4.1 INTRODUCTION

The business of insurance grew with the growth of trade and commerce and with this started product innovation and development. The earliest business of insurance started with the marine insurance to enable trade with foreign lands. Today with the growth of trade and expansion of business because of industrialisation, the needs of the society in terms of life and business related risk has completely changed. The dimension of coverage requirement today are relating to cyber risk, consequential loss, travelling risk etc.

“Buying insurance is buying a dream”. The policy on which a policyholder is paying the premium today will be received by him in future on the happening of a specific event. This relation between an insured and an insurer is completely based on trust. For any organization to sustain in the market and to make its presence felt in a crowded market, it becomes very essential that it develops something unique projected towards enhancing the value proposition for the customer. This is accepted as a challenge by all the organizations globally and companies today engage in conducting an on-going Research and Development; and the various innovations in the domain of product development are a result of such continued researches. Most entities today have a separate department for Research and Development; but truly speaking the financial services in India have not witnessed the same level of innovation in product development as compared to other parts of the world. The reasons of such situation are mainly due to low level of economic development over the decades and also absence of a major surge in demand for such services by the public in general.

The Insurance sector in India over a period of a century has undergone a long journey with tremendous changes from a private sector to public sector and then back to a liberalised sector. After independence of the country many industries were nationalised
by the government of India and the insurance sector was no exception. In 1950, the Insurance Act was amended to set up the Tariff Committee. The Tariff Committee worked under the supervision and control of General Insurance Council of India and later on became popular as the “Rate maker”. In the year 1968 the Tariff Committee was replaced by the Tariff Advisory Committee (TAC) under a statute. The economic reforms programme which was introduced in India in July, 1991 set up the ground for opening up of various sectors of Indian economy namely financial sector, insurance sector and banking sector to the global competition. These reforms led to the opening of the foreign direct investment in insurance which changed the ownership of the insurance sector from total government control to private ownership. The report submitted by R.N.Malhotra Committee made wide ranging recommendations paving the way for enactment of a separate insurance regulatory act i.e. Insurance Regulatory Act; setting up of IRDA as an apex regulating agency for the entire insurance sector of the country; entry of foreign players along with other institutional reforms.

The economic reforms undertaken in the early 1990’s reintroduced competition by opening up of the insurance sector to private and foreign players and delinking the four subsidiaries of GICI. This was the beginning of deregulation of the insurance sector and was also the beginning of a modern era for this sector. In true sense the deregulation was complete when the rates of tariff were detariffed from 1st January 2007 for all classes of non-life insurance except Motor Third Party Liability (TPL).

Before de-tariffing of the industry the rates of tariff to be charged from the customer by the insurers basically provided operating margins for the insurers for a fairly long period of time. But the opening up of this sector to private entities has led to the rating freedom in the interest of the consumers. As a result of detariffing the role of insurers has increased many folds. Apart from procuring business they are required to determine the
extent of margins they would like to earn. There has been a drastic shift in the role of the insurers from being mere sellers of pre-packaged and pre-priced insurance covers to proving their efficiency as managers and proving competency in pricing as well as marketing of their product. Obviously with the de-tariffing the insurers are required to introduce new products, new technologies, and intensive use of IT applications in this sector under a vigilant role of IRDA.

New products entered the market modifying the earlier tariff based policy forms used by the insurers. The traditional tariff was decided by the Tariff Advisory Committee (TAC) is now framed by the board of directors of the insurers in consultation with the actuary and in compliance with the IRDA requirements. The product pricing is carried out as internal rating, rating for individual products, rating the exposure of risk etc. This is again subject to the risk evaluation and perception level of the underwriters. Earlier the insurers fixed their tariff based on the calculations provided by TAC. But now insurers require working on their tariff rates individually based on statistical experience of insurance business. As the private insurers do not have much longer track record of performance so they need to rely on public insurers for statistical data relating to claim experience etc. The tariff rates have to be customer friendly both to survive in the market as well as not be discriminatory to the customers. Despite the detariffication of the non-life insurance market in 2007, the IRDA had made it mandatory for insurers not to change the terms and conditions for existing products for fifteen months post-detariffication so as to avoid confusion to the policyholders. The principle on which today’s business is based has been in use since times immemorial. The new era which started with detariffication in the non-life industry calls for innovation and product development. The present chapter makes a study of the product development process undertaken during the pre and post detariffed period. An analysis of the role of IRDA as
regulator in fostering competition and monitoring the activities of the insurer involved in getting new products approved by the IRDA, ensuring fulfilment of regulatory requirements in the interest of the policyholders.

4.2 PRICING IN INSURANCE:

In the context of insurance, pricing refers to the cost of insurance products offered by the insurer along with the terms and conditions. Pricing is a very important aspect in both products and services. The pricing of insurance product is unique and differs from pricing of tangible products because of the uncertainties of happening of the risk associated. This unique characteristic of insurance products differentiates it from other products and services available in the market and the insurance company needs to be very cautious in deciding the price of its products as inadequacy in prices may affect the long-term financial health and performance of the insurer. Pricing is easier in case of products as the seller has objectively measureable features at disposal for arriving at the value of the product. The life expectancy of the product or asset can be computed or calculated by engineering science. Taking into consideration the cost of manufacturing plus other direct and indirect expenses relating to the product and the expected useful life of the asset the selling price can be calculated. The selling price will include some margin for profit. But in case of service there are no such objectively measurable parameters available. Service contracts are subject to personal relationship. There are no established standards available here emotions come into picture.

In case of insurance contracts the price to be paid by the policyholder is called the “premium”. This premium is calculated on the sum assured on which a policy is undertaken. The amount of premium payable varies with the sum assured of the policy; higher the sum assured higher the premium payable and vice versa. In case of life
insurance the premium depends upon the age of the life to be insured. But in case of non-life insurance premium depends upon the expenses incurred in acquisition of the business, provision for catastrophic losses that may incur due to a natural disaster and increase the liability of the insurers as well as keeping margin for some amount of profit.

The process of insuring an asset starts with the submission of a duly filled in proposal form by a prospective insured for purchase of an insurance policy. The insurer makes an analysis of the information provided by the prospect in terms of risk. The first decision on the proposal form is whether to accept or reject. The insurer has liberty to refuse any proposal if they think it unfit for insurance coverage. This process of deciding whether to accept or refuse a proposal of insurance is called underwriting. Underwriting includes decision relating to the amount of premium payable by the policyholder and other terms of the policy. Underwriting is a very important activity in insurance industry as the profitability and sustainability of an insurer is decided by the quality of its underwriting.

Pricing in insurance is the amount of premium paid by the policyholder on the policy purchased by him. The amount of premium charged is mentioned in per mille i.e. the premium mentioned is for per thousand rupees of sum assured.

\[ \text{PREMIUM} = \text{SUM ASSURED} \times \text{PREMIUM RATE} \]

### 4.3 ELEMENTS IN THE PREMIUM RATE

To know how non-life insurance products are priced, it is necessary to identify the elements that make up the premium. These elements are:

- Pure / Risk premium or incurred claims cost
- Claim settlement expenses
- Outstanding reported claims reserve
• (IBNR loss reserve)* Estimates need to be included in respect of Claim Settlement Expenses as well.
• (IBNER loss reserve)*
• Marketing or Acquisition costs
• Commission or brokerage payable to intermediaries
• Publicity / advertising / business development costs
• Office marketing staff costs
• Management expenses
• Other management and administrative expenses, such as salaries, rent and travel
• Contingencies (Risk of catastrophe)

IBNR and IBNER are different in the sense that IBNR stands for the incurred claims but not reported to the insurer. [1] So the insurers keep a provision for such liabilities. While IBNER stands for incurred claims but not enough reported that means the liability reported have the chances of going up in future.

Pricing of insurance products includes the following elements.

• Business acquisition cost – this cost includes those components of cost incurred in acquisition of business of an insurer. This cost includes the commission paid to agents, brokerage paid to brokers and any other expenses relating to business development cost.

• Management expenses – this cost includes the administrative expenses incurred by the insurer which include salaries, rent and such other expenses relating to management of offices and branches essential for running the business.

