

# Detariffing - Whether Profitable to Insurer or Insured

## ABSTRACT

In this era of Globalization and Liberalization along with the paradigmatic shift in the development strategy, the Insurance sector which remained relatively untouched by the reforms also become the part of it and is not exempted. In this way IRDA has requested the insurance companies to initiate steps in order to ensure the transition from tariff regime to detariff regime. The present paper is an attempt to introspect the problems and prospects of both Insurer and Insured with respect to Detariffing. The Perception of 120 Agents and 200 Customers were found using self structured questionnaire and was analyzed using tools like Simple Percentage, Central Tendency ( Mean, Weighted mean, Standard deviation ) and was ranked in their order of preference. Based on findings a snapshot of SWOT Analysis was drawn showing the leveraging strength, opportunities to be exploited, rectifying weaknesses and threats to be overcome, to stand out as a winner in the liberalized economy.

## 1. INTRODUCTION

In this era of Globalization and Liberalization, along with the paradigmatic shift in the development strategy, the Insurance sector, which remained relatively untouched by the reforms also became the part of it and is not exempted. The country's social and economic objectives too compelled the Insurance industry sectoral reforms with the passing of IRDA bill in December 1999. It is here the privatization process was initiated by forming the Insurance Reforms Committee (IRC).

The Insurance sector was opened up and world class competition entered the scene. Thus the sweeping changes in the form of commoditization, globalization, deregulation and rapid technological advancements over the world have changed the scenario of financial services. In the process of integrating the Indian economy with global economy, the government of India is taking several regulative measures. In this way, IRDA has requested the Insurance companies to initiate steps in order to ensure the transition from tariff regime to detariff

regime from January 2007, majority of the General Insurance business is detariffed.

## 2. WHAT IS "DETARIFFING" ?

Tariff means "Rigidity". It meant that not only rates are fixed, even terms, conditions and wording of policies are to be as laid down in tariff. Opposing this "Detariffing" is the pricing of Insurance policies by individual insurance company's concerned, to decide and offer, based on their analysis and perception of risk. In short making all insurers free to decide the premium rates based on their inhouse guidelines of pricing.

Everyone will agree that in a liberalized scenario, tariffs have no place. The IRDA has prepared a road map for Detariffing all categories of General insurance business from January 1, 2007. But as per IRDA's clarification, the premium rates can only be changed but the insurance product cannot be changed for the first 15 months ( from January 1, 2007 to March 31, 2008). This means that Insurance companies will not be allowed to change the coverage, terms and conditions etc. Hence,

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full Detariffing will come into existence only from April 1 , 2008.

### 3. RESEARCH METHODOLOGY

The study is focused on assessing whether Detariffing is profitable to Insurer or Insured? It is based on the primary as well as secondary data. The challenges and prospects have been identified through the informal discussions with the managers of insurance companies ,interviews published in various journals and magazines etc. The perception of the respondents regarding the issues relating to Detariffing has been found out through survey method conducted in the Coimbatore region through two set of self structured questionnaire, for the insurers and insured. Responses of only 120 agents and 200 customers were found to be valid on the basis of consistency of responses and therefore taken fit for analysis.

The Statistical tools used for the purpose of the analysis were Percentage, central Tendency ( Mean, Weighted Mean), Standard Deviation etc .The Weighted mean for every statement was calculated on the basis of ranks given by the respondents and then every statement was ranked according to Weighted Mean in order of preference.

### 4. DETARIFFING TO INSURERS – PROBLEMS AND PROSPECTS

- Collection of Risk- wise claims linked data is a Herculean task.
- Training of at least one underwriter each in existing above 4500 underwriting / operating offices in India.
- Monitoring compliances of the operating offices to underwriting norms.
- Data mining, collation, storage and MIS for data - based underwriting strong in support is the dire need of the situation.
- Mainly the Insurer needs to face stiff competition and ruthless/ aggressive marketing.
- Market behavior can affect solvency of the Insurers.

- Change of mindset of all involved in Insurance market.
- Adapting to the new business environment and working with intermediaries.
- Pricing befitting to survival in the market
- Product Innovation to suit market requirements.
- Reduction of response time
- Consistent data capturing on multiple parameters and data accuracy.
- Regular data transfer to corporate office to form database
- Appreciation of underwriting factors and information
- Study the company guideline and be up to date in inspection of all important risks.
- There is also a need to create capacities for new emerging risks, like it related frauds, terrorism and to minimize the dependence on reinsurance pricing.
- Study frequency of claims cause- wise and peril- wise.
- Clients must appear to be satisfied and confident of keeping their relationship with the insurers.
- Long term covers be introduced to ensure mutual benefit.
- Insist Insurer to think- “How to speed up claims settlements?”

