3.1 INTRODUCTION

Since 1972 with the nationalization of non life insurance sector in India, fixation of tariff was also undertaken by the Tariff Advisory Committee (TAC). During the post nationalisation period it worked well; but with the opening up of the sector to private underwriters the fixation of tariff was at a centre stage of debate between the government, regulating agency, foreign insurers and domestic players. The Malhotra Committee also recommended gradual removal of tariffs in the non-life insurance sector. With the entry of private players in the non-life sector, there was consistent pressure for deregulating the pricing from the insurers as well as the intermediaries for allowing some space to the private players. Detariffing which is the opening up of the market to free pricing and flexible policy terms and conditions was supported by all stakeholders. Understanding that dismantling of tariffs was the need of the hour but at the same time will reinforce competition; IRDA took measures to tread cautiously. This was necessary to provide protection to the new-born private insurers which would bleed to death in the cut-throat competition. IRDA, therefore, had to wait a full six years period after opening up of the market giving enough time to the private entities to mature and establish themselves so as to be in a position to acquire shock-absorbing capacity. So, the IRDA at the apex decided to follow process of detariffication in stages. Initially, IRDA allowed only the free pricing from 1st January, 2007 to 31st March, 2008 with existing terms and conditions of the policy. Flexi-wordings were allowed from 01.04.2008. The segments which were under the tariff regime were Fire, Motor and Engineering. In view of the continuous losses incurred by the industry in the past decade under the motor portfolio, the IRDA constituted the Justice Rangarajan Committee, followed by the S V Mony Committee to examine various issues in the Motor portfolio. As a follow up of the recommendations, the Authority proposed to de-tariff the Motor
Own Damage segment of the Motor portfolio with effect from 1st April, 2005. However, most of the insurers expressed the view that detariffing Motor Own Damage segment alone will not be sufficient and opined that either the entire of the motor portfolio should be de-tariffed or only selected segments which are currently under the tariff control be de-tariffed. The argument put forward by the industry against partial de-tariffing is that it would lead to gross undercutting of rates resulting in cross subsidization and therefore substantial reduction in premium as was experienced when Marine Cargo Insurance was de-tariffed in 1994. On the other hand de-tariffing in one go may have an impact on the financial condition of the companies, at least in the short-term, though it may stabilize later on. [1]

3.2 MEANING OF DETARIFFICATION

Detariffing means differential rates depending on the rating factors, but 'unfair' discrimination, that is, differentiation not based on scientific and credible structures should not be practised. [2] The dictionary meaning of detariff is “the removal of pricing regulations of an industry, set forth by tariffs created by a regulatory body”. Detariffing is the opening up of the market to free pricing at market value and discontinuance of price regulation with the objective of promoting market equilibrium. Earlier insurance companies followed the prices set by TAC and they sold similar type of products.

3.3 DE-TARIFFICATION IN NON-LIFE INSURANCE INDUSTRY:

Earlier the insurance companies operating in the market followed the premium rates, terms, conditions, advantages on a policy set by the Tariff Advisory Committee. The TAC covered all the non-life business relating to Fire, Marine, Motor, Engineering and Workmen Compensation policy and as such the insurers had no control over the
premium rates as well as the policy terms. There was not much differentiation between the products offered and premium charged by the various insurers. Under such circumstance the public sector insurers were in a better position than the private sector insurers. The public sector insurers had started operations long back and had created assets as well as had established large network of branches and distribution channels over the years thus the expenses on acquisition of business was low. While the new entrants were spending more on establishment and expansion of network through branches and insurance personnel which increased their operating cost. So there was a practice of unhealthy competition prevailing in the market. And thus responding to the needs of the industry and in accordance with the Malhotra Committee recommendation, the non-life insurance sector in India was de-tariffed with effect from 1st, January 2007. The detariffication of the non-life insurance industry allowed the insurance companies to decide and charge the premium on the products offered by them based on their prudent analysis and perception of the risk to be underwritten.

In India the detariffication is removing the controlled tariff rates as fixed and regulated by the Tariff Advisory Committee and allowing the insurers to set their own prices. The Tariff Advisory Committee which was constituted under Section 64(U) of the Insurance Act, 1938 was regulating the premium rates for the non-life insurance industry in India. With the detariffication of the market the non-life insurance companies were set free to decide the premium rates to be charged from the policyholder. The introduction of a free pricing regime where public as well as private insurance companies are free to fix premiums was probably introduced keeping in mind that it will encourage scientific pricing techniques so as to face the competition and sustain in the market and will result in better risk management practices to be followed by the insurers. It was also expected
that with intense competition the urge to lead the market will grow and the insurer will develop innovative customer friendly products and enhance the quality of service.

The IRDA adopted a phased approach towards de-tariffing the non-life insurance sector.

- In the First phase which started in 1st January, 2007 a Partial pricing flexibility was allowed to the insurers according to which they were given the freedom to only change in pricing
- In the Second phase from 1st April, 2008 the IRDA allowed the insurers to make changes in the policy document including policy wording, terms, tariff rules & regulations. This was the Full pricing flexibility given to the insurers.

3.4 REASON FOR NOT DETARIFFING THE LIFE INSURANCE INDUSTRY

In the case of life insurance products the premium rates are mainly based on the factors like:

- age of the life to be insured,
- mortality table
- expenses of management
- Reserves for unexpired risk.

Since the risk based on the age of the person and the mortality table remains the same for all the insurers so the premium rates cannot be influenced by individual insurers. The premium rates and charges for life insurance products are based on the actuarial assumptions on the identified parameters, which include investment returns, operating expenses, rate of inflation, rate of lapsation of policies, mortality and morbidity rates, and applicable tax provisions. If there is a negative deviation in the actual experience as against what was anticipated at the time of pricing of products, it would result in a loss to
be borne by the Policyholders’ Account, which may ultimately have to be borne by the shareholders, due to various statutory compulsions. Again the contract of life insurance is long term and in most cases policies are of savings type so the insurer has the liability in all the situations to repay the premium amount as claims. While in case of non-life insurance the contracts are renewable yearly and thus the obligation of insurer is valid for only one year. This provides better solvency position to the insurers at the same time better profitability. The profitability of non-life insurers is high and is based on the expenses made by them. Therefore, with the common factors affecting the risk and the longer duration of the policies the differentiation in pricing of products by life insurers is not possible.

3.5 DETARIFFING OF MARINE CARGO IN 1994

The Indian Experiment of detariffing the Marine Cargo business in India in April 1994 was not a success. The marine cargo tariff had been built-up over the years in stages but the detariffing was done in one go. In 1995, the year immediately following detariffing, saw a sharp fall in total marine cargo premium. At the time of de-tariffing of marine cargo business, the insurance market in India was under the public sector; and it was very much expected that the four entities under the public sector set up are in a position to take combined action to face and control the adverse consequences. Despite this, it took nearly three years for the market to achieve stability and then again in the year 2000-2001 the industry witnessed sharp fall. Perhaps, the non-life insurance industry had learned a lesson from the chaotic situation created in the industry after the detariffing of Marine Cargo business and thus was prudent enough not to repeat the same mistakes. Therefore, this time the industry was approaching with strong preparation and regulations which were missing in the earlier stage of detariffing in1994. The IRDA as
the regulating agency had taken valuable lessons from the earlier pitfalls which were faced by the insurance industry in the absence of a regulatory guidance. The emphasis was to equip the insurers for facing the competition in the market and employing prudent underwriting practices in the detariff scenario.[3]

3.6 REASONS FOR MOVING FROM A TARIFF TO DETARIFF REGIME

Liberalisation of the insurance market in the beginning of the century and allowing private players to compete with the public players was the first generation reform undertaken in non-life industry. To infuse healthy competition in the market it is necessary to allow deregulation in pricing mechanism. Therefore, deregulation of the insurance market requires deregulation of the pricing policy and hence came into existence the deregulation of non-life insurance products pricing called “detariffication”. The major reasons for moving from a tariffed to a free market regime are discussed as follows:

- To keep pace with the developing nations of the world, detariffication was the need of the hour because most of the developed and developing nations like China, Japan, Korea, UK, Saudi Arabia have detariffed insurance market.
- The strict regulations followed by IRDA for controlling the liberalised insurance market restricted the flexibility in pricing which resulted in poor competition.
- Strongly regulated mechanism and full control over the pricing mechanism created obstacles in the path of product innovation.
- Profitability was a serious concern for the new private entrants to sustain in the market as their operating cost was very high compared to the four public sector units. Therefore, the public entities were least concerned with profitability which put the private entities on weaker side.
• To introduce competition and to provide better services at better prices to the customer.