• Claims cost – this includes the amount paid by the insurers to the policyholders in the form of claims. This is the most important element to be taken care of in
fixing the premium on an insurance product. The claims cost also includes expenses incurred in settlement of claims, making estimation for outstanding claim, and creating provision for reserves for claims Incurred But Not Reported (IBNR) & Incurred But Not Enough Reported (IBNER). For predicting the frequency of a risk and for calculating the severity of a loss that may arise from an underwriting decision i.e. claims liability; the insurer should have a strong data base as well as proper IT support. This will be of immense help in management of claims in an efficient manner. Use of technology can reduce the frauds in claims thus reducing the burden on insurers and indirectly the amount of premium to be charged from the customer.

- Profit – this element consist of a return on the cost of capital. As an insurance entity is not entitled to make any profit from its contract of insurance as such the insurers can only claim a suitable return on the capital employed.

Of the above mentioned elements the premium that takes care of only the claims component is called pure premium or risk premium. The pure premium is the cost required to be recovered to underwrite the risk. The loading on the pure premium is made to arrive at the final premium. The acquisition cost and management expenses are controllable in the hands of the insurer and as such can influence the price i.e. premium to be charged from policyholder. Apart from this the insurers are required to make provisions for contingencies like risk of catastrophe which may put the insurer under financial burden.

After liberalisation of the insurance industry the public sector insurers faced tuff competition from the private players. To sustain in the market and to monitor the expenses the public insurers had to implement the Voluntary Retirement Scheme and also merging of offices to reduce their expenses. The public sector insurers reduced their
management expenses so as to be within the stipulated limit prescribed by Insurance Act. The public sector insurers reduced their employee level by making intensive use of technology to operate the business. The new entrants hired limited number of highly qualified personnel and took intensive use of IT to operate their business. So we can say that insurers operating with efficiency in settling claims and incurring of expenses and generating good income from their investment policy would be in a better competitive position and hence can be in a position to charge lower premium as their cost is also low.

All classes of business, except for motor third party liability, are no longer under price tariffs. Initially except the business for large properties, the newly detariffed classes of business were kept under restrictions and control by the IRDA; this was necessary to prevent confusion in the market. Even after detariffication the products were kept under the monitoring of IRDA and every product to be introduced in the market was subject to approval from IRDA.

Until the end of 2006, only specialist commercial classes such as marine, aviation and professional liability had been fully detariffed – leaving the large mainstream classes such as motor, fire and engineering tariffed. As the tariffs covered most of the market until very recently, their effects dominated the market, influencing the pricing of even non-tariffed products. Sophisticated insurance buyers are aware that insurers profit from hitherto tariffed lines such as fire and place demands on insurers to cut their rates in other ways.

### 4.4 FACTORS EFFECTING PRICING IN INSURANCE PRODUCTS

Although the above mentioned elements are the main constituents in the premium charged from the policyholder yet there are certain factors which have a direct impact on the premium pricing of insurance products. These factors are:
• **Risk of Inflation**: this risk arises with the change in the value of money. In India the inflationary trend is a normal scenario. Due to the rise in the rate of inflation the value of rupee one today will decrease after one year and thus increase the liability tomorrow. The responsibility of the insurer in the form of claim which is payable on a later date may rise due to fall in the value of money. Thus increasing the cost of the insurer. So it is necessary to adjust the premium considering the factor inflation.

• **Interest rate**: for all the insurers the income from investments is the main source of income. Most insurers are incurring losses from their underwriting business. This indicates that the insurers are able to survive in the market not because of the income or profit from their core business operations but from the income earned on their investments. As income from investment constitutes a very important component in financial decision making so any change in income from investment can affect the financial health of the insurer. As such it is very important to take into consideration the change in interest rate on investment so as to arrive at optimum premium rate.

• **Exchange rate**: the present insurance market is operating in a globalised set-up. Foreign companies are operating as owners in joint ventures with domestic entities henceforth permitting the inflow of capital from foreign countries into the sector. This has been witnessed by inflow and outflow of funds with foreign nations. Therefore, the exchange rate has a strong bearing on insurance transactions.

• **Competition**: Competition in the market: to survive in today’s competitive market it is utmost important for insurers to offer their products at such prices
which can bring maximum business. The premium amount should be adequate enough to cover all expenses and does not result in underwriting losses.

For arriving at the cost of claims that may arise in near future the insurers follow the statistical principle of “law of large numbers”. As per this principle the higher the number of exposure units or the insured the minimum the uncertainty associated with the risk underwritten. Here the past experience of the insurers also contributes a lot. Therefore proper classification of risks by the insurer and collection of data for each risk is necessary for setting of price to be done on a scientific basis.

If the risks to price are of new types for which no past experience or database is available, then the insurance companies individually evaluate the risks on judgmental basis. Insurance companies being, commercial organization, must earn some profit at the end of the day. This in simple language means that premium earned over a period should be more than all outgoes during that period. The difference between the premium earned and the outgoes constitute what is called “Underwriting Profits.” The insurance companies generate huge revenues by way of premium collection which are invested and they in due course generate investment income. But mostly due to pricing competition it so happens that insurance companies do not make Underwriting profit; although every insurer endeavours to ensure profitability from their investment income. Therefore each element should be analysed by the underwriter with utmost caution so as to generate a profitable business.

In life insurance, the main factors used for determining the premium rates are mortality, expenses, and rate of interest. The factors considered when pricing non-life insurance products are claims cost, business acquisition cost, management expenses, margin for fluctuations in claims experience, and a reasonable profit. The factors affecting the pricing structure are broadly divided into portfolio level, case level, and other factors.
The objectives that must be kept in mind when pricing insurance products are adequacy, reasonableness, fairness, consistency and flexibility.

4.5 UNDERWRITING PRACTICES

In practice this word 'Underwriting' is normally associated to only the routine work of accepting or declining the proposal for insurance cover and issue of the policy document if the proposal is accepted. It is the expertise required by the insurer in acceptance of a risk, weighing all the pros and cons in analyzing the risk. The terms, conditions and deductible of a policy need to be well analyzed for arriving at the rate of premium to be charged for underwriting the risk. Underwriting in insurance industry is a science as well as an art. Although this term is always subject to debate, and there is no conclusive answer to this. Underwriting involves collection of data and analysing it for the purpose of calculating the premium. The process of underwriting is heavily reliant upon statistics and data availability and as such it is treated as being a science. But the art of applying the analyzed information into insurance underwriting is an art.

4.5.1 ROLE OF THE UNDERWRITERS

In a free market the role of an underwriter is very challenging, he needs to exercise prudence in setting premium rates and cover provisions and also limitations. It is on his expertise that the profitability depends. He is expected to prove his expertise in discharging his functions and responsibilities fairly towards his employer as well as the consumers. So needs to have a lot of information, database and of course analysing qualities. An underwriter should know the features and factors associated with every risk offered for acceptance so as to be able to determine the physical hazards inherent in the risk and also take into consideration the steps taken by the proposer to minimize them.
The database of the underwriter should be strong enough to visualize any type of risk even if new to him by analysing the reports and the proposal form. This expertise of the underwriter can provide the insurer with the best of advice on each category of risk and thus reduce their liability. The underwriting skills should include proper evaluation of moral hazard i.e. intentions of the proposer himself and thus increasing the risk. Again environmental issues may affect the life expectancy of the asset and thus the chances of recurrence of accidents may increase which will adversely affect the performance of an insurer. Evaluation of the environmental issues of a proposer such as competition faced by him; any peculiarities relating to his trade which may increase risk will adversely have an impact on the insurer. Thus, an underwriter has a lot of responsibility towards the insurance company in making the prime decision of risk assessment.

Underwriting performance of an insurer may result into profit or loss. If the income generated as premium is sufficient enough to pay off the claims on the risk underwritten by the insurer then profit is generated; but if the premium income is not sufficient enough to pay towards the claim liabilities in that case the insurance company suffers loss. Underwriting profit or loss of an insurer includes the income generated through premium and the amount of outflow in the form of claims; therefore including both the premium income and the amount of liability in the form of claims. Therefore it is seen that there exists an inter-relationship between the risk, amount of premium and the claims. So, underwriting starts from designing of the product and ends with the settlement of claims. Designing of the product includes perils to be covered under the policy, add-on covers to be provided, any exclusions of risk, framing the various terms and conditions of the insurance contract, and then the most important aspect premium chargeable on the product. And the second aspect is the claims management which is the resultant factor of the policies sold.
4.6 UNDERWRITING PRACTICES IN PRE-DETAIRIFF PERIOD

For a long time, in the tariff regime; the designing of both the product as well as the pricing i.e. the premium rate structure was not left to insurance companies. The manufacturing of the product and its pricing was centrally administered by Tariff Advisory Committee (TAC). Only the selling of the manufactured product i.e. the insurance policies with stipulated premium pricing was left to the insurance companies. The operators were the four subsidiaries of the General Insurance Corporation of India. These four public sector insurance companies controlled the whole non-life insurance market and thus were the traders of this highly regulated product. However, the claims management was still left to the insurance companies.