In short Insurance industry needs to change. It needs to change fundamentally and it needs to change quickly. It needs to change for the defensive reason that the clients drive less and less value from it and needs to change for the offensive reason that there has never been more opportunity than there is today to add value to the clients.

### 5. DETARIFFING TO INSURED – PROBLEMS AND PROSPECTS

- Insurance buyers should follow the six “T” - Introspection, Intermediary selection, Imparting information, Inspection of their risks, Implementation of their evaluation exercise, intelligent choice of the

- Insurance provider.
- There may be some degree of disappointment among large corporate on the delay in opening up with new product development.
- Main focus will be on negotiation with the Insurers and brokers for the lowest price.
- Sound risk management has to be arrived at to enjoy a lower premium rate
- The customer need to be more aware of the product he is buying apart from prices , the intricacies of the policy coverage would definitely play a crucial role.
- Customer is provided with much wider choice of products in the baskets of various insurers.
- Benefit of availing tailor-made product very specific /befitting to the customers requirements.
- Responsible corporate governance by Insurers responsive to customers interest.
- Thrust on more financial and frequent informational disclosures by insurers to public.
- Ensuring introduction of best business practices.
- Creating an environment to reduce the unacceptable current high cost of operation.
- An acceptable claim intervention process that pressures insurers to respond.
- Setting up of R & D cells within the

- IRDA to widen the reach of Insurance to rural areas .
- Professionalism in enforcement of current regulations protecting policy holders that cast accountability on Insurers.
- Compulsory market innovations for more inclusive growth.
- A code of market conduct that is enforceable with penal provisions.

In short customers with good risk profile would certainly enjoy lower premiums. Incase of big portfolio's the cut is huge and it shall have positive impact on net profit.

## 6. FINDINGS

### 6.1 Analysis of Problems of Detariffing to Insurers in India

\* The order of preference of problems ranged from 2.57 to 7.5 in terms of means and 0.58 to 2.75 in terms of standard deviation as shown in the graph 1 ( Please see table 1) .

\* The analysis on the basis of mean revealed that the respondents ranked well established stiff competition ( 2.57) as first and the high operational cost ( 2.68) and change in mindset ( 3.1) were given second and third ranks respectively.

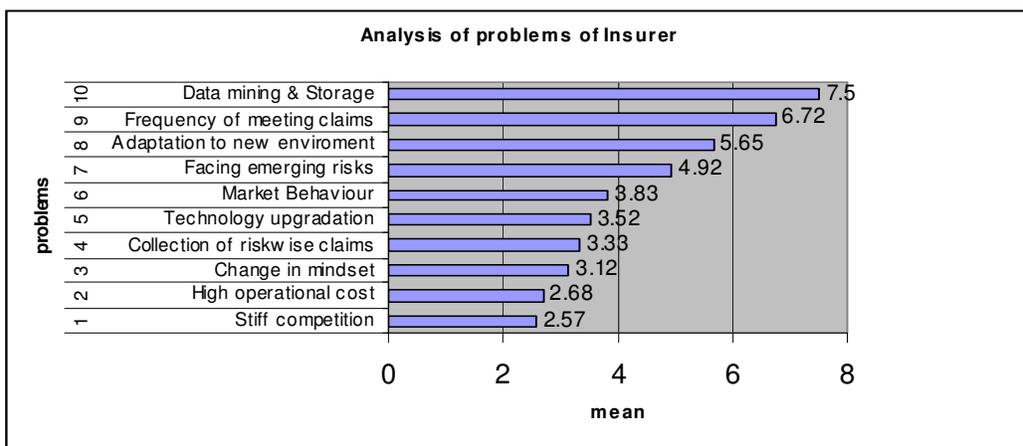
**Table - 1**

#### Analysis of Problems of Detariffing to Insurers in India

S. NO.	PROBLEMS TO INSURER	Rank	Acc to Mean	MEAN	STD DEV
1	Stiff Competition	I		2.57	1.14
2	High Operational cost	II		2.62	1.63
3	Change in mindset	III		3.12	1.09
4	collection of risk wise claims	IV		3.33	2.45
5	technology upgradation	V		3.52	2.53
6	market behaviour	VI		3.83	2.62
7	Facing emerging risks	VII		4.92	1.54
8	Adaptation to new environment	VIII		5.65	1.32
9	Frequency of meeting claims	IX		6.72	0.97
10	Data mining & storage	X		7.50	-2.71

**Graph-1**

**Analysis of problems of Detariffing to Insurers in India**



**6.2 Analysis of Prospects of Detariffing to Insurers in India**

\* On the basis of mean Product Innovation (3.32) emerged to be the top prospect followed by the Pricing befitting to survival ( 3.78) and satisfied customers ( 3.87) and Considerable rural coverage

(4.65) ranked second and third ranks respectively.