All the above mentioned reasons prompted IRDA to de-tariff the non-life insurance industry in India.

3.7 REGULATORY REQUIREMENTS FOR DETARIFFING:

IRDA as the regulator of the insurance industry in India prepared and circulated a roadmap to be followed by all the insurers as a step towards detariffing in September, 2005. This was a step to fully prepare the insurers for de-tariff regime and laid stress on an orderly transition from the tariff market to free market from January, 2007 and to prepare well all the insurers to face the changed scenario and provide the insurers with sufficient time to clearly define the role and responsibilities of people at different positions for efficiency in performance. IRDA and TAC prepared Revised Draft Procedural Guidelines on ‘File & Use Guidelines’ for the non-life products. Meantime IRDA drafted report to the Government of India for suitable amendment of certain provisions of the Motor Vehicle Act so as to facilitate creation of legal framework necessary for de-tariffing of Motor Insurance.

In other words, for the smooth functioning of the industry after deregulation of prices certain areas were identified to be evaluated to check the preparedness of the entities for de-tariff regime. To initiate the process of detariffication in a systematic manner the IRDA developed the following roadmap to be followed by the insurance companies.

• To frame clear corporate underwriting guidelines for each segment of business undertaken by the insurers;

• To identify the roles and responsibilities of the officials at various levels for better performance; clearly defining the role of Appointed Actuary,
Moderator and Compliance Officer of the company for designing and proper pricing of products.

- Clearly ruled out the role and accountability of IRDA as the Regulator in the detariffed scenario;
- Accountability of the policyholders by way of disclosures and transparency;
- The introduction of “File and use” method of product filing for better performance and issued draft guidelines on File & Use requirements.
- Establishment of a good IT enabled system with capability for rating support and analysis of experience as well as review of underwriting;
- Establishment of an efficient internal audit department by each insurer for better control.

3.8 ADVANTAGES OF DE-TARIFFICATION IN INSURANCE INDUSTRY

Every cloud has a silver lining similarly the detariffication is also subject to advantages and disadvantages. In the next paragraphs a discussion on the pros and cons of detariffication in insurance in general parlance has been done. The following are the benefits of removing of tariffs.

- Detariffication will infuse competition among the insurers and this will serve as impetus for the insurers to improve efficiency so as to sustain in the competitive market.
- Efficiency in performance of insurers will lead to reduction of cost of operation and thus the premium rates will be reduced which will benefit the customers.
- Deregulating the economy is incomplete without deregulation the pricing mechanism therefore Detariffication is a part of the reforms towards liberalized economy.
• Price deregulation will lead to innovations in the process of distribution of products by the private as well as public sector insurers which again is a benefit to the customers.
• Competition will encourage innovation to be carried out in all the phases viz. designing, underwriting, marketing, servicing etc.
• Stiff competition in deregulated market will encourage increase in the number of differentiated products offered by the insurers
• Mandatory Licensing requirements and maintenance of solvency margin by the insurers, ensures that only financially and technically strong are allowed to enter the market.
• Aggressive marketing strategies adopted by private sector insurers will contribute a lot to upgrade the public sector insurers.
• Deregulating the pricing mechanism is necessary to keep pace with the other developing nations throughout the global;
• It is a boon and will create convenience for the consumer with many differentiated products.
• To achieve desired insurance penetration and density levels in the existing non-life Insurance market;
• Give a new look and shape to this industry

3.9 DISADVANTAGES OF DETARIFFICATION IN INSURANCE INDUSTRY

The following are the disadvantages of de-regulation of the sector.
• De-tariffication may make lead to undue increase in premium by the insurers and thus insurance products may not be available at reasonable premium.
• Companies operating in the market may form cartels and jack up the premium.
• Free market may lead to insolvency of companies and loss of protection for policyholders.

Having discussed the advantages and disadvantages of detariffication, it is felt that the benefits are on the higher side and it is the need of the hour. Although the disadvantages cannot be neglected altogether; therefore IRDA as the regulator prepared the industry well in advance to execute the detariffication process in the industry. To overcome the disadvantages of detariffication IRDA imposed regulatory control on the performance of the insurers in deregulated market. The execution and monitoring of the detariffed market by the IRDA has been discussed in the following paragraphs.

3.10 EXECUTION AND ADMINISTRATION OF DE-TARIFFICATION BY IRDA

The manner of execution of the scheme of detariffication by the IRDA has been deliberated here under. The first step initiated by IRDA towards detariffication was formulation of an ideal tariff rate set up by TAC as the base rate to be adapted by the insurers in the non-life segment of the business. The insurers were given the liberty to charge premium on their products taking the ideal rate as the base rate for calculation. The mandatory requirement to follow the base rate for premium calculation kindled competition among the insurers which was one of the primary purposes of detariffication of the industry. Before de-tariffication; the policy documents used standard wordings set by the TAC but with detariffication the insurer were allowed to change the wordings but with prior approval of IRDA. The detariffing process was implemented in a slow manner divided in two stages so as to make it less chaotic for the insurers. In the first stage administered pricing was withdrawn allowing free pricing of products as such
the tariffs were withdrawn in the Fire, Engineering and Workmen’s Compensation businesses with effect from 1st January, 2007. In the second stage the insurers were allowed to make changes in their existing policy coverage wordings, terms and conditions. This was initiated with effect from 1st January, 2008. The removal of tariffs was one of the most important steps taken in the non-life insurance industry since opening up of the insurance sector to private players. Before de-tariffication about 70% of the non-life business was driven by tariffs being prescribed by TAC. The major classes of non-life business under tariff were fire, petrochemicals, engineering and motor insurance. However, the purpose of detariffing the industry was to ensure that the premium rates were fixed by the insurers on a scientific method of rating. But a major hurdle in the process was the non-availability of updated data and the absence of a proper system to disseminate the data to the public. The four PSU insurers operating in the market since nationalisation of the industry in 1972 failed to publish consolidated data on the various classes of non-life insurance business underwritten by them.

For the successful implementation of price deregulation in the non-life industry the IRDA made the following requirements to be fulfilled by the insurance companies.

- Design and rating of products must always be on sound and prudent underwriting basis. The contingencies insured under the product should be clear and provide transparent cover which is of value to the insured. Prudent underwriting means that the insurer should only offer insurance of risks that are quantifiable and manageable and where the premium can be properly assessed. The cover should be clearly defined and should provide value to the person insured.

- All literature relating to the product should be in simple and easily understandable language. All technical terms should be clarified in simple
language and there should not be any terms that may mislead the reader to assume that the product is offering protection that it really does not.

- The product should be a genuine insurance product of an insurable risk with a real risk transfer. “Alternate risk transfer” or “financial guarantee” business in any form will not be accepted i.e. the event insured should be an unforeseen occurrence not under control of the insured.

- The insurance product should comply with all the requirements of the Protection of Policyholders’ Interests Regulations 2002. In case of some personal lines products such as health insurance, there should be provision to inform the policyholder well in advance of expiry date if his insurance is not to be renewed. In respect of products planned to be sold through tele-marketing or e-selling or as an added benefit with other transactions, particular attention should be paid to safeguards against improper selling practices.

- Insurers should use as far as possible, similar wordings for describing the same cover or the same requirement across all their products. For example clauses on renewal of insurance, basis of insurance, due diligence, cancellation, arbitration etc., should have similar wordings across all products. Wordings should be in simple language that is easy to follow. Where renewal is not automatic in a class of business where there is an expectation of continuity such as health insurance, the prospectus should clearly mention it.

- Cancellation by the insurer should only be allowed with sufficient period of notice (at least 15 days) so that the policyholder will have enough time to find alternative insurance cover. Cancellation in a class of insurance like health insurance should be made subject to proper justification. Cancellation just because the insured made a claim should not be allowed. The policy should
provide simple disputes resolution procedures and also state in simple language the process of arbitration of disputes.