Pricing of insurance products was originally done by underwriters. Price of insurance products is always determined by risk perception hence risk assessment and risk evaluation and the kind of risk undertaken would occupy a central stage in any discussion on insurance. With the dawn of the liberalisation of the insurance industry the IRDA made it mandatory for each and every insurer operating in India to appoint a full time or part time actuary for certifying the reasonableness of pricing of the products. Obviously as a regulator this step was an action towards ensuring that the products are examined well in terms of price.

The major classes of non-life insurance business under tariff regime are Fire, Petrochemicals, Engineering and Motor. The IRDA ensure that the rates are fixed appropriately on a scientific basis keeping in mind the interests of both the insurers and the policy holders. Prior to the nationalisation of the non-life sector in 1972, the insurers provided data to TAC relating to claims payment and other operational activities. This data was the basis for the TAC to set the rates and condition on the policies sold by the insurers. Although TAC was having access to all the data provided by the insurers and
was acting as the owner of the data yet never published any data to the general public. As regulator of non life insurance tariff in the country TAC controlled and priced the products but failed to provide the same to the public. Obviously this would have created trust and confidence among the public regarding the working of the TAC and the insurers as well. Availability of published data would have proved that the pricing of insurance products was done on a scientific basis and not at the whim of the insurer or the price regulator. After nationalization of the non life sector the flow of data from the insurers to the TAC reduced and by the year 1984 the situation was such that there was no data available with TAC. It so happened that even the public sector insurers failed to provide published data to the public regarding their operations. The insurers even failed to provide the public with published consolidated data on each class of insurance underwritten by them. As such there was no source of information on the price that would be appropriate for insuring a risk. The policyholders had to depend on the price list as provided by the insurers. This gave the insurers a chance to practice cross subsidisation among the products offered by them. As there was absence of data or statistics on risk and cost; the insurers cross subsidised their products which were better risks with the loss making risks among different class of risks. Even between products of same risk type the practice of cross subsidisation was followed.

Apart from this, there was full control of the Tariff Advisory Committee in the pricing and innovation of products and this restricted the insurers from making any changes in the products offered by them. Thus, the tariff quoted by TAC was adhered to by the insurers as required parameters for the purposes of charging the premium. But the TAC was not fully successful in its role as rate setter because of various reasons. Firstly, now availability of data base with the TAC for setting the price to be charged on policies. Secondly, incapability of TAC as well as the insurers to furnish published data to the
public regarding the performance and working of the insurers. Thirdly, due to lack of available data and employment of scientific methods of risk evaluation the TAC failed to provide covers for new types of risk which were emerging. Fourthly, the insurers as well as TAC gave least importance to product development and confined themselves to sell only the age old traditional products. Fifthly, absence of proper database led to imbalanced rating by the insurers. Some products were the risk was low carried heavy premium rating while products with high risk were charged low; thus all risk were measured on the same scale. Sixthly, insurers operating in the market were least bothered about profitability as they were enjoying the monopoly status and also running under the patronage of the government. Absence of competition was the reason for not being customer friendly. Seventhly, as the role of the insurers was limited to selling of the insurance products and had no say in the pricing policies so slowly it led to the erosion of underwriting skills of the insurer. The insurer became dependent on the TAC and although being the connecting link with the customer yet could not develop the product pricing to increase profitability. This scenario continued till liberalization process gathered momentum and IRDA Act was enacted in 1999.

4.7 TRANSITION TO DETARIFF REGIME

IRDA Act was enacted with the objective to protect the interests of insurance policy holders and to regulate, promote and ensure orderly growth of the insurance industry. These twin objectives of the IRDA implied that products need to be priced equitably based on their individual risk experience and the solvency margin of the insurers had to be maintained. In order to ensure these objectives, collection, compilation, dissemination and analysis of data relating to different classes of risks became paramount. This also meant that new formats had to be devised taking into account various risk factors.
inherent but which are not considered by the rigid tariff structure. As a first step, IRDA in consultation with the insurers devised new formats for collection of past data as well as future data in the field of motor and health insurance. Pursuant to liberalization and the entry of private insurers, the motor underwriting scenario changed drastically. On one hand the private players refrained from underwriting the loss making areas such as standalone liability policy and on the other, they clamoured for detariffing of motor portfolio. They also had in place sophisticated IT set ups and systems capable of statistical analysis of various risk factors over and above the ones prescribed by the motor tariff. The awareness among customers in the wake of liberalization also resulted in a movement towards risk based rating rather than a rigid tariff structure.

**4.8 UNDERWRITING IN POST- DETARIFF PERIOD**

Detariffing the product or Free Market means allowing the individual insurers to design and price their products through their underwriters. The process of underwriting in insurance generally works in cycles of hard and soft markets. A market where demand exceeds supply is a hard market while the reverse in a soft market. Abolishment of price control in the Indian market created stiff competition and as such a drastic reduction in the premium rates was observed in the products being offered by the Indian Insurance Companies. This happened due to excess capacity availability in terms of service providers with low insurance demand in the market. So it called a soft market. The incident of 9/11 also created hard market for insurance. Let us explain it taking the 9/11 terrorist attack on World Trade Centre as an example. Following the 9/11 tragedy, the insurers worldwide suffered huge losses and even went insolvent hence the insurers were reluctant to take terrorism risk but at the same time the demand for terrorism insurance went up. Thus market had hardened with increase in demand for terrorism insurance and
the number of insurers willing to accept the risk of terrorism was on a decline. But today the terrorism market can be termed as a soft market. Detariffication led to the creation of soft market. There are many insurers offering products at varying rates yet not able to tap the available potential of the nation. It can be deducted that charging differential rates is not the solution to gain market share but the necessity is of practicing discipline in underwriting activities of the insurance industry. Discipline in underwriting can exist only if all the insurers work collectively towards a common interest of setting up the pricing mechanism based on scientific models. But it has been an experience worldwide that in a newly 'opened-up' market discipline takes the backseat. Insurers in de-tariffed market struggle to establish themselves in the market by attracting maximum customers and attaining a stage of maturity. With this the importance of underwriting and its common objectives are forgotten. As a result, underwriting process in de-tariffed market witnessed various hues of underwriting discipline at various stages. The insurers have adopted various policies for various products and categories of customers. To attract large corporate risk the insurers tried all measures available to them. The insurers showed more interest in business which generates profits in retail market. Another important and interesting phenomenon of underwriting in a liberalized yet tariffed market has been the concept of cross subsidization.

4.9 CROSS-SUBSIDIZATION AND PRODUCT BUNDLING IN THE DETARIFFED MARKET

Cross subsidization is basically the acceptance of a Non-Tariff risk at less than the "Risk-Rate" recommended because it is being offset by a significant volume of Tariff Premium from the same customer. In effect, the "profitable" tariff lines are subsidizing the
"unprofitable" non-tariff lines leading to a cross-subsidy across product lines. Some examples of cross subsidization are the Marine being quoted at nominal rates almost as a free add on covers and Group Health policies getting renewed at as low as 50-60% of average claims paid over the last 2-3 years. If an insurer is incurring losses from a particular line of business on a consistent basis in that case cross subsidization is the best alternative available and benefits both the insurer and the customer. Every risk has a 'pure-risk' rate of premium that an underwriter basically recommends as a sound and viable rate other than that there are Commercial considerations to retain an important client; and the final rate charged may be far lower than the "pure-risk" rate. In a tariffed market, this reduction could only have been extended to Non-Tariff products like Health, Accident, Marine, Miscellaneous etc.

One method used by insurers to attract fire premiums has been the use of ‘product bundling’. Product bundling is practiced by insurers by bundling together tariffed products with non-tariffed products and offering them to the customers at exceptional rates for their non-tariffed cover. The purpose is to cross-subsidised the tariff business with loss-making line and thus make a profit over the years.

