

# Bimafest

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**I**t appears, celebration time is here for non-life insurers. One can see mega discount sale being organized by various insurers! Surely, the idea of "garage sale" cannot work for insurance products. It can however be clearly seen that "premium discount" is the much talked about issue in the non-life insurance market. After the opening up of the insurance sector for private participation, the focal point of debate in various circles was

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Admittedly, liberalization of insurance industry would not have

any meaning if a major part of business is to continue in the tariff domain, for the tariff denies the necessary freedom to individual underwriter to practice real risk rating based on proper risk evaluation and taking into account the risk retention capacity. The system of administered pricing together with predetermined terms conflicts with the very concept of liberalization and deprives the insuring public of the benefit of market competition. Therefore, detariffication as a natural consequence of liberalization was expected to be a major welcome development in the non-life insurance industry. As per the much-publicized road map spelt out well in advance by the authorities, the non-life insurance industry was given total freedom from administered pricing mechanism effective from 1st January 2007.

It is often argued that the quarter century of tariff regime virtually stunted the growth and took the sheen out of the non-life insurance sector. Viewing from that perspective, this is really the time for all stakeholders - the insurers,

insuring public, insurance intermediaries and all others associated with the sector - to rejoice. But one cannot overlook the fact that the detariffing endows with entirely different opportunities and advantages to different sections and therefore the type of exhilaration or other reactive feelings it generates will also be diverse. Needless to say, the manifestations of such reflexes from different quarters will have to be studied carefully to appreciate the real spirit that works at the hindmost.

## Master's voice

IRDA has of course exercised considerable caution and farsightedness while taking the reform measures ahead to the goal of achieving total liberalization of the industry by removing the tariff regime. It waited for six years after the liberalization to open the floodgates of free market.

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The authorities have repeatedly reminded all concerned of the mantra "consistent growth, profitability, increased market penetration and improved customer satisfaction". The insurers had been given 15 months time to study the market dynamics and formulate their own pricing policy and risk underwriting standards with a view of achieving optimum customer satisfaction based on sound business practice. The authorities have reminded all the players that "detariffing" does not necessarily mean "price cutting" which is an unsophisticated way of reacting to a situation of such serious consequence and that the opportunity should be utilized to realize the objective of developing own methodology for proper pricing and product innovation so that Indian insurance industry attains the real competitive edge in the global market.

## DEJA VU

Unmindful of all the above cautioning by the IRDA, the insurers seem to have thoughtlessly embarked on a price cutting spree in as much as some of them proudly declare that they offer across-the board discounts to the extent of 60%. Any way, the insurance market is found to grow bullish about discount offers. The main players, the insurers, seem to have pushed the issue of risk underwriting to the back burner and are engaged in fierce competition in offering discounted prices for insurance covers without giving any consideration whatsoever for risk appraisal and risk management mechanism.

The insuring public bewildered at the unexpected but pleasurable

developments looks on with tongue in cheek. In this context, it is only relevant to recall that non-life insurers behaved in the same manner on an earlier occasion when marine cargo tariff was abolished. The players recklessly went about slashing rates at that time leaving the industry badly hurt causing huge revenue loss which was later assessed at Rs.300 crores approximately, and all this in a couple of months. The industry players showed the same irrational behaviour when hull insurance tariff was done away with.

But this time, the cut can be sharper and the wound, deeper. The cost to the industry can be in the vicinity of Rs.2000 crores. We all know from the past that various markets in the international arena also have not reacted differently when existing tariffs were withdrawn. But that does not in any way justifies the present reaction of Indian insurers especially when IRDA has exercised extra caution while taking each step towards total removal tariff regime so that the players in the field having learned from history may act with restraint and show high level of maturity in the conduct of their business in the tariff-free market.

## Aftermath of Detariffing

Detariffing was a collective demand and surely justified demand of all the stakeholders in the insurance field. It was therefore taken for granted that all were ready to face the consequences whatsoever of this important step. The situation, particularly for insurers, really demanded a paradigm shift in their risk underwriting ideology. But, the total conduct of insurers after detariffing smacks of their unpreparedness to face the occasion. Some circles even nurture a doubt that insurers' trivialization of the issue to a simple case of price war is a cover-up for their panic reaction.

Besides, their act of resorting to offering substantial discounts once the detariffing has taken place, has created a wrong impression that earlier tariff rates were exorbitant and unjustified. The insurers on the other hand seem to think that they are left with only a Hobson's choice of either writing the premium at the rate dictated by market forces or losing the business. The insured, though happy about the advantage of substantial saving in insurance cost, is now growing skeptical and fearful. He is afraid that the insurers having acquired the business at

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such lower rate of premium may not render services at the time of loss. The intermediaries are dismayed that after offering exorbitant discounts, some players make successful attempts to convince the insured to use the intermediary with a view to saving atleast on procurement cost. Perhaps some people think that professional services can wait.

## Prognosis & Premonition

It was genuinely hoped by the authorities that detariffing which facilitates free pricing of products by the insurers will usher in an era of real competitiveness in the insurance market by way of product innovation and best customer service thereby achieving optimum spread of insurance in the country. The authorities prognosticated that after liberalization, the important step of detariffing would pave the way for introduction of cost-effective



customized products and the effective implementation of risk management mechanism, which will leverage the capability for proper risk rating.

A correct risk underwriting based on risk analysis, risk retention capacity, procurement costs and other relevant factors, together with customer centric initiative will greatly help in the growth of insurance industry in India.

Nevertheless, the primary symptom that developed after detariffing indicates that there is deficiency in the SWOT analysis of Indian insurance industry by the authorities. Needless to say, the roller coaster of rate cutting will before long make some of the industry layers seriously sick. Other comparatively strong players will

attempt to sell gold from their family kitty to cover up the monetary loss for some time. The financial insecurity of the players will reflect on their commitment to customer service. This in turn will spell disaster for the industry.

### **Conclusion**

It is time insurers conduct a reality check and at least ensure that the ongoing want on price cutting does not affect their solvency ratio. They should muster necessary courage to decide their own terms and pricing mechanism and stick to it come what may. Whatever be the developments that are taking place in the industry the insurers cannot afford to ignore their real business of risk underwriting. Price of insurance products has little significance in insurance marketing.

On the contrary, it has been found that considerably cheaper products Gramin Bima Policy, Raj-Rajeshwari Mahila Kalyan Yojana, Bhagyashri Child Welfare Policy, etc. have not found favor with the public. The detariffing will make the insurance market vibrant and competitive and will encourage the players to bring out customized products with a view of serving the purpose of different target groups or sections of the society. Need-creation should be the main strategy in insurance marketing.

The innovative, need-based insurance covers, an efficient, system of proper product pricing and a management philosophy which is conducive to development of positive attitude for customer service will ensure robust growth of the insurance industry.