• The pricing of products should be based on appropriate data and with technical justification. Where the proposed schedule of rates are derived from an existing schedule of rates irrespective of whether or not the class of business is a tariff class, there should be adequate statistical information on the claims experience at current schedule of rates. Where the rates are based on the generally prevailing market level of premium rates, the insurer should be able to demonstrate the reasonableness of the variation from the currently prevailing level of rates. Where the rates proposed are based on reinsurance market level of rates, the insurer should be able to demonstrate that the rates of the reinsurance markets have been properly ascertained and represent rates quoted by re-insurers of repute. Where the rates are based on non-insurance technical data, the insurer should be able to defend the logic underlying the establishment of the estimated claims costs from which the rates are derived. It is permissible to have two sets of rates, namely rates subject to payment of agency commission and net rates where the client comes direct. However, the insurer should make due allowance for the expenses it will incur for doing the work that an agent or broker will do when the business comes through him.

• The terms and conditions of cover shall be fair between the insurer and the insured. The conditions and warrantees should be reasonable and capable of compliance. The exclusions should not limit cover to an extent that the value of insurance is lost. The cover provided should be of value to the policyholder and should offer needed protection. The policyholder should not be forced to buy covers that he does not need as a pre-condition of being granted cover that he
needs. The time allowed for reporting of claims should be reasonable. The policyholder should not be required to do things that are onerous after a claim to maintain his eligibility for protection nor should the policyholder be prevented from resuming his business expeditiously by the claims process.

- Margins built into rates shall be consistent with the experience of the insurer in respect of commission, management expenses, contingencies and profit. The margin for commission built into the rates should be that level at which commission or brokerage will be paid. While the law only states the maximum rates of commission that can be paid, it is open to insurers to design products with lower rates of commission so long as the manner of marketing such a product can be sustained at the low rate of commission built into the rates. Expenses of management will generally reflect the overall expense ratio of the insurer in recent past. However, it is possible to design products at a different margin for expenses where the insurer can demonstrate that the expenses of management for that particular product will be different either because of the characteristics of the potential market or the sales mechanism or administration of that type of insurance. Insurers will not be arbitrarily allowed to design products at very low margins merely to beat competition. However, if an insurer consciously provides lower than appropriate margins in design of its product and makes adequate provision to cover the deficit that is bound to arise due to under-pricing, such a product may be permitted for an initial period as a promotional period subject to the company being able to absorb the financial strain without affecting its solvency margin. Such conscious underwriting at a loss should also be reported to the Board for its approval.
Insurer should take necessary steps in ensuring that competition will not lead to unprincipled rate cutting and other improper underwriting practices. Although this is a statement of the obvious, the fact that an insurer has to provide such a confirmation should act as an indirect deterrent to improper practices. The underwriting policy of the insurer shall be placed before the Board of Directors (and not merely a committee or sub-committee of the Board) for their approval. Product design, rating, terms and conditions of cover and underwriting activity shall be consistent with the approved underwriting policy of the Board. A copy of the underwriting policy paper as approved by the Board shall be filed with IRDA without delay. It is necessary that the Underwriting Policy is placed before the whole Board and not just a Committee of the Board. The policy should not give unfettered discretion to the management to quote untenable rates or make inadequate reinsurance arrangements in respect of large accounts. All important decisions must require at least two senior executives who are not directly one above the other, to approve the decision.

Except for Motor Third Party Liability, for all other new and renewal insurance business effective on or after 1st January 2008, insurers shall be free to quote rates of premium in accordance with the rate schedules and rating guidelines that have been filed with the Authority. The premium rates for Motor Third Party risks will continue to be regulated by the Authority. The business which are qualified as large risks under paragraph 19(v) of the circular no. 021/ IRDA/ F&U/ Sep-06 dated 28th September 2006 shall be insured at the rates, terms and conditions and basis of insurance exactly as the rates, terms etc. as developed from the re-insurers without allowing for any variation by the insurer. The IRDA made it mandatory for the insurers to file the products with the IRDA and get its approval for selling it in the market. As such the circular no. 021/IRDA/F&U/Sep-06
dated 28th September 2006 with regard to the filing of products and rates schedules and rating guides and manuals were to be applied as amended from time to time. [5]

3.11 PRODUCT FILING IN DETARIFFED MARKET

All products which are offered by the insurers to the public are to be filed with IRDA for approval. After approval the products can be used in the market. The IRDA had issued a circular in December, 2000 for filing of insurance products with the Authority under File & Use procedures. Subsequently, based on the review of the responses received from the insurers, the circular was modified and a revised circular no. IRDA/Gen/FuP/Feb 2001 was issued on 26th February, 2001. In line with the guidelines mentioned therein the Authority has given clearance to a number of non-tariff products under File & Use procedures. Whenever a new non-tariff product is filed under the File & Use procedures, along with the details provided in the application form the IRDA looks into the areas which were Policy wordings, Premium rating and underwriting systems, Target segment for the product, Sales process, Claims management and the Protection of Policyholders’ interests. However, whenever a revision of the existing product is filed, besides the above parameters the past experience of the existing product in the market and the reasons for bringing out another version has to be provided. The premium rates intended to be charged on providing the cover are required to be filed along with supporting data justifying that the rate charged are adequate and not discriminatory. It was mandatory for the Insurers to take necessary steps to ensure that competition will not lead to unprincipled rate cutting and other improper underwriting practices.[6]
3.12 REVIEW OF PERFORMANCE OF VARIOUS COMMITTEES ON PRICE DEREGULATION:

3.12.1 RANGARAJAN COMMITTEE

IRDA had set up a Committee on Motor De-tariffing under the Chairmanship of Justice Rangarajan. And on the basis of its Report, it has been decided to de-tariff the Motor Own damage section from April, 2005 onwards. Based on the recommendations of the Rangarajan Committee it was decided to introduce the system of free pricing on the Own Damage portion of Motor Liability, effective 1st April, 2005.

3.12.2 S V MONY COMMITTEE

With a view to paving the way for smooth transition to the de-tariffed regime for the Motor Own Damage segment, the Authority constituted a Committee under the Chairmanship of Mr. S.V. Mony. The Committee was set up to examine the alternatives to prepare the road map for free market availability of the products, and to recommend initiatives to be taken to ensure a smooth transition from a tariffed market, including adoption of differential tariff.

The terms of Reference of the Committee were as under:

- Preparation of blueprint for pricing of Motor Own Damage insurance in line with the international best practices;
- Examine the need for standardisation of rating modules to avoid discrepancies;
- Necessity of “file and use” system of products filing with the regulator in the absence of a tariff;
- Whether scope of cover needs to be uniform for all insurers or free market conditions could prevail;
During its deliberations, the Committee examined various aspects pertaining to de-tariffing, identification of the parameters for product pricing, deregulation practices followed in other nations and also took inputs from the actuarial profession.

RECOMMENDATIONS OF THE MONY COMMITTEE INCLUDE:

- Ensuring orderly growth of the free market with adequate safety mechanisms including continuation of the Authority’s stipulated cap on loading (premium increase) up to a maximum of 100 per cent in case of adverse claims experience;
- Intervention (by the regulator) required to ensure access to affordable insurance policies and to ensure solvency of the insurers;
- Third Party Liability (TPL) cover which is mandatory to be “quarantined” from removal of tariffs;
- The Regulatory framework should ensure that cover is not denied to a prospective policyholder;
- Evolution of a “competitive premium setting model” in due course;
- The insurers to justify pricing of their products through the ‘file and use’ procedure;
- Hike in tariff rates by the insurers to be supported by statistical data. [7]

3.13 INTRODUCTION OF FREE PRICE REGIME:

Introduction of a free-pricing regime provided an impetus to the non-life sector by withdrawing the administered pricing mechanism in respect of fire, engineering and motor insurance from 1st January, 2007. The free-price regime has led to a reduction in cross-subsidisation between tariff and profitable portfolios like fire insurance. The new regime is also partly responsible for inducing insurers to design new, innovative and
suitable products for different sets of customers. IRDA allowed full de-tariffing, hence not a single product is now under Tariff. All insurers are having their individual guide rates with their own scale of rating pattern and discount considerations approved by IRDA.

In order to facilitate filing of products to be used in de-tariffed market, the Authority came up with draft guidelines on File & Use requirements for non-life insurance products. It stipulated the requirement for obtaining board approval for underwriting policy, the responsibilities of the Compliance Officer, Classification of Products for filing, Data support and Role of Appointed Actuary etc. needed for non-life insurance has been increasing in India.