The most popular nonlife insurance business transact in the country are fire and motor portfolios. Whilst the fire portfolio is around 22% of the total business, the motor portfolio continues to be the most predominant of all the businesses that the country offers and is today around 40% of the total gross premium collected by the non-life insurance industry. Insurers offer a variety of products in commercial lines and personal lines of business and have a separate range of low priced products for the rural masses. Although the non-life insurance industry has been generating overall profit, yet motor insurance due to third party legal liability claims, has substantially contributed to underwriting losses.
4.10 MEANING OF INNOVATION

“Innovation” is a very commonly used term in all sectors of the world today. Innovation may be making changes to the existing product by adding new features and making it marketable or it may be making changes in the production process so as to reduce the cost and the price as well. The basic idea behind product innovation is creating value for the product. According to, Darren Pain, economist, product innovation in non-life insurance is widely used but at the same is understood by people in different ways. [1] “Innovation refers to the introduction of something new that improves on the status quo. It doesn’t have to involve anything especially novel or inventive.” Innovations vary according to how far they change the existing product or service or the way it is delivered, sometimes it involve modest improvements in the product. In general public carry the impression that insurance companies are less innovative as compared to other products available in the market.

As per Kim B. Clark [2] there are three types of innovations:

• **“Empowering” innovations** here costly items which are available to a selected class of the society are made available to all the classes by lowering the prices and as such expanding the market for the insurer. Here an example can be cited of term insurance plans that provide cover at a lower rate and for short duration as required by the customer.

• **“Sustaining” innovations** are mainly a type of slight replacement of products with some added features to the new products. The current innovations in the insurance sector after detariffication are in terms of sustaining i.e. the new products introduced today are enhanced by adding on some better features to the traditional ones.

• **“Efficiency” innovations** is one where the cost of the product is reduced by using technologies which help in lowering down the cost of production as well as distribution
expenses. Best example is use of IT in the insurance sector to reduce the cost of acquisition of business.

For any organization to make its presence felt in an otherwise crowded market it is utmost important to create a product that is something unique. In this pursuit, several organizations globally have been conducting an on-going research and development; and the various innovations in the domain of product development are a result of such continued researches.

**4.11 INNOVATIONS IN INSURANCE SECTOR**

The history of insurance which dates back to the dawn of the human civilization has witnessed various inventions and innovations in its products, methods of operations etc. Experience also leads to innovative changes and so with the gain of experience changes are implemented in the statutes to cater to the needs of changing demands of the society. Innovation in insurance started with the introduction of the concept of insurance in the society. In the life insurance sector the greatest innovation was of the ‘mortality table’ which was developed by Dr.Richard Price, a British mathematician of the 18th century. Dr. Richard Price set a milestone and registered his name in golden alphabets in the history of insurance for making the task of mortality calculations simple by preparing the “Northampton Mortality Tables”. His gift to the life insurance industry gave a new dimension to this industry. There are various arguments put forward that there exists no link between insurance and innovation and that these two terms are found together only in the dictionary. But we cannot deny the fact that although the industry exhibits a conservative approach in designing products, yet it displays a tremendous track record of innovation. The first written insurance contract inscribed on Babylonian columns by King Hammurabi when compared to the current situation proves use of big data to
lower down the cost and improve the profitability results. The Great Fire of London in 1666 led to the formation of the first English insurance company. In order to protect itself from sudden loss of investment, the insurers set up their own fire brigades to fight fires at places covered by their policies. Then the insurers in their own interest, donated their fire-fighting equipments to the city in order to form and equip a municipal fire brigade that could fight fires anywhere in the city without any partiality to being insured or not. The Great fire of England in 1731 led to the new safety innovations employed by the insurer, Surveyors were sent to inspect each building before it was accepted for insurance. The rate of premium was set reflecting the risk, houses not adhering to legal requirements and specifications were denied insurance. As a measure of safety in Philadelphia during the occupation by the British in 1777, firms operating there used to hire a chimney sweep who was sent around to nearby occupied houses to maintain fire-places. The lightning rod, invented by Director Ben Franklin, was a significant instrument to deter fires. Houses with trees in front of them were not insured because early hoses could not manoeuvre around them.

The above discussion makes it clear that the amendments made to the existing insurance laws are result of the experiences of the insurers over the period of time. Although a lot has been done in this sector yet there is room for more innovations to be carried out to give a new look to this sector. The terms and conditions of an insurance product, the role of surveyors and underwriters in accessing the risk to be underwritten, application form which provides information about the risk etc are all result of the past experiences of the insurer which have prepared them for facing the present in an equipped manner. With the purchase of an insurance policy the insured expects that he has also purchased peace of mind knowing that their risk is covered. But for insurers the situation is completely opposite, as they have to provide cover in the most efficient and profitable manner.
4.12 CONTRIBUTION OF INFORMATION TECHNOLOGY IN PRODUCT DEVELOPMENT

The Indian government liberalized the insurance industry in 1999 and detariffed the non-life insurance industry in 2007, leading to a period of great growth for the sector. Although there were many obstacles faced by companies operating in the market to achieve their targets of high growth like finding talented and competent staff to contribute to the growing needs of the company; sheer geography of the country makes it difficult to reach some consumers; poor access to past data makes it difficult to manage risks as well as to create new products; unawareness of the masses about the importance of insurance products, strict regulations and control of the regulator etc. But the contribution of information technology in the product development process is very significant.

L&T General Insurance Company operating in India as a non-life insurer undertook an innovative approach at its core, of becoming and remaining a company that depends on mobile solutions right from day one. Being able to use this mobile platform to reach potential customers as well as to administer claims had enabled the company to quickly and efficiently serve a vast range of consumers. This was very effective as it was low-cost, reliable, and proved a consistent delivery mechanism. But before beginning to use that platform to reach the customers, the company reinvent the entire insurance technology foundation. [6] This enables the company to issue policies virtually anytime, anywhere, from practically any device. The company is able to handle claims automatically. Some insurers in India have done away with the trend of issuing a cover note to the policyholder before the issuance of the policy document. Issuing a policy immediately instead of a cover note not only manages administrative costs, but also helps to provide a sense of certainty and trust to the consumer. India is not the only place
where mobile technology has transformed the insurance industry, and with it, the lives of the people.

The opening of virtual or satellite branches by the insurance companies to expand their network is a great contribution of the technology. Dematerialisation of the policy document is done by the insurer and thus reducing the time gap involved in making the process of accepting the risk and issuing of policy very fast.

4.13 PROBLEMS FACED BY INSURANCE COMPANIES IN PRODUCT DEVELOPMENT

Product development is an urgent need for all the players in the market to sustain and to establish their brand name. But there are various issues which stand as obstacles in the path of product development. Resolving these issues can create a better environment for the insurer, the regulator and the policyholder as well. The first important requirement for initiating the process of innovation is that the regulators and the regulated entities need to work together. Secondly, the Regulation should be flexible enough for allowing the firm and the market to decide the optimal path to implement the change by being expedient in implementation and execution and minimizing the uncertainty facing firms when bringing new products or processes to the market. Thirdly, for insurers, one goal should be to work to extend this innovation within the solvency regulation as prescribed by the regulator and to maximize the social good served by the innovation. Fourthly, the insurance industry does not have a technology problem – it has problems in the use of technology due to culture, internal politics and the engrained aspects of human nature that resist change. Fifthly, on one side, the customers keep hunting for the cheapest offer which renders other product parameters irrelevant. On the other side, there is another category of consumers who are willing to pay extra premium for convenience and
service. This factors forces vendors in insurance markets to be more precise in what they offer. Sixthly, in the insurance industry, modifications of existing products advertised as “new” were deemed sufficient. As long as the markets were regulated and customers had no choice but to buy what was available, this was true enough. But as the insurance industry moved forward towards the tariff free regime the situation has completely changed. Customers today know very well what they want and do not want. And the insurer that does not innovate soon will not be ready in time for inevitable change.

The behavioural patterns of the customers in the present market are very different than the traditional market, but still the behaviour is predictable to some extent. There are various stages in the buying behaviour depicted by a customer viz. pre buying, current behaviour and post buying behaviour. Pre buying behaviour is affected by advertisements, hoardings, newspapers, friends etc, the behaviour at the time of purchase of the product is the own judgement on the basis of the information gathered. And the post buying is anticipating services on the product.

Innovation is not necessarily to invent a new product or to make a new use of the technology but to encourage innovative thinking leading to innovation in true sense. It is true that innovation is not the activity of a department that can fulfil the requirements of insured, insurers and the regulator at the same time rather it is a culture that has to be followed consistently in an insurance entity. It should be practiced by participation from all having stake in the entity by generating new ideas and giving shape to these new ideas in the form of new products. Innovation in insurance industry follows the trend of conserving the earlier products by preserving their instinct qualities.