\* The least preferred rank of prospect is its range of services ( 6.23 ), followed by Increased savings (6.65) and Ensured Quality services (7.50) ranked eighth and ninth respectively.

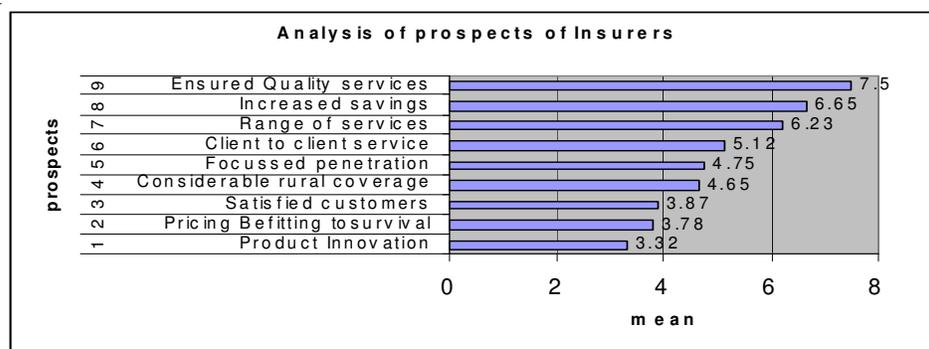
**Table - 2**

**Analysis of Prospects of Detariffing to Insurers in India**

SI No.	PROSPECTS TO INSURERS	Rank Acc to Mean	MEAN	STD DEV
1	Product Innovation	I	3.32	2.40
2	Pricing Befitting to survival	II	3.78	1.76
3	Satisfied customers	III	3.87	2.72
4	Considerable rural coverage	IV	4.65	2.73
5	Focussed penetration	V	4.75	2.14
6	Client to client service	VI	5.12	2.23
7	Range of services	VII	6.23	2.10
8	Increased savings	VIII	6.65	2.83
9	Ensured Quality services	IX	7.50	2.83

**Graph-2**

**Analysis of Prospects of Detariffing to Insurers in India**



**6.3 Analysis of Problems of Detariffing to Insured in India**

\* The table 3 depicted on the basis of mean reveals Illiterate on product assortments ( 2.62) poses out to be the most important problem and was ranked first by the respondents followed by Delay in settlement of claims (3.32) and Conflicting

Channel of distribution ( 3.75) which were given second and third respectively.

\* Absence of Professional caliber (5.41) is found to be least important so ranked at eighth position succeeded by Policy coverage ( 6.42) which came on ninth slab.

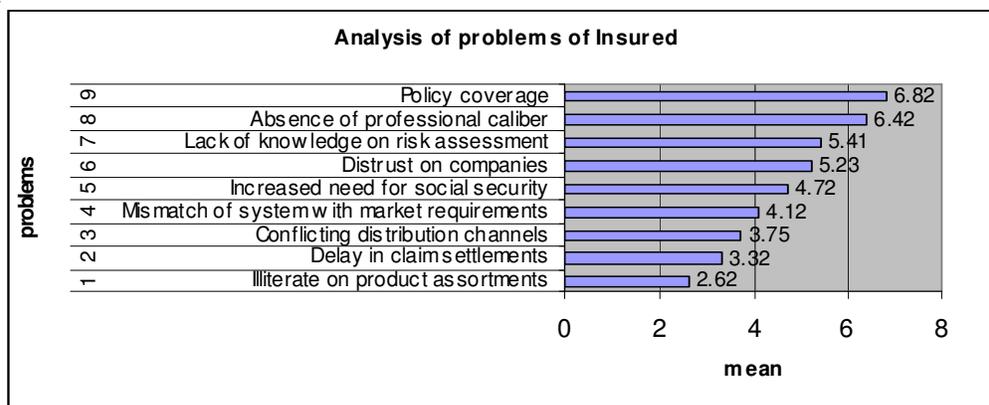
**Table - 3**

**Analysis of Problems of Detariffing to Insured in India**

S NO	PROBLEMS TO INSURED	Rank	Acc To Mean	MEAN	STD DEV
1	Illiterate on product assortments	I		2.62	1.72
2	Delay in claim settlements	II		3.32	2.21
3	Conflicting distribution channels	III		3.75	1.84
4	Mismatch of system with market requirements	IV		4.12	1.88
5	Increased need for social security	V		4.72	2.01
6	Distrust on companies	VI		5.23	1.76
7	Lack of knowledge on risk assessment	VII		5.41	2.32
8	Absence of professional caliber	VIII		6.42	1.74
9	Policy coverage	IX		6.82	1.90

**Graph - 3**

**Analysis of Problems of Detariffing to Insured In India**



**6.4 Analysis of Prospects of Detariffing to Insured in India**

\* As revealed in the graph 4, Wider choice of product (2.56) came out to be the most important prospect and ranked one followed by Benefit of Availing Tailor-made products( 2.81) and Befitting to Customers Requirements ( 2.83) ranked second and Third position.