Since the liberalisation of the sector, several international non-life insurance companies have entered the market owing to the enormous opportunities in the sector. Insurers like Bharti Axa, Future Generalia, L&T General, Liberty Videocon, Magma HDI, Raheja QBE, SBI General and Shriram joined the market after de-tariffication was announced.

While the public sector insurers remain the dominant players in the industry, the gap between the top private players and the public entities has narrowed substantially over the last few years. The private entities have proved to be more innovative and have introduced competitive products with specialised features, especially for personal lines policies. Aside from outperforming the public sector in terms of overall business growth, private companies are also getting a more favourable business mix. This is because the public incumbents are not allowed to decline certain unprofitable businesses like motor insurance. That has left private companies free to focus on more profitable lines of business like property insurance and engineering insurance, while limiting their exposure to motor insurance, especially third-party risks, where the histories of claim are considerably worse.
Prior to detariffication, the private players had a market share of 34% of the total market premium. In the first year of implementation of the de-tariffication of the non-life industry the share of public sector players dropped to 61% and the private sector rose to 39% of the total market premium.

3.14 ROLE OF TARIFF ADVISORY COMMITTEE IN DETARIFFED SCENARIO

With the abolition of tariffs in 2007, the role of Tariff Advisory Committee has undergone a change, the statutory powers given to it were taken away by the IRDA. In the detariffed regime the insurers were at liberty to set their own prices so the TAC was expected to perform the following functions in the changed scenario.

- Collection, analysis and dissemination of data on premiums and claims and making the results available to the insurers.
- Report to IRDA on the underwriting health of the market and any irregularity observed in market behaviour.
- Constitution of Expert Groups at the request of the General Insurance Council, to look into underwriting issues and recommend necessary action.
- Organize training to underwriters at the market level; and
- Attend to public grievances on non-availability of insurance and try to resolve the issues by discussion with insurers.

Henceforth the TAC was dissolved vide Section 64 ULA (2) of the Insurance (Amendment) Bill 2009. The draft section proposed in the Amendment Bill is indicated as under: “Section 64 ULA (2): The Authority shall, in consultation with the Central Government, prepare a scheme for the existing employees of the Tariff Advisory Committee on its dissolution, keeping in view the interests of such employees on such
terms and conditions as it may, by Order determine.” And as such, the TAC employees were offered Special Voluntary Retirement (SVR) under two schemes namely Special Voluntary Retirement Scheme (SVRS) 2009 and 2010. As per an order of the Central Government on 1st February 2011, the remaining employees of TAC were deployed among the existing public sector insurers and a committee was constituted by IRDA to oversee the disposal of all the assets and properties of TAC. The Central government assigned the remaining activities and the court cases of the TAC to the IRDA. TAC had prepared itself well for sustaining in the detariff market by equipping itself to facilitate determination of rates, terms and advantages which insurers could offer on non-tariff products. The IRDA deputed the Tariff Advisory Committee as the data repository for the Non-Life Insurance industry.

3.15 REFORMS IN THE DE-TARIFFED PERIOD

During the course of study period on the impact of detariffication the important events that have made direct bearing on the performance of the insurance entities have been discussed briefly so as to give a picture of the regulatory environment in which the non-life insurance companies are operating. The business of insurance has been directly influenced by the issue of license to banks as insurance brokers, levy of Service Tax on insurance industry and the raising cap of Foreign Direct Investment (FDI) limit to 49%. All these are important factors having bearing on insurance penetration as such has been discussed below.

3.15.1 IRDA (LICENSING OF BANKS AS INSURANCE BROKERS) REGULATION, 2013

The IRDA Regulation, 2013 gives the insurer the advantage of having tie up arrangements with numerous public, private, foreign and co-operative banks to sell
insurance products of multiple insurers. The insurers were allowed to tie up with only one bank till the passing of this act. The new bill has liberalised this control and as such insurer can have as many tie up arrangements as they wish and will be enabled to contribute to those areas which were left unaddressed. Probably the level of penetration of the insurers should show an upward trend and also succeed in improving the level of penetration by tapping the untouched areas.

3.15.2 IMPLICATION OF NEW SERVICE TAX

In India Service tax is an indirect tax levied by the Central Government wherein the service provider collects the tax on services from service receiver and pays the same to government of India. Person liable to pay service tax is governed by Service Tax Rules, 1994, the service tax payer may be a service provider or service receiver or any other person made so liable. The introduction of service tax was based on the recommendations of the Dr. Raja Chelliah Committee on tax reforms. On the recommendation of the committee Service tax at a rate of five per cent flat was introduced from 1st July, 1994 till 13th May, 2003. The rate of service tax was increased to 12% by Finance Act, 2006 and the Finance Act, 2007 has imposed a new secondary and higher education cess of one percent on the service tax increasing the total education cess to three percent and a total levy of service tax at 12.36 percent. The revenue from the service tax to the Government has shown a steady rise since its inception in 1994.[12]

The total number of Taxable services also increased from 3 in 1994 to 119 in 2012. From 1st June 2015, service tax rate has been increased to consolidated rate @ 15% of value of services provided or to be provided. The service tax rate now is consolidated rate as education cess & secondary higher education cess are subsumed with 2% of "Swachh Bharat Cess(0.50%)" has been notified by the Government. From 15 November 2015,
the effective rate of service tax plus Swachh Bharat Cess, post introduction of Swachh Bharat Cess, will be 14.5%.

Insurance premium attracts some tax relief as a measure of incentive to the general public by the government in most of the nations of the world. Even the insurance proceeds (claim amount) is exempted from tax as it is a fund meant to mitigate hardship caused due to some unexpected event causing financial loss to individuals. These Tax rules vary from country to country; in United States premium on personal life insurance is treated as a personal expense of the policyholder hence is taxed but death claim proceeds are tax-free. While in the United Kingdom, claim proceeds are not taxed but inheritance tax is charged on the death claim amount. But the scenario is completely different in India. The Estate Duty stands abolished in India since 1985 allowing the claimants to enjoy the full value of the death claim proceeds. Till the imposition of service tax on life and non-life insurance premium few years back in India, there was no tax on insurance premium. Today the service tax is payable on a life as well non-life policy along with the premium. [13] Even after opening up of the insurance sector for fifteen years the sector has not gathered momentum. And the levying of tax as an extra burden on the policyholder should be lowered down on individual, health and motor insurance policy so as to make the premium attractive. The government must consider this issue with open mind and give a boost to the insurance business in India by helping the industry to sell products at affordable rate. Service tax is definitely looked upon as a burden in the transaction between the prospective policyholder and the insurer. [13] At this stage the government needs to popularise insurance products among the public even the revenue generation from this industry is low. There are arguments against imposition of tax on insurance premium firstly; there is no service tax on investments made in fixed deposit or provident fund. Secondly, to accelerate the growth of insurance penetration in
the country is the need of the hour; imposition of tax on premium will have a negative impact. So, against these backdrops the tax structure needs to be rationalised. [14] Although the industry has increased their share of business yet tax imposition has created hurdles. The non-life business made a significant growth of 16% after liberalisation from the financial year 2000-01 to 2013-14 which can be attributed to factors as expansion in the customer base, innovation in products offered by the insurers, betterment in the services provided by players and awareness among the masses. But there were some other factors that acted as barriers to the growth of the industry and among these one most important factor is the levy of new service tax on insurance premium paid. The hike in the service tax from 12.36 percent to 14 percent in the financial year 2015 budget will increase insurance premiums for customers and act as a strong detriment to the profitability of the insurance companies. [15] The total Gross Written Premium (GWP) during year 2015 for the Non-Life Indian Insurance Industry was Rs 84,715 crore as compared to Rs 77,541 crore during FY 2014 registering a growth of 9.3 percent, a three-year low, according to IRDA data. The annual report of IRDA cited that the low growth rate was primarily due to slump in automobile insurance during the year. The most important thing is that, prior to 1st January, 2014 the Service Tax was paid by the insurance companies in consolidated form for most of the conventional plans but now the tax burden is shifted on the policyholder. [16]

3.15.3 INCREASE IN FDI CAP IN INSURANCE SECTOR:-
The Foreign Direct Investment generally means the cross border investment made by the resident of an economy in the entities of another economy, with the main objective of establishing a long run interest in the invested economy. In other terms FDI is explained
as, “an investment into the business concern of a country by a company in another country”.