Product designing is a continuous process and experimentation with product designing has been instrumental in the emergence of some of the best known products of the world. Many instances prove that the reputation of a business entity associated with a successful
product is often identified by the product itself in several instances. In case of a tangible product it is very easy to innovate and redesign a product and capture the market. But when we talk about the insurance sector this is not very easy. The changes occurring in the demands of the public and also the market dynamics should play a key role in getting to know the pulse of the clientele; and as such accordingly redesign the products to suit the demands of the customer. Banking industry which is also offering intangible services to the society over the years is an example and this innovative approach has led to the development of the banking industry over the decades.

**4.14 PRODUCT DEVELOPMENT PROCESS IN INDIA**

Product development process in insurance is divided into various stages from the initiation of idea of developing of a product to its reaching the ultimate customer. The various stages in the product development of insurance products are discussed as follows:

**Project Initiation** – in this stage, concept of the new product to be launched with an outline of the desired features of the product and the target customer are framed.

**Product Definition** – product development team works to design the product based on factors like target customer, type of product, terms and conditions of the product to be within regulatory framework.

**Review** - draft of the product is prepared and is then reviewed before forwarding for preliminary approval from the regulator.

**Filing** - the product is filed with the regulator IRDA for approval to be sold in the market.

**Approval** - if the regulator is satisfied with the product approval given and communicated within thirty days to the insurer and the product can be introduced in the market. [7]
4.15 METHODS OF REGULATORY CONTROL ON PRODUCT FILING

Regulatory control on products being filed with IRDA involves the fulfilment of various guidelines issued by the regulator from time to time. Again till detariffication of the non-life industry in 2007 the TAC controlled the entire product wording, rates and conditions which were part of regulatory control. Apart from tariff controls where the entire product wording and rates are fully controlled, there can be various forms of regulatory control on products in the following order, based on the stringency of control.

1. **State Regulated products** – insurance companies are allowed to sell only those products which are framed and regulated by the state.

2. **Prior approval of products** – the products to be offered for sale has to be approved by the regulator before entering the market.

3. **File & Use** – products to be offered are to be filed with the regulator and only after approval can be used for sale.

4. **Use and file** – product are first offered in the market and if the response is good then the product is filed with the regulator for approval and after approval can be sold in the market.

5. **Mere filing only** – here the products are just filed with the regulator but approval is not required.

6. **No filing** – market is kept open for all products.

Among these 'File & Use' and 'Prior Approval' are the common forms of control. In the Indian market, the regulator has preferred to opt for File & Use regulations, the first version of which was circulated in 2001. Amendments were made to the regulation at the time of de-tariffing of the non-life sector in 2006 so as to keep pace with the changing scenario. And with the experience of detariffaction of over seven years the regulator
recently issued the “Use & File’ Guidelines to be followed by the insurers. With this new guidelines the file & use method which was in place since liberalization of the industry has been done away with in the Indian non-life insurance market and implementing Use & File method from 1st, April, 2015.

4.16 FILE & USE METHOD IN PRE-DETFARIFF PERIOD

There have not been many varieties of products offered by the insurer during the pre-liberalization era. The public sector insurers acting as subsidiaries of GICI sold similar products with different names. There was no variation in the products offered; all insurers provided same products. But the only point of distinction between the products offered by the various insurers was the differences in services provided by them to the policyholder. But liberalisation of insurance industry opened up the market to private players; which meant offering of innovative insurance products to the public. Public sector insurers till date were selling the products which were approved by their holding company GICI; but private sector insurers would sell their own products. So at the time of opening the market to private entities in the interest of the public as well as to exercise control on the functioning of the new entities IRDA issued new guidelines on product filing for implementation by both the public and private sector insurers. With the opening up of the insurance sector to private players in the beginning of the century the first guidelines on File and Use system were issued in 2001. According to the “File & Use” Guidelines issued in 2001 after the liberalisation of the insurance industry all the insurers to file their existing and new products with the IRDA under “File & Use” system. IRDA collected regular feedback on the products being sold by the insurers.[8] In case of new products insurers were required to submit details of premium rating, policy conditions, proposal form, claim form, underwriting manual and the system in vogue to
review the rates, terms and conditions in future. In addition to this, they are required to furnish certificates from advocates and actuaries that the statements made are true and accurate and are not in violation of any law and that the policy wordings are simple and easily understandable to a policyholder.

4.17 FILE & USE AMENDMENTS PRIOR TO DE-TARIFFICATION

The insurance industry although liberalized in the year 2000 yet the product pricing was completely under the control of IRDA. The free price regime was implemented after six years of opening the sector. Detariffing of the non-life insurance sector in 2007 was the second most important event in the history of insurance industry. With the intent to detariff the market effective from 1st January 2007 IRDA issued an exposure draft on File and Use guidelines to the insurers as a road map in August 2006. In 1994 the Marine (Cargo) business was detariffed which created a chaotic situation in the industry. So this time before allowing the market to be deregulated in terms of pricing the IRDA took some precautionary measure to avoid future chaotic situation. These road maps were to be followed by all the insurers before stepping into a free price regime. With the implementation of de-regulated price market the insurers were allowed to charge the rates of premium determined by the actuaries only after filing it with the IRDA. In September 2006, final guidelines were issued to all the non-life insurance companies based on the experience gained by IRDA and the feedback received on the exposure draft. All the players in the non-life segment were asked to file all the products which were already in the market. The new products to be launched in the market, both by the existing public sector companies or by the new players, which were licensed at that time, were to be approved by the IRDA. Insurers were advised to adhere to the tariff wordings and rates prescribed in the various tariffs. Insurance companies under the non-life sector
enjoyed the freedom to develop their own product. Any product to be introduced by the insurer had to qualify the criterions that the new product will be cost efficient and also should justify the benefits of the product to the policyholders. It was mentioned in the guidelines that the insurer shall not vary the coverage, terms and conditions, wordings, warranties, clauses and endorsements in respect of covers that were under tariff until March 2008. As stated in the IRDA Act the primary functions of IRDA is to protect the interests of the policyholders and the secondary role is to regulate, promote and ensure orderly growth of the insurance industry. But it seems impossible to fit in the two objectives at the same time. Preference of the customer is to avail the product at the cheapest rates while the financial objective of an insurance company is profitability so benefit of the customer and the insurer at the same time is not possible. Detariffication of the non-life industry in 2007 made it imperative to review the File and Use guidelines and as such on 26th September 2006, just before the beginning of de-tariff regime the IRDA issued new guidelines vide 021/IRDA/F&U/Sept.06. In order to protect the interest of the policyholders and avoid potential mis-selling, the regulator has prescribed the extensive File and Use guidelines which require certification from a legal counsel on simplicity of the policy wording and that they are not misleading. The pricing of the product had to be based on appropriate data and technical justification and was to be evaluated and certified by the Appointed Actuary. The filing was accepted only after the insurer had filed Board approved Underwriting Policy. These revised guidelines although brought a systematic pricing regime by regulating the insurance market and making developments in product innovation and pricing but there was a need to deregulate the pricing so as to allow the policyholders to enjoy the full benefits of liberalization of the industry.
4.18 THE PREVAILING FILE & USE SYSTEM IN NON-LIFE INSURANCE MARKET

Currently, the ‘File and Use’ guidelines issued by the IRDA on 28th September 2006 are in use for providing approval to new products. This circular has more than 31 paragraphs of guidance information, which is too much for an insurer to follow. This is in addition to no permission to change the wording for the tariffed products. The procedure for filing of “new insurance products” under the “file & use” system is as follows:

4.18.1 FOR A NEW PRODUCT

- The insurer who wishes to introduce a new product in the market has to apply to the IRDA with the details of the product with its terms, conditions, features, options, limitations, provisions etc and also to provide information relating to target market and treatment of various segments in the underwriting of the risk.

- The proposed product has to be certified by an actuary regarding the efficiency of premium rates charged on the product as well as to ensure that the terms and conditions of the policy are reasonable and not detrimental to the interest of the policyholder.

- After receiving of the application the IRDA can seek further information from the insurer within 30 days of receipt of the application.

- In case IRDA does not demand any further information then the product is assumed to be approved and can be sold in the market.
4.18.2 FOR CHANGES IN EXISTING PRODUCT

- For carrying out any changes to an existing product the insurer has to make application to the IRDA providing details of changes to be carried out in the existing product and also to give reasons for implementing the change.