\* Risk assessment on case to case

(5.42) poses to be least important prospect for Insured preceded by Market Innovation (3.91) ranked on sixth slab.

**7. A SNAPSHOT OF DETARIFFING – SWOT ANALYSIS**

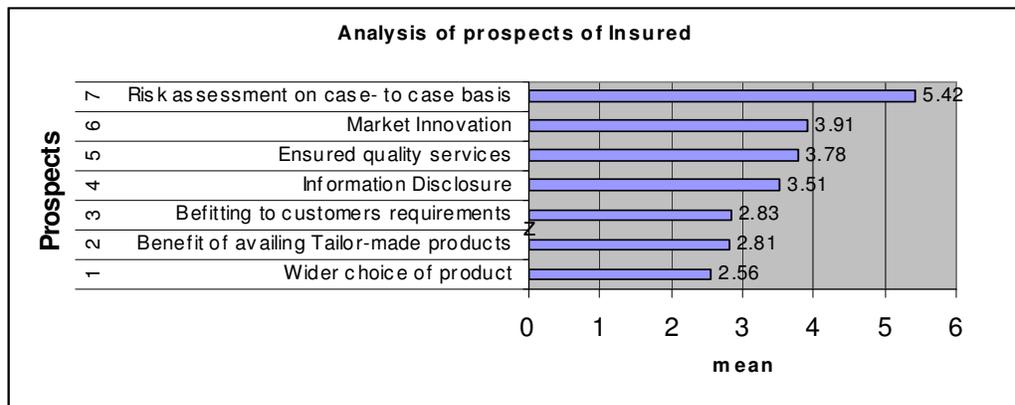
**Strengths**

- Well established Brand Image & Value
- Wide spread marketing network
- Multi channels of distribution

**Table - 4**  
**Analysis of Prospects of Detariffing to Insured in India**

S NO	PROSPECTS TO INSURED	Rank	Acc. To Mean	MEAN	STD DEV
1	Wider choice of product	I		2.56	1.42
2	Benefit of availing Tailor-made products	II		2.81	1.54
3	Befitting to customers requirements	III		2.83	1.21
4	Information Disclosure	IV		3.51	1.81
5	Ensured quality services	V		3.78	1.32
6	Market Innovation	VI		3.91	1.42
7	Risk assessment on case- to case basis	VII		5.42	1.36

**Graph - 4**  
**Analysis of Prospects of Detariffing To Insured in India**



- Adequate funds & financial strength
- Government guarantee
- Massive customer base with loyalty & faith
- Considerable rural coverage
- Range of services
- Innovation of products
- Focused penetration
- More operational flexibility
- Scope for Technology up gradation
- Standardized risk assessment
- Increased reliability on industry
- Appropriate customer segmentation
- Targeted service offerings
- Enlarged micro insurance regulations
- Market innovation & professionalism

**Weaknesses**

- Poor customer service
- Lack of investment in technology
- High operational cost

- Low automation
- Absence of professional caliber
- Mismatch of business system & market requirements
- Structural weakness
- Distrust in the system
- Innovation of competitors
- Transparency in rules & regulations
- Lack of fairness in dealings
- More demanding customers
- Conflicting channel of distribution
- Delay in settlement of claims
- Stress & strain in product marketing
- Lack of up gradation of human capital

**Opportunities**

- Tremendous potentiality to cover
- High growth potential
- Increased savings
- Attractive burgeoning middle class
- Increased need of social security

- Expansion through competition
- Enhanced consumer awareness
- Entering new areas like banking & pensions
- Marketing tie ups with professionals
- Mobilization of extra savings and their redistribution
- Better product mix
- Reduced price of insurance products
- Better customer education
- Specific risk underwriting
- Value addition in total services
- Better chances for synergies.

### Threats

- Intense competition
- Convergence with new business
- Erosion of advantages
- Unique position of LIC
- Increasing customer expectation
- Threat to market share
- Shrinking profit margin
- Employee turnover
- Conversion of financial services
- Entry of foreign players –more advantageous position

- Ensure quality service
- Illiterate customers
- Adoption to new business environment
- Achieving corporate governance
- Consisting data capturing
- Increased regulatory framework

### 8. CONCLUSION

To conclude “Detariffing” is going to benefit the industry as a whole. The survey results thus show similar opinion of Insurers and Insured with respect to different variables. But success of Detariffing would mostly depend on how well Insurers and Insured understand each other’s businesses and seize the opportunities presented, weeding out differences that are likely to crop up. Proper plan developed by all industry players would be based on leveraging strengths vested in the Indian Insurance Industry, rectifying the weaknesses and overcoming the Threats so as to emerge as a “winner” in this liberalized and competitive environment.

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