Although the government has been liberal in allowing investment by foreign players but restricted the stake of a foreign entity to a limit of 26% into this sector with a joint venture with a domestic entity. The reason may be that the domestic entities are not conversant with the insurance business operations and so will get expertise from a foreign entity, along with this there will be flow of capital and technology. But, even fifteen years after the opening up of the sector to private players it is noteworthy that the level of insurance penetration which stood at 0.55 percent has reached 0.70 percent which proves that there has not been much increase throughout these years. The year 2015 marked an important event in the history of insurance sector in India. With the passing of the Insurance Laws (Amendment) Bill, 2015; a second round of reform was witnessed by the insurance industry. On 12\textsuperscript{th} March, 2015 the Indian Parliament enhanced the limit of Foreign Direct Investment (FDI) in insurance sector in India from existing limit of 26 percent to 49 percent. The Insurance Laws Amendment Bill, 2015 was given a green signal by the Lok Sabha on 4\textsuperscript{th} March, 2015 and by the Rajya Sabha on 12\textsuperscript{th} March, 2015. FDI in insurance sector is allowed under automatic route as it is prescribed in the Insurance Act, 1938. The passing of this bill has brought amendments to the seven decades old Insurance Act, 1938. The increase in the cap of foreign investment capital from 26 to 49 percent was the demand of the industry since the privatisation of this sector in the beginning of this century. With the passing of this act the government has initiated a liberal approach towards the foreign direct investors and it is expected to hike the inflow of foreign investment. The Government of India issued a notification on 19\textsuperscript{th} February, 2015 permitting foreign investment up to 49% under Indian Insurance Companies (Foreign Investment) Rules, 2015. Even though the parliament has approved
49 percent foreign investment but it should not be forgotten that several foreign insurance players have quit the Indian market in the early years of liberalisation. It will be a step towards bridging the capital gap by financing the deficit in current account through FDI inflows. Foreign Insurers allowed investing in insurance sector in India on automatic route by obtaining license from the IRDA by entering into a joint venture with an entity of Indian origin. Foreign insurers investment was restricted to only 26% which forced foreign entities to shake hands with Indian entities who never had any expertise in insurance sector. The hike in foreign investment will open the path for exit to those Indian entities whose core activity is not insurance and this will create an environment which will include investors who are committed to the growth of insurance sector. A lot of international entities are in line to start operations if the foreign investment is liberalised. But many international insurers are interested only if allowed 100 percent ownership and investment. This will not be of interest to such investors in choosing India as their favourite destination for carrying out insurance business. The entry of foreign partners has resulted in the sector attracting foreign direct investments (FDI) to the tune of Rs.739.19 crore as on 31st March, 2003. The paid up equity of the 27 players in the insurance industry as on 31st March, 2003 stood at Rs. 4172.13 crore. While strengthening the capital base of the insurers, it will further confirm the commitment of the foreign promoters to develop the insurance sector in the country. Further, in case of the domestic partners who are unable to inject fresh funds due to the high stipulation of 74 per cent, increase in the foreign stake to 49 per cent would facilitate their ability to shore up their equity base.[17]

It is also possible that the insurance sector will not get viable benefits as expected. There are entities in the insurance market in India who are well established and performing
These entities doing exceptionally well and have reached the breakeven point may not require further capital to be infused and as such will not react to the change in FDI hike. However, there are entities running short of capital to diversify and have not been doing too well; such entities are the ones who are really excited about the FDI reforms. Moreover, there are the newcomers in the industry who have been there for the past four to-five years but most of them are in the process of building up their product portfolios and are, in fact, struggling hard to establish their credentials in the market. The recent decision to hike FDI in Insurance business along with related changes would be a game changer for the insurance industry as a whole and to the policy holders in the following ways:

- FDI is expected to take insurance business to newer heights and will bring an improvement in the penetration levels.
- With increase in stake of the foreign entities it is expected to enhance the commitment of foreign partners towards development of the insurance sector.
- It is expected to improve better services by enhanced competition and product development with the entry of new world class insurers in the market.
- Increase in capital inflow will enable insurers to increase penetration of business particularly to rural and informal sector.
- It is also expected to reinforce growth prospects by investing in their managerial capabilities; technical knowledge; distribution network; administration and innovation in products and processes; expansion in
capital base of the insurers which will widen the scope of growth of the insurers.

- Foreign investment will improve availability of improved technology, minimise the cost of administration of insurance services.

- The experience and expertise of foreign insurance companies could be utilized to set good practices of social security schemes of Govt. of India.

It is obviously a step towards global practices which will boost the economic life. However, higher FDI limit for the insurance sector would open up avenues for more players to enter the market, thereby making the industry more competitive and efficient.

Further, in case of the existing players who are unable to inject fresh funds due to the high contribution of 74 per cent, increase in the foreign stake would facilitate their ability to shore up the equity base of the insurers. As these insurers have increased their retentions with stabilization of their operations, the need for injecting further capital beyond the minimum entry level requirement of Rs.100 crore has not arisen. In fact, other than ICICI Lombard, which has increased its paid up equity to Rs.220 crore from Rs.110 crore in 2001-02, no other insurer has brought in additional equity during the last four years of their operations. In the case of Cholamandalam MS additional equity to the extent of 26 per cent was brought in by the foreign partner on being inducted as a shareholder subsequent to registration of the insurer.

This twenty-six percent would allow global reinsurance companies to set up branches in India. According to the Insurance amendment bill (2015), the section 24 of the Pension Fund Regulatory and Development Authority (PFRDA) Act provides that the foreign investment limit in the pension sector will be linked with the ceiling in the insurance
sector, which has gone up to 49% from 26%. Under the legislation, while up to 26 per cent foreign capital will be under the automatic route, the balance 23 per cent has to secure approval from the Foreign Investment Promotion Board (FIPB). According to the General Insurance Business (Nationalization) Act, 1972 (GIBNA, 1972) the four general insurance companies (GICs) had to be 100% government owned. The GICs "are now allowed to raise capital, keeping in view the need for expansion of the business in the rural and social sectors, meeting the solvency margin for this purpose and achieving enhanced competitiveness subject to the government equity not being less than 51% at any point of time. [18]

N.K. Singh Committee on FDI was constituted in AUGUST 2001 by the Planning Commission. The committee had 12 members and was headed by N. K. Singh, Member, Planning Commission. The committee in its detailed report submitted wide-ranging recommendations on a whole host of issues relating to FDI. Some of the important recommendations contained in the report relating to the insurance sector were the enhancement up to 49 per cent foreign equity to fund Indian insurance Joint Ventures.[19] In fact the suggestion was implemented in the insurance sector. This sector requires heavy investments which is not sufficient to be funded by Indian entities alone. During 2001-02 FDI inflows did show improvement as it grew by 65 per cent over the previous year yet the improvement was very low as compared to the capital formation needs in the country. The low inflow of FDI in India is due to the hurdles of doing business in India, delays also lead to time and cost overruns. [20] The FDI in India recorded a twofold increase with $4.5 billion investments in December, 2015 period over $2.2 billion in December,2014. The PTI in its report added that during April-December 2015, the FDI into the country grew by 40 percent to $29.44 billion.
3.16 SPREAD AND GROWTH OF INSURANCE BUSINESS IN INDIA

The subject matter of detariffication in non-life insurance industry cannot be studied in isolation, directly or indirectly it is related to insurance penetration and density. In general it is believed that lower the tariff higher the propensity to sell insurance products and vice versa. So, a detailed analysis of the insurance penetration and density of non-life insurance have been done for the pre and post detariff period.

Table 3.1 presents insurance penetration and density of Non-life and life insurance companies in India.