4.18.3 FOR WITHDRAWAL OF PRODUCT

- In case an insurer wishes to withdraw an existing product from the market an application to IRDA with the details of the product to be withdrawn and the reasons for doing so has to be submitted.

The amendments to the File & Use system made in September, 2006 was on the basis of the feedback collected by the IRDA on a regular basis regarding the products offered in the market since liberalization as well as based on the experience of six years of using the system also contributed a lot. So, the following modifications were carried out in the existing the File & Use system in 2006.

- For the purpose of rating and underwriting of the risk, the classification of products was to be made on the basis of class, individual, experience, exposure and large risks.

- Mandatory for every insurer to get the product approved by the board as a part of underwriting practice.

- There should be demarcation between the functions to be performed by the Chief Marketing Officer as well as the Chief Underwriting Officer.

- Actuary involvement in product pricing and product development was enhanced for better underwriting results and required a half yearly review of the product performance by the actuarist.
• There should be regular and technical audit regarding underwriting of business and discounts offered by the insurer.
• For future decision making on a product; a regular Product performance review has to be reported to the board.
• Joint endeavor of the insurer and the board to get the product cleared by the IRDA in 60 days.
• Restrictions were imposed on changing of the wordings relating to tariff in the products but the insurers were at liberty to file add on covers to any product they offered.

These above mentioned guidelines went a long way in serving the purpose of regulating and developing product development process. But it was felt that the degree of development was far less than what was expected and as a result it became necessary to make corrections in the existing guidelines taking into consideration the actual experience and evolving needs of all stakeholders.

4.19 REASONS FOR ADOPTING “USE & FILE” FROM APRIL, 2016

The IRDA has made the entry barriers, for getting the approval of either the existing or incremental product very stringent. Once the insurer gets the approval from IRDA for a particular product there is no measure to check the performance of the approved product or its life cycle. So there are no exit barriers and the insurers are at their free will to continue or discontinue the product in the market. Lack of accountability on the part of the insurer for performance can lead to numerous problems as these shows negligence on the part of the insurer towards their customers. At the time of filing a product with the IRDA the insurer are not required to support their product by conducting market research
so as to show that the new product will serve the needs of the customers. Insurers must be put to proof that they have studied the market and the existence of market need for the product filed. Absence of these criteria lead to filing of such products which are not desirable. From the point of view of the insurers the file and use system was not friendly to them. Firstly, the complaint of insurers is mainly the delay in the approval of the products by IRDA. Secondly, as IRDA have not imposed any accountability norms for performance of approved products so the insurer does not conduct any survey and this reduces the credit standing of the filed product.

4.20 RECOMMENDATIONS OF WORKING COMMITTEE FOR REVIEW OF “FILE & USE” GUIDELINES

It is in the context of this regulatory history and subsequent unraveling of the market practices that the IRDA set up a Working group on 8th September, 2014 for review of ‘File & Use’ guidelines which were prevalent in the non-life insurance industry. The Working Committee on review of File &Use guidelines formed under the chairmanship of Shri. Suresh Mathur; submitted its report to the IRDA on its quest to review the file and use practices and recommend changes to keep it abreast with changing times and complexities of an evolving non-life insurance market. The main suggestions of the Working Committee incorporated in the Report are mentioned below:

- The products to be classified on the basis of the buyer rather than on the basis of how it is priced. There may be broadly two classes of products, namely Retail products that are primarily designed for retail customers and Commercial products that are primarily designed for customers other than individuals and includes firms, companies, trusts, associations, societies,
Government and the like. Products designed and approved for retail customers can be sold to any commercial customers but not the vice-versa.

- Use of standard Indian market wordings for smooth functioning and easy understanding of the Use and File system.

- The work group, after considerable deliberations recommends a “Use and File” system for Commercial products while the Retail products will continue to be governed by “File and Use” system.

- Minor modifications in the product need not be filed with IRDA and may be approved by company’s internal Product Management Committee (explained later) subject to certain confirmations from Appointed Actuary.

- The current File and Use system requires all products to be filed with IRDA before these can be used. But the process of developing innovative products requires experimentation; testing, refinement and finalization which is missing but the file and use system does not afford this freedom of testing and refinement and jumps from experimentation to finalization. Hence a new category of product has been visualized called “Pilot Products”. Insurers may launch a product for a short period of time in a defined pilot area with defined exposure limits on a Pilot basis after informing the IRDA. After gaining experience on the product, they may finalize the product and take it through approval process depending upon whether it is a retail product or commercial.

- Introduction of add-on covers.

- Creation and hosting of an online tool (product comparator) by IRDA to compare fire, engineering and motor policies in terms of coverage, exclusions, conditions, add-ons, etc.
• Allotment of “Unique Identification Numbers” (UIN) to every product cleared by IRDA and displaying the same on Authority’s web-site as per the directions of Central Information Commission.

• Having insurance policies in electronic form.

• Handling of issues relating to delay in clearance of insurance products.

4.21 IMPLEMENTATION OF “USE & FILE”

The product filing procedures and processes have been changed significantly with the introduction of the IRDA recent Guidelines on "Product Filing Procedures for General Insurance Products" ("Revised Guidelines") which came into force on 1st April, 2016. These guidelines are applicable on all non-life insurance products filed on or after 1st April 2016. The Revised Guidelines applies to all non-life insurance products except health, personal accident and travel insurance products which are governed by the IRDA (Health Insurance) Regulations 2013. While the products which are governed by the wordings of Tariff Advisory Committee will continue with the standard wordings. As the health care products are governed by “Health Insurance Regulations” issued by IRDA in February 2013, hence the terms of reference of the working group exclude any comment on the product development process for health insurance products.

Under the current Use & File Guidelines the products which were already filed under the previous File & Use Guidelines need to be re-filed. For the existing products which were approved and used in the market; the following guidelines are issued:

• There may be broadly two classes of products, namely Retail products that are primarily designed for retail customers and Commercial products that are primarily designed for customers other than individuals. Recommended that
Retail products will continue to be governed by File and Use system while Use and File system be followed for Commercial products.

- The 'file and use' procedures require the products to be necessarily filed with the IRDA before these are marketed. All retail products (including their modifications) have to be filed with the authority under 'file and use' procedures. The commercial products will follow 'use and file' procedures. However, the commercial products offered to micro, small & medium enterprises, small shops and establishments, trustees, cooperative societies with a policy sum insured up to Rs 5 crore have to be filed under 'file and use' procedures.

- With the introduction of ‘use and file’ procedures the responsibility is placed on the Product Management Committee (PMC) and senior management of insurers to ensure proper due diligence of product design and protection of the policy holders interests.

- The products, earlier filed by the insurer and noted by the IRDA under ‘file and use’ guidelines, need not be re-filed under the present guidelines unless the insurer undertakes any change in the rates, terms or conditions of such products.

- A product filed for commercial customers cannot be sold to individual customers.

- The pricing and design of the product, must aim at making the product to stand of its own by generating a reasonable margin of profit and without any cross subsidisation from any other product.
• Setting up of a product management committee to review and recommend (i) all the products that are in existence either continues to be offered/ withdraw/ modify and (ii) new products proposed to be filed with the authority.

• The Revised Guidelines do not require re-filing of approved products under the previous File & Use Guidelines but in case the Insurers wish to continue offering those products, they will need to classify those products as "retail products" or "commercial products" and file a list of those products (duly certified by the CEO and Appointed Actuary) with the IRDAI within 60 days of the issuance of the Revised Guidelines.

• Insurers may also choose to withdraw any of their existing products by following the procedure set out in the Revised Guidelines.

The Revised Guidelines set out detailed "guiding principles" for product design as well as for rating. These guiding principles are to be followed by the insurance companies. The product to be filed should be a genuine insurance product covering an insurable risk with a real risk transfer. And the insurer should practice due diligence in complying with the regulations relating to product development, rating and filing. [9] The product design should ensure transparency and clarity in wordings, terms, coverage, exclusions and conditions in order to devise a fair and balanced risk transfer mechanism through insurance. This is to safeguard the interest of the policyholders. Products should be fair, need based and non-discriminatory to all stakeholders and should take care of the policyholders' reasonable expectations. There should not be any "unnecessary and superfluous coverage added to the product and neither there be exclusion of any necessary coverage. The product literature should be in simple language and use of any technical terminology should be sufficiently clarified such that it can be understood by
laymen. If Insurers intend to introduce products used in foreign jurisdictions, then those products must be examined and modified in terms of the local regulatory requirements suit ing the needs of the Indian policyholder.

