenient, cheaper and provides comprehensive cover whereas otherwise the insured would have to take independent policies for Fire, Machinery Breakdown, Burglary and Business Interruption.

Earlier, only companies with an asset base of Rs 100 crore could be covered, now manufacturing companies or industrial units with an asset base of 20 or 25 crore can also be insured, said Mr Chamarty.

Also IAR policies can now be issued to all industries including the petrochemical industry, which was earlier not allowed.

This would mean more business for brokers and agents, said Mr Ramachandran. It will expand the client base and might even make insurance companies look for new avenues of business instead of fighting over who gets the renewal business of existing large clients.

Laptops, mobiles, generators

General insurers are also now permitted to extend engineering insurance to portable equipment like laptops and generators. Earlier its coverage was limited to fixed equipments. "Earlier a special-contingency policy covered portable equipment. Now portable equipment cover can be an add-on in a fixed equipment cover, cutting down on the unnecessary paperwork," said Mr Rao.

Insurers are also now permitted to file new add on covers for Fire, Engineering, IAR and Motor Own Damage policies.

Standard covers abridged

The Authority has also protected the interests of existing policyholders. The scope of standard covers available under the existing tariffs, however, cannot be abridged beyond the options permitted in different categories. "What the IRDA is saying is that you can improve on a policy, but you can't cut down on earlier benefits. With detariffing, it shouldn't mean the policyholder is getting less," says Mr Chamarty.

Only on renewal

The revised products may be offered to the present policyholders only at the time they renew their policies. The policyholders is not given an option to cancel their existing policies and go in for the revised products.

This means that the policyholder cannot immediately opt for the new revised policy on January 1, 2009, but can go for the new look cover only after the expiry of the current policy.

Profit margins

IRDA will also keep a tab on the profit margins of insurerance companies and has asked them to indicate expected profit margins to be generated on the revised products to the Authority. Every insurance company must submit before the IRDA its estimate of how many policies it hopes to sell, how many claims it expects and the profit margin from that particular policy.

The relaxation of norms will be beneficial for the customers while at the same time it will allow companies to broaden their offerings, said Mr Ramachandran.

Then and Now

While the two phase detariffing has been hailed as a smooth changeover, it has its critics as well.

"The circular is redundant, remarked Mr G V Rao. Insurance companies could always modify their policies by specified endorsement. Even earlier, they could have approached the IRDA with a demand for policy customisation. The IRDA would have approved or rejected the insurer's request for that particular policy. Why didn't they do it? Maybe it was inertia or maybe insurance companies felt the tariff structure was sacrosanct," he said.

Mr Fali Poncha, Chairman, International Reinsurance and Insurance Consultancy Services, a leading reinsurance broking company says of the first phase of detariffing. "Detariffing is a misnomer. What was happening in India was not detariffing, it was just removal of price control. When detariffing was brought in it should have meant freedom in fixing the price and freedom in designing the product."

But that was not the case. While insurance companies could quote lower and lower prices they were still unable to offer any innovative products in Fire, Motor, Workmen's Compensation or Engineering insurance, all portfolios which were under the tariff earlier.

In January 2007, the first phase of detariffing was carried out and prices crashed overnight in the competitive frenzy that followed!

Companies were competing with each other by quoting lower and lower prices in an effort to get business. There were and are discounts of as much as 80 per cent and more being given by rival General insurance companies, says Mr Ramachandran.

Within a few months, IRDA set the maximum limit of discounts at 51.4 per cent, when it was noticed that General insurance companies were trying to outdo each other in making policies cheaper. This limit was again removed on January 1, 2008.

And now with the second phase of detariffing, companies should be able to move forward to better, more innovative products.

But General insurance companies are in for a bad phase, feel industry experts. Traditionally profitable business like Fire and Engineering have suffered with detariffing. In their efforts to get more and more business, they are offering abysmally low premium rates that will seriously undermine the companies' ability to pay up at the time of claims. This is why most private insurance companies are now concentrating only on personal lines like Health, says an official from Bajaj Allianz General Insurance Company. ■

D Rachel Chitra