The insurance penetration and density are the measures that reflect the level of development of a country’s insurance sector. While insurance penetration is measured as the percentage of total insurance premium to gross domestic product, insurance density is calculated as the ratio of premium to population (per capita premium). The insurance penetration of the industry rose from 2.71 percent in 2001-02 to 5.20 percent in 2009-10. After that the penetration level kept on declining every year and reached 3.30 percent in 2014-15. This indicates that the growth in insurance premium was lower than the rate of growth in the GDP of the country. Despite rising insurance penetration and insurance density, the Indian insurance market is still at an early stage of development thus demonstrating significant potential for growth in the insurance industry. This holds true for both life and non-life insurance sector. Deepening of insurance penetration highlights the growing prominence of the insurance industry in India. In the first year of opening up of the insurance sector to private players the level of Insurance density was USD 9.9 and insurance penetration stood at 2.32 per cent (Life: 1.77 per cent and Non-life: 0.55 per cent). As per the report of the Swiss Re in that very year India occupied 78th position in terms of insurance density and 52nd in terms of insurance penetration and had a share of 0.3% premium of the world market while Japan leaded with 31%. This growth rate of the
Indian insurance industry was among the highest in the world. Looking back by a decade in 1990 depicts that the insurance penetration in India was 1.5%.[21] The improved performance in the domestic economy has a direct impact on the performance of the insurance industry; higher the per capita income the higher the growth in activities of financial services. This was proved in 2006 when India’s share in world GDP reached 6.3 per cent measured in terms of purchasing power parity the level of penetration and density showed a high growth.

Table 3.1 Insurance penetration and density(Non-life and life insurance) in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-Life Insurance</th>
<th>Life Insurance</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Density (USD)</td>
<td>Penetration (%)</td>
<td>Density (USD)</td>
</tr>
<tr>
<td>2000-01</td>
<td>2.3</td>
<td>0.55</td>
<td>07.6</td>
</tr>
<tr>
<td>2001-02</td>
<td>2.4</td>
<td>0.56</td>
<td>09.1</td>
</tr>
<tr>
<td>2002-03</td>
<td>3.0</td>
<td>0.67</td>
<td>11.7</td>
</tr>
<tr>
<td>2003-04</td>
<td>3.5</td>
<td>0.62</td>
<td>12.9</td>
</tr>
<tr>
<td>2004-05</td>
<td>4.0</td>
<td>0.64</td>
<td>15.7</td>
</tr>
<tr>
<td>2005-06</td>
<td>4.4</td>
<td>0.61</td>
<td>18.3</td>
</tr>
<tr>
<td>2006-07</td>
<td>5.2</td>
<td>0.60</td>
<td>33.2</td>
</tr>
<tr>
<td>2007-08</td>
<td>6.2</td>
<td>0.60</td>
<td>40.4</td>
</tr>
<tr>
<td>2008-09</td>
<td>6.2</td>
<td>0.60</td>
<td>41.2</td>
</tr>
<tr>
<td>2009-10</td>
<td>6.7</td>
<td>0.60</td>
<td>47.7</td>
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<tr>
<td>2010-11</td>
<td>8.7</td>
<td>0.71</td>
<td>55.7</td>
</tr>
<tr>
<td>2011-12</td>
<td>10.0</td>
<td>0.70</td>
<td>49.0</td>
</tr>
<tr>
<td>2012-13</td>
<td>10.5</td>
<td>0.78</td>
<td>42.7</td>
</tr>
<tr>
<td>2013-14</td>
<td>11.0</td>
<td>0.80</td>
<td>41.0</td>
</tr>
<tr>
<td>2014-15</td>
<td>11.0</td>
<td>0.70</td>
<td>44.0</td>
</tr>
</tbody>
</table>

Source: IRDA annual reports for various years.

* Insurance density is measured as ratio of premium (in US Dollar) to total population.

* Insurance penetration is defined as the ratio of premium underwritten to the Gross Domestic Product (in US Dollars)
With the deregulation of price in national market in the year 2007–08 an improvement was expected in penetration and density level and thus it is observed that the overall insurance penetration increased from 4.70 percent in 2007-08 to 5.20 percent in 2009-10. Non-life insurance penetration has increased from 0.55 % in 2000-01 to 0.70 % in 2014-15 while the Insurance density grew rapidly from US$ 2.3 in 2000-01 to US$ 11 in 2014-15. However, when compared globally, India is still below the penetration and density levels of some other markets in terms of life and non-life both. [22] It is observed that the Non-life insurance industry could not keep pace with the overall Insurance Industry growth of India. The distinct gap in between overall insurance industry and non life insurance industry can be clearly seen in the above table. The tendency has been observed in both penetration and density with respect to non life Insurance in the country.

3.17 SPREAD AND GROWTH OF INDIAN INSURANCE MARKET IN GLOBAL PERSPECTIVE

To analyze the growth and development of the insurance sector in a nation it is necessary to make a comparison with respect to insurance penetration and insurance density between the various nations. To get a clear picture of the development scenario of insurance sector in India compared to other nations of the world and to draw inferences about the growth of the insurance industry a comparative analysis of India with other nations of the world has been conducted from the first year of liberalisation of the insurance market in India to the current financial year i.e. 2000-2001 to 2014-15. This comparative analysis in terms of insurance penetration and insurance density has been done under two headings as below:

- Between the BRICS nations.
- Between select Asian nations.
For the purpose the insurance penetration and insurance density of the BRICS nations have been compared from the financial year 2000-2001 to 2014-15.

Insurance penetration and insurance density are the two widely used parameters for the assessment of the potential and performance of the insurance industry in a nation. It is a very important factor for analysing the performance of insurance sector in any country and is calculated as the ratio of the percentage of total insurance premium in US Dollars to Gross Domestic Product (GDP) of the country. The per capita GDP is used to compare the relative standard of living between any two countries. It is regarded as a good representative of the standard of living of the people of any nation. Normally the insurance penetration increases with the increase in the per capita GDP.

Insurance density is defined as the ratio of premium underwritten in a given year to the total population (measured in USD for convenience of comparison).

### 3.17.1 COMPARISON BETWEEN THE BRICS NATIONS.

The countries included within this analysis are the developing nations of the world and would give a picture of non-life insurance coverage. However, when compared, India is still below the penetration and density levels of the other BRICS markets. Despite rising insurance penetration and insurance density, the Indian insurance market is still at an early stage of development thus demonstrating significant potential for growth in the insurance industry. South Africa has recorded the highest growth rate of 3.03 in the year 2005. This nation has witnessed a steady growth throughout the years of study and has the highest penetration of 2.7 in the year 2014. In India, insurance penetration was 0.54 in 2000, went up to 0.61 in 2005 and then remained stagnant for 3 years. Among the BRICS nation the penetration level of South Africa beats all the other nations throughout the period of study. Brazil registering a penetration level between 1.66 percent in 2000
and 1.9 percent in 2014. China recorded penetration level between 0.61 and 1.50 which is almost double of the figures in the beginning of the period. The growth rate is highest in case of China while India depicts very poor growth rate.

Table 3.2 Insurance Penetration India’s Position vis a vis BRICS Nations

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</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>1.66</td>
<td>1.78</td>
<td>1.74</td>
<td>1.68</td>
<td>1.63</td>
<td>1.68</td>
<td>1.60</td>
<td>1.60</td>
<td>1.50</td>
<td>1.50</td>
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<td>2.30</td>
<td>1.20</td>
<td>1.20</td>
<td>1.20</td>
</tr>
<tr>
<td>India</td>
<td>0.61</td>
<td>0.67</td>
<td>0.96</td>
<td>1.03</td>
<td>1.05</td>
<td>0.92</td>
<td>1.00</td>
<td>1.10</td>
<td>1.10</td>
<td>1.30</td>
<td>1.20</td>
<td>1.30</td>
<td>1.40</td>
<td>1.50</td>
<td>1.50</td>
</tr>
<tr>
<td>China</td>
<td>0.61</td>
<td>0.67</td>
<td>0.96</td>
<td>1.03</td>
<td>1.05</td>
<td>0.92</td>
<td>1.00</td>
<td>1.10</td>
<td>1.10</td>
<td>1.30</td>
<td>1.20</td>
<td>1.30</td>
<td>1.40</td>
<td>1.50</td>
<td>1.50</td>
</tr>
<tr>
<td>South Africa</td>
<td>2.62</td>
<td>2.83</td>
<td>2.86</td>
<td>2.92</td>
<td>2.95</td>
<td>3.03</td>
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<td>2.80</td>
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<td>2.70</td>
<td>Not available</td>
<td>2.7</td>
<td>2.7</td>
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</tbody>
</table>

Source: IRDA annual reports for various years.

The Table 3.3 presents the non-life insurance density. The density for India has increased from $2.4 in 2001 to $11 in 2014 but when compared with the developing BRICS countries like Brazil, Russia, China and South Africa the growth rate is very poor. The growth rate of China was the highest from $5 in 2000 to $109 in 2014. South Africa again occupies the best position among the BRICS nations in terms of density. Russia also registered an impressive growth from $17 in 2000 to $161 in the year 2014.