4.22 PROCEDURE FOR INTRODUCING PRODUCTS UNDER THE REVISED GUIDELINES:

- Retail products are to be filed under the File & Use procedure set out under the Revised Guidelines. Broadly, the Insurer cannot market the product unless the IRDA has confirmed in writing that the contents of the product have been noted and a Unique Identification Number (UIN) has been allotted for the product.

- Commercial products are to be filed under the Use & File procedure set out under the Revised Guidelines. This procedure is meant to be "self governing process" where the Insurer's Product Management Committee (PMC) will play a pivotal role. Broadly, once the product is scrutinised, reviewed and recommended by the PMC (without any exceptions to the Insurer's Board approved underwriting policy) and accepted by the Insurers, the product documents will be uploaded on the IRDA's website and a UIN will be allotted. The Insurer can market the product thereafter.

- The Revised Guidelines make it clear that the IRDA may check the documentation in detail and if it finds that the product is not in the interests of the policyholders or in conformance with the regulations, it may direct for the product to be suspended, withdrawn or even filed under the File & Use procedure.
4.23 SIGNIFICANT CHANGES INTRODUCED BY REVISED GUIDELINES ON USE & FILE

One of the most significant changes introduced by the Revised Guidelines on Use & File system is the role of the Product Management Committee (PMC). All Insurers are required to form a PMC which shall include high level officers, Appointed Actuary of the company, Chief Underwriting Officer, Chief Financial Officer, Chief Marketing Officer, Chief Risk Officer, Compliance Officer and Head Reinsurance officers of the Insurer. The role desired to be played by the product management committee is that of an internal regulator to monitor the operations throughout the life cycle of the insurance product. All products filed either under File and Use or Use and File has to be approved by Product Management Committee before sending to IRDA.

Another significant change is the Revised Guidelines provide that the lawyers certificate for each product must be signed by a lawyer domiciled in India who is: (a) employed by the Insurer and has at least 3 years of experience in the Indian insurance/legal service and is entrusted with the sole/main responsibility of developing insurance products; OR (b) a lawyer of a reputed law firm or an independent practitioner, having at least 3 years of experience in the Indian insurance/legal service and "well versed with insurance policy wordings".

The Revised Guidelines on Use & File are definitely a significant step towards a self regulated regime from a time bound regime. Now the Insurers will be required to carry out their own internal due diligence and certification with significantly increased responsibility on the management of the Insurance companies.

The use & file system is justified by the committee on the grounds that for the development of innovative products in non-life sector it is necessary to go for
experimentation first regarding its sustainability in the market. Experimentation followed by testing, refinement to the product if required and then finalising the product by IRDA will be beneficial to both insurers and policyholders.

4.24 TRENDS IN PRODUCT INNOVATION AND PRODUCT DEVELOPMENT

Although the business of insurance is existing in India for nearly two hundred years and the business has been nationalized for more than four decades yet the scenario of risk awareness is very poor. The experience of the insurers is such that although at the time of liberalization a large untapped potential market existed yet the insurers have faced a very poor risk-awareness in the customers; even for the purchase of the age-old traditional products. There were many causes for this indifference towards the insurance products by the public like:

- The insurers suffered credibility problem, the public had very less or no confidence and trust on the working of the insurance companies.
- The distribution channels used by the insurers were devoid of insurance expertise and marketing skills and thus could not attract customers and could not succeed in making people aware of the importance of insurance products.
- Most of the popular products were those which served as collateral to banks for taking loans or were sought necessary under the requirements of law. And thus failed in providing any scope for the policyholder to understand the details of the scope of cover and its limitations.
- Popular insurance products like Motor insurance are subject to mandatory insurance so are being sold on the demands made by customers again. Health insurance covers are also to some extend sold on demand by the customer in
India. But for other insurance products the selling is to be pushed, these covers are not vendor-driven. [9]

The insurance companies needs to overcome these challenges and equip them with the latest technology and establish their brand names so that they can improve their market share.

4.25 PRODUCT DEVELOPMENT IN INDIA

With reference to objective number four stated in Chapter-1, we are now venturing into the discussion on the product development practices followed in India at the pre and post nationalization stage and pre and post liberalization period. The journey of Product Development in non-life Insurance in India can be broken down into three eras.

4.25.1 Pre Nationalized period

Prior to the Nationalization of the industry, the non life insurance companies operating in the market followed the practices of the London or US Market. The reason being all the entities were either units of British or American companies and so it was obvious to follow the practice that were followed by their parent organizations. The number of domestic companies was very marginal and they too worked in lines with the foreign companies. They were rather involved in selling the common products. And absence of regulatory control the insurance was affordable by the rich and the poor were never approached by the insurers. The result was that there was no innovation in product development carried out by any domestic or foreign entities.
4.25.2 Post Nationalized period

Even after nationalization of the non-life sector there was not much improvement in the products offered by the insurers. In 1980’s and 1990’s the product development was based on the needs of the customer and it was observed to be at very slow pace. Prospective customers as well as the policyholders were able to collect information about a product only through the agents; there was no other source of information. But today the use of Information Technology has changed the whole scenario.

The post nationalization era of the non-life industry after 1972 was also the same without much contribution made towards product innovation. The conduct of the four subsidiaries was vested with General Insurance Corporation of India as the holding company. The subsidiaries were fully monitored and controlled by the GICI and thus had no authority to develop their own products. The GICI with the help of the Tariff Advisory Committee prepared the products to be sold in the market by the four subsidiaries. This left the customers without any choice as all the insurers provided the same products. For the insurers it was not so troublesome because GICI introduced only those products which could be sold by its subsidiaries without much effort so the insurers sold only those products which were available. Product development during this period was seen in only those segments were there was compulsion from the government.

However, the GIC introduced a lot of products in traditional and non-traditional areas. Cattle Insurance which is a non-traditional product became very popular. This product was also introduced to fulfill the social responsibility criterion entrusted upon the insurers by the government. Marine insurance did not see much innovation as it is based on international practice but the fire tariff underwent a lot of improvements. It would be appropriate, at this stage to mention one of the most
significant product introductions by the General Insurance Corporation. The GIC, with the help of the Tariff Advisory Committee regrouped the existing products (Policies) and came out with 130 plus products. [9] Product development during this period was seen in only those segments where there was compulsion from the government.

Most products which were innovated during this period became very popular owing to the reason that these products were introduced as fulfillment of the requirements under the budget by the Government. The products were introduced as a part of budget innovations and were mandatory for the insurers to implement. [10] Some of these popular policies introduced in the seventies and eighties were:

- Janata Personal Accident insurance (1975);
- Mediclaim insurance (1986);
- Overseas Medical insurance (1990); and
- Cattle insurance (1980).

But the incidence of 9/11 demanded paradigm shift in the designing of products of the insurer. A new category of risk came into existence and the incident led to the insolvency of many insurers throughout the globe. The hurdles in product innovation in this sector are the complicated laws and regulations governing insurance business, outdated process of filing and designing the product, actuarial hurdles and lack of technologies. Till the liberalization of the insurance market in 2000 product innovation in traditional insurance markets tends be of the incremental or evolutionary type, building on existing knowledge and infrastructure. Among the most prominent incremental innovations in insurance are done by making amendments to terms and conditions of the existing cover; and by bundling or unbundling of risk protections.
New Product Development and Launch (NPDL) is probably the most important process for many companies, but also one of the least understood and inadequately executed processes. [11] The activity of product development was taken as a back office department but today in the liberalized market, new products are developed and introduced either as a reaction to meet competitive challenges or because of development of proprietary technology or patents or as a part of change in the regulatory environment.

4.25.3 Post Liberalization Period

The period after liberalization witnessed drastic changes in the insurance industry. Product development as well as introduction of innovative products was a regular activity. The stiff competition for survival forced each and every insurer to do something. Numerous products entered the market since the beginning of the new century.

Sports, media and entertainment saw customized insurance packages to meet their unique needs. Products covering risk for short period were created; these products compensated for losses on account of expenses made to organize sport events, weddings, films etc. Contingencies like involuntary postponement, cancellation or abandonment of an event were also insured. New innovative products were celebrity / crew Accident Insurance cover, provision to cover venue, sets and equipment against fire, riots, terrorism, earthquakes. The third party or public liability cover was also provided for the event organizers.