Table 3.3 Non-life Insurance Density India’s Position vis a vis BRICS Nations

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<tr>
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<tbody>
<tr>
<td>Brazil</td>
<td>56.7</td>
<td>50.4</td>
<td>53.2</td>
<td>46.8</td>
<td>55.0</td>
<td>72.1</td>
<td>88.4</td>
<td>106.9</td>
<td>129.1</td>
<td>123.8</td>
<td>157.7</td>
<td>189.0</td>
<td>188.7</td>
<td>197</td>
<td>200</td>
</tr>
<tr>
<td>Russia</td>
<td>17.0</td>
<td>22.3</td>
<td>32.6</td>
<td>64.3</td>
<td>89.6</td>
<td>116.5</td>
<td>146.9</td>
<td>203.3</td>
<td>268.1</td>
<td>276.4</td>
<td>290.4</td>
<td>295.0</td>
<td>170.3</td>
<td>180</td>
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<td>2.3</td>
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<td>3.5</td>
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<td>4.4</td>
<td>5.2</td>
<td>6.2</td>
<td>6.2</td>
<td>6.7</td>
<td>8.7</td>
<td>10.0</td>
<td>10.5</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>China</td>
<td>5.0</td>
<td>5.7</td>
<td>7.8</td>
<td>11.2</td>
<td>12.9</td>
<td>15.8</td>
<td>19.4</td>
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<td>33.7</td>
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<td>76.0</td>
<td>91</td>
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<tr>
<td>South Africa</td>
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<td>79.1</td>
<td>69.1</td>
<td>107.4</td>
<td>141.0</td>
<td>156.2</td>
<td>160.2</td>
<td>159.5</td>
<td>163.6</td>
<td>163.9</td>
<td>200.1</td>
<td>215.0</td>
<td>198.6</td>
<td>181</td>
<td>176</td>
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</tbody>
</table>

Source: IRDA annual reports for various years
3.17.2 COMPARISON BETWEEN THE SELECT ASIAN NATIONS.

Among these countries included some are most exposed to the devastating effects of natural disasters like Japan while also represent nations which are at varying stages of development. Table 3.4 and Table 3.5 depict the insurance penetration and insurance density of India as compared to select other Asian nations.

It is clearly evident from the tables that the non-life insurance penetration in India is very low as compared to the international standards and reveals that India is far behind the other Asian countries of the world. The low penetration and density of the non-life insurance industry in India is an indicator of lot of scope for present as well as for the future. One factor that has been slowing down the improvement of insurance density is India’s relatively high population growth rate and the infancy stage of economic development of the nation. Insurance density which measures the per capita spending on insurance indicates that India is among the lowest-spending nations in Asia in respect of purchasing insurance.

Table 3.4 Non-Life Insurance Penetration India’s Position Vis A Vis Asian Nations

<table>
<thead>
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</tr>
</thead>
<tbody>
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<td>2.22</td>
<td>2.20</td>
<td>2.25</td>
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Source – IRDA annual reports for various years.

After the opening up of the non-life sector in the year 2001 the insurance industry registered USD 2.4 while that of Japan was USD 805.5. An average Indian spent USD 3.5 for non-life insurance products in 2003 while in China the amount spent was USD 11.2. Japan is the country with the highest level of penetration and density although it
has not shown any growth in its penetration throughout the years. The non-life insurance penetration of Japan stood at 2.3 as in the year 2001 and in 2014 it was 2.4. China and Japan has witnessed a consistent growth in the level of penetration and density throughout the study period. South Korea is leading in terms of both insurance penetration and density among the select nations followed by Japan and Hongkong.

Table 3.5 Non-Life Insurance Density India’s Position Vis A Vis Asian Nations

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Source – IRDA annual reports for various years.

‘-’ indicates non-availability of figures.

3.18 COMPARISON OF INSURANCE MARKET OF INDIA AND CHINA

For making a comparative analysis with the other nations it is of utmost importance to compare with China because both are the highest populated nations of the world.

China is the most populous country in the world; while India occupies the second position. If we talk in terms of the insurance sector of both these counties we will find that they have many things in common. India and China both have privatized the insurance sector and followed the path of deregulation. China privatized the insurance sector in 1979 much earlier than India which was initiated in the year 1991. The status of
premium volume was $8.3 billion in 1999 in Indian insurance business whereas in China the premium volume was $16.8 billion in the same year. In 1999 the insurance as a percent of GDP stood at 1.93% in India and 1.63% in China. [23]

There are many differences in the way China and India have handled deregulation.

- In China, the China Insurance Regulatory Commission (CIRC) was set up in November 1998, well after the first Insurance Law was promulgated in 1995. With the establishment of CIRC in China tariff was imposed on motor insurance. In India, the IRDA as a regulating body was formed and was given the authority to issue licenses to the insurance companies. [24]

- In China, foreign insurers need to have a representative office for three years before they can submit a proposal for operation but in some cases this practice has been reduced to two years while in India there is no such practice followed.

- Foreign insurers can only own 25 percent of the total value of the market while in India the limit was set at 26 percent per company from the year of liberalisation till March 2015. The new regulation on FDI has increased the cap on foreign investment to 49 percent in India. But there is no limit at the company level to owe capital in an insurance company in China. Thus, a foreign company can own 100% of an approved insurance company in China.

- In India the licenses issued by IRDA are national i.e. an insurer can operate in any part of the country but in China, on the other hand, foreign companies are restricted to operation in only two metropolitan areas: Shanghai and Guangzhou.

- The role of IRDA is to implement law which have been passed by the Indian Parliament. On the other hand, it seems that the CIRC has been a lawmaking body, it is setting up rules as it sees fit.
• China seems to have been forced to issue insurance licenses to a host of foreign companies by the end of 2000 simply because it wanted an assured entry into the World Trade Organization (WTO). In India, there is no such pressure as India is already a part of the WTO.

• China is controlled by Communist party so decision taking policy is fast because of absence of opposition there are fewer contests for debate. But in India the elected democratic system prevails. Here the system of collision requires all the parties to agree for passing any bill and as such the decision taking and implementation period takes years. The GST bill which is pending in the Indian Parliament since 2012 because of the political indifferences and yet not approved is an example. This is a significant reason for the late start of deregulation in the insurance sector in India.

• The china insurance industry was detariffed from January 2003 which resulted in free pricing regime while India detariffed the non-life market in 2007.

• The first state owned insurance company in China’s history the People’s Insurance Company of China (PICC), was established In 1949 while the public sector insurers came into existence in India in 1972 with the nationalisation of non-life industry.

• The first Insurance Law of China enacted in 1995 segregated insurance market structure between the life and non-life insurance businesses and prohibit the same insurer from engaging in both life and non-life insurance. The same policy is followed in India.

With accession of China to the World Trade Organisation (WTO) and the liberalization of the insurance sector the process of de-tariffication was initiated in January 2003. The opening up of the sector resulted in severe competition among the insurers. The price
war led the insurer to lower down their premium rates to nearly half of the rates prevalent during the tariff period. This severe drop in premium rates forced the CIRC to re-impose tariff on the compulsory purchase of motor third party liability insurance. [24]

China Insurance Regulatory Commission (CIRC) was established in 1998. With the liberalization of the insurance industry detariffication of this sector was done from January, 2003. The CIRC monitored the free price regime; all policies which were to be offered had to be filed with the CIRC before being sold in the market. The free pricing had induced severe competition among the market players. The impact was that the premium rates fell to nearly half of the tariff rates. [25] The CIRC as regulator of the insurance industry made it mandatory for insurers to file the policy document with CIRC before offering it to the public. A minimum coverage was made compulsory which was very low. Since the mandatory level was very low the voluntary purchase of additional cover was permitted try set and also wordings of the policy offered but get it approved by CIRC. China's insurance industry has made rapid advances after opening of the market to FDI as a result of the WTO accession. Despite the significant growth registered by the insurance industry in China it is still considered in its infancy stage when compared with the insurance penetration and density of other developed and developing nations of the world. [26]

3.19 PRACTICE OF DETARIFFICATION IN OTHER NATIONS

For better understanding of the performance of the insurance sector it becomes necessary to compare the various factors that affect the function of this industry among various nations of the world. Therefore detariffication has been examined in the global context. It has been found that most of the developed and developing nations of the world have
introduced detariffication in the non-life insurance industry. The following discussion indicates the practice of detariffication adopted in other nations of the world.

### 3.19.1 SAUDI ARABIA

The Saudi Arabian insurance market is the second-largest in the Gulf. The general insurance is the largest contributor towards premium collection. Till 2005 the insurance industry in Saudi Arabia was highly unregulated. The insurance industry in Saudi Arabia was unstructured and unmonitored prior to the implementation of the reforms. The core legislation pertaining to regulation and control of the insurance market in Saudi Arabia is the “Cooperative Insurance Companies Control Law. The regulating authority for insurance business was assigned to Saudi Arabian Monetary Agency (SAMA) in 2004. The SAMA is responsible for establishing necessary standards and conditions, granting of licenses to insurers and reinsurers, regulation on investment by insurers and regulating the insurance industry as a whole. As the role performed by IRDA in India the role of SAMA is to protect the interest of policyholders. [27] For better focus on market activities the task of monitoring and regulating the health insurance business was assigned to Council of Cooperative Health Insurance (CCHI). Both domestic and international players are operating in the market. Tawuniya is the oldest insurance company established as government undertaking in 1984. The major classes of insurance business are Protection and savings, Health insurance and General insurance. The Health insurance was made mandatory for all resident expatriates in the year 2008; this boosted the health insurance business. [28] As in India the health insurance business is separate from general insurance in Saudi Arabia. Health insurance and motor insurance are mandatory lines of business in the country. In the pre-regulatory years, the sector consisted of a number of insurance companies operating as offshore entities outside the
scope of regulations. In 2005 regulating the insurance market was carried out and as a result foreign insurers are required to register themselves to start operations as offshore companies although they can have 100% ownership. The regulation also assigned SAMA, the central bank of Saudi Arabia, the responsibility of supervising the insurance industry in the country, consequently, a series of regulations were imposed. The Cooperative Insurance Companies Control Law was also implemented. The UAE Insurance Authority has imposed a number of stipulations to restrict the entry of foreign players into the insurance market by requiring them to obtain a license from SAMA for operating in Saudi Arabia. The well-organized and financially sound companies were able to sustain in the new regulatory environment. Besides licensing guidelines insurance companies in Saudi Arabia have to follow a stringent set of rules. All the companies are required to be listed on the Saudi Stock Exchange and adhere to the Islamic law. SAMA has made it mandatory for all insurance operators to follow a cooperative business model, thus setting it apart from other regional insurance markets. The Saudi Arabia insurance sector comprise of both domestic and offshore insurers along with 2 reinsurers. Health insurance was made mandatory by the government in 2006 which have increased demand for insurance products. Although the Non-life insurance density is the lowest in the region but after 2008 this sector has expanded at a strong pace but talking about life insurance segment it has still today remained severely undeveloped due to a significant influence of religious beliefs on the population. After passing regulation being passed the sector experienced a robust rate of growth. Some primary insurers in the UAE cede their entire risk profile to the reinsurers. Low insurance penetration and density make Saudi Arabia one of the least mature markets in the GCC. Health insurance is mandatory for all expatriates and locals employed in the private sector, and motor insurance is also a regulatory requirement. [29] Due to its significant oil resources and
strong economic growth, Saudi Arabia is typically associated with large energy and infrastructure projects. However, the impact of these projects does not percolate fully onto the domestic insurance sector since several large business houses tend to have their captive insurance operations incorporated outside Saudi Arabia. These captive operations re-insure the underwriting risks associated with their respective parent groups in the international market, thus bypassing the kingdom’s insurance sector altogether. Saudi Reinsurance Company is the only reinsurance provider operating in Saudi Arabia. The primary insurance operations, especially in the engineering, property, energy, and aviation business lines, are excessively dependent on the reinsurance sector for covering the underwriting risks.

3.19.2 JAPAN

The business of insurance in Japan started in 1863. The insurance industry of Japan is much advanced as compared to India in terms of setting up regulating norms for operating the business of insurance. The insurance industry of Japan has been development and shaped by natural catastrophes, financial crisis, periods of rapid growth and foreign expansion, and more recently market liberalisation. The insurance industry of Japan has a very different history when compared to Asian counties. It is the only insurance industry in Asia which was never controlled and dominated by foreign insurers as seen in case of India, China etc. The insurance industry of Japan has witnessed high number of natural catastrophes and financial crises as compared to other developed nations of the world. The Insurance Business Act, 1900 regulated the insurance market. The active participation of Japan in the World War II led to the cession of the foreign insurance business in the country till 1950. The pressure from the WTO resulted in the Liberalisation of the insurance sector in 1995 by passing the Insurance Business Act. The
non-life insurance market in Japan was charging the premium rates which were provided by Non-life Insurance Rating Organization (NIRO) till the market was under the control of the tariff rates. Till the deregulation of premium NIRO played the role of rate maker. In the year 1998 the market was de-tariffed and the insurers were no longer required to use the premium rates provided by the rating associations. This initiative which took place in Japan was also followed by India but with a gap of ten years. Deregulation of premium to be charged by the insurer developed intense competition among the insurers but this resulted in benefit to the policyholders. At the time of de-tariffing of the non-life insurance industry Japan had twenty insurers operating in the market. Just one year prior to deregulation in 1997 the premium growth showed a negative trend and this improved in 1999 only after the effects of deregulation were felt. The emergence of greater price competition led to a series of mergers, acquisitions and even bankruptcy of insurers. In May 2000, the first Japanese non-life insurer became bankrupt. As of January 2011, Japan’s non-life insurance industry consisted of nearly 50 domestic and foreign non-life insurance companies. The domestic life insurance market is not likely to grow strongly because of the declining population. What the law makers did in India in the end of the century Japan had done that in the beginning of the century. Japan introduced a strong regulatory framework for insurers to protect policyholders and create a stable insurance industry. Detarrification or free-pricing in the insurance sector is a global trend. In Japan, for instance, it was a phased process over two years (July 1998-June 2000). It led to product innovation where insurers even introduced savings-type motor policies. While insurers initially resisted lowering prices, intense competition eventually led to a price decline.
3.19.3 KOREA

The year 1980 brought regulations allowing open licensing to foreign companies to operate in the country. Insurance was first introduced in Korea in 1883 with the establishment of Hongkong Fire Insurance Company. Domestic companies also had joint ventures with foreign companies. Domestic insurers started operating in the market in 1921 with life and in 1922 with non-life insurance business. In the year 1960 with the introduction of First Five Year Plan the insurance industry was given a boost. This year is also said to be the year of birth of the insurance industry in Korea. 1962 was a milestone as Commercial Law, Business Law and Law on regulating Insurance Solicitation were enacted. This year laid the foundation for the growth of the sector. International foreign competition was reinforced in 1977 so as to upgrade underwriting techniques and improve the constitution of insurance companies. The same business lines in insurance sector were followed by India in late nineties. In 1980 the insurance industry was internationalised; it was made mandatory to get license for entering the insurance business for domestic and foreign entities having joint venture with domestic companies. The main objectives behind liberalisation were to mobilise domestic capital, amplify the social security measures, Protection of policyholders, Restructuring of Korean Reinsurance companies into a public company. [31]

3.20 CONCLUSION

The non life insurance industry needs to change so as to provide more opportunities to the customers than what is available today. The impact of LPG has provided greater scope to the insurers in their operations and the customers are enjoying the benefits of globalisation. The detariffing of the non-life industry was implemented to create a healthy competition among the insurers and to provide the customers with better and
greater options. The industry has progressed a lot after detariffing and the customers have also derived benefit from the reforms that have taken place in the insurance industry from time to time. Although the insurance market is dominated by the public sector with long years of experience and assets base yet the aggressive marketing strategies of private sector have succeeded in capturing a good market share. The entry of private players have infused competition in the market and at the same time credit should be given to the private sector for bringing improvement and efficiency in the performance of public sector insurers. The public and the private sector can together take the industry to greater heights. Most of the countries of the world appear to have introduced detariffication much earlier than India. Despite being late starter in the area of detariffication but we are in the path of global best practices. And the result of analysis reveals that detariffication has positive impact on the growth of insurance business in India.
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