Although marine insurance is the oldest form of insurance in the world innovative products in this segment were also introduced. Customized Marine insurance covers
for corporate clients were developed covering end to end transit known as Multi Transit Covers.

For multi modal transport operators, under one comprehensive policy coverage was provided for the property of the transporter as well as third party liability coverage was also included.

The innovation in insurance products boosted the international trade. Credit insurance gave an impetus to business and access to credit ratings aiding the export sector by opening up potential markets for Indian manufacturers. [13]

Service industry in India has achieved a high growth in the last two decades and insurance sector is one such sector. In terms of insurance sector India is the most preferred destination for investors throughout the globe. Home-grown business barons Tata, Birla, Bajaj have stepped into the insurance industry by joining hands with experienced international insurers entering into joint venture contracts. But if we look at the list of products introduced during the years from liberalization of the insurance industry it appears that there has been introduction of new classes of insurance which are very new to the industry. Some of these products were completely new (eg weather insurance) while others were already available through the public insurance companies. Areas in the country which were previously uninsured were slowly and gradually starting to go in for insurance cover. As a result, the non-life insurance market in India expanded.
<table>
<thead>
<tr>
<th>Serial No.</th>
<th>Product</th>
<th>Serial No.</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Directors &amp; Officers Policy</td>
<td>19.</td>
<td>Property Insurance</td>
</tr>
<tr>
<td>2.</td>
<td>Product for Accountant</td>
<td>20.</td>
<td>Package Insurance</td>
</tr>
<tr>
<td>4.</td>
<td>Supply Chain Disruption cover</td>
<td>22.</td>
<td>Overseas Medi-claim Policy</td>
</tr>
<tr>
<td>5.</td>
<td>Products liability,</td>
<td>23.</td>
<td>Student’s Safety Insurance</td>
</tr>
<tr>
<td>7.</td>
<td>Professional indemnity policies,</td>
<td>25.</td>
<td>Cancer Medical Expenses Policy</td>
</tr>
<tr>
<td>8.</td>
<td>burglary cover,</td>
<td>26.</td>
<td>Boiler and Pressure Plant Insurance</td>
</tr>
<tr>
<td>9.</td>
<td>individual and group health policies,</td>
<td>27.</td>
<td>Machinery Insurance</td>
</tr>
<tr>
<td>10</td>
<td>Baggage Insurance</td>
<td>28.</td>
<td>Cold Storage Insurance</td>
</tr>
<tr>
<td>11</td>
<td>Kidnap, Ransom and Extortion Insurance</td>
<td>29.</td>
<td>Wedding Insurance</td>
</tr>
<tr>
<td>12</td>
<td>Travel Insurance</td>
<td>30.</td>
<td>Electronic &amp; Computer Crime Policy</td>
</tr>
<tr>
<td>13</td>
<td>Cellular Network Policy</td>
<td>31.</td>
<td>All Risks Cover Insurance</td>
</tr>
<tr>
<td>14</td>
<td>Event Cancellation Policy</td>
<td>32.</td>
<td>ATM Safe Insurance Policy</td>
</tr>
<tr>
<td>15</td>
<td>Poultry Insurance which includes: (a) Duck Insurance (b) Poultry Insurance Master Policy.</td>
<td>33.</td>
<td>Personal Insurance which includes: (a) Janata Personal accident (Individual) (b) Gramin Personal accident</td>
</tr>
<tr>
<td>16.</td>
<td>Rural insurance which includes: (a) Agricultural Pump set (b) Animal Driven Carts Insurance (c) Hut Insurance (d) Gober Gas Insurance (e) New Well Insurance</td>
<td>34.</td>
<td>Cattle and Livestock Insurance: (a) Cattle Insurance (b) Sheep and Goat Insurance (c) Camel Insurance (d) Horse Insurance</td>
</tr>
</tbody>
</table>
4.26 INNOVATION PROTECTION TO THE INSURER

Innovative in business processes proves the pace of advanced thinking taking place in a business entity. Innovation in technology, manufacturing, science, pharmacy and insurance are all measured on the same scale because whatever field it belong innovation is thinking ahead of others. Whenever an entity introduces a new product in the market they may feel like applying for patent and thus arrest the clones that their competitors may create. Technological, biotechnological and manufacturing innovations are being safeguarded by the inventors through a legal system called patent under Indian Patents Act 1972. But as per Indian Patent Act, insurance product is not considered as patentable product and the product cannot be stopped from being copied by the other entities in the market. Although this is not welcomed by the innovators in the insurance sector operating in India but obviously is great news for the competitors. Insurance is not considered as patentable product not only in India as per Indian Patent Act but also under Asian, UK and European Patent Acts. But in USA since 1976, the U.S. Patent and Trademark Office has issued 404 patents using the word ‘insurance’ in a filing; using the same criteria; 1149 patent applications have been published at the Patent Trademark Office website since 2001. The high level of income, involvement of huge investments in various projects undertaken, technological development at all levels of business operations, defence and intellectual innovations taking place in America may be a reason why the patent Law in insurance has so much of popularity. Whereas the scenario is completely different in India, till date not a single insurance company has applied for patent insurance of the products introduced by them. The low awareness about the availability of such insurance may be a primary reason for its unpopularity. Again the cost of acquisition of such policy is so high that it may not commensurate with the indemnity value which may be received. The process of assessing the risk at the time
of taking the policy and the process of filing suit and claiming the indemnity seems to be very complex, these may be reasons of unpopularity.

IRDA does not provide any patent or copyright protection to any promoter of a new insurance product. The regulations also do not provide for the period for which the product that has been filed with IRDA can be continued to be sold in the market. Absence of patents and copyrights on insurance products in India allows insurers to sell identical products in the market by mere intimation to IRDA in the form of filing. Products once approved are for lifetime and a product once approved cannot be withdrawn from the market before the expiry of five years. But every other product in the market has a life cycle so the same should apply to insurance products as well. The insurance products introduced in the market should be allowed to continue in the market on the basis of performance evaluated by IRDA on a regular basis. But it is on the insurers to change the perception by making attempts and filing their products. The experiences gained by the insurers can help in coming to a conclusion.

Table 4.2 given below depicts the important events in product development in the non-life insurance sector.

**Table 4.2 Important events in Product Development in India**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>Entry of private sector insurance companies</td>
</tr>
<tr>
<td>2001</td>
<td>Simple File and Use guidelines</td>
</tr>
<tr>
<td>2006</td>
<td>Detailed File &amp; Use guidelines</td>
</tr>
<tr>
<td>2007</td>
<td>De-tariffing of non-life insurance pricing</td>
</tr>
<tr>
<td>2008</td>
<td>Add On covers allowed</td>
</tr>
<tr>
<td>2013</td>
<td>Health Insurance Regulations issued by IRDA</td>
</tr>
<tr>
<td>2014</td>
<td>Formation of work group to review F&amp;U guidelines</td>
</tr>
<tr>
<td>2015</td>
<td>Insurance Laws (Amendment) Bill was passed</td>
</tr>
</tbody>
</table>

Source: Compiled from Annual Reports of IRDA from 2000-2001 to 2014-15
4.27 NON-LIFE PRODUCTS DEVELOPED IN PRE AND POST DETARIFFICATION PERIOD

Before deregulation in 1999, limited number of non-life products were available in the market and were rather similar across the four subsidiaries of GIC. These products were classified as those regulated by tariff and non-tariff products. The products regulated by tariff were fire insurance, motor vehicle insurance, engineering insurance and workers’ compensation etc while burglary insurance, Mediclaim, personal accident insurance etc came under non-tariff products. After the opening of the sector to private players, more new products were introduced.

The table 4.3 provides the details of the number of products cleared by the public and private sector non-life insurers post liberalisation. The products cleared by IRDA for use in the market included products liability, corporate cover, professional indemnity policies, burglary cover, individual and group health policies, weather insurance, credit insurance, travel insurance and so on. Some of these products like weather insurance, directors and officers liability policy were completely new in the market while some others were already available through the public insurance companies.
Table 4.3 Products cleared by the public and private sector non-life insurers

<table>
<thead>
<tr>
<th>Period</th>
<th>Year</th>
<th>Number of products cleared</th>
<th>Public</th>
<th>Private</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRE-DE TARIFF</td>
<td>2000-01</td>
<td>8</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2001-02</td>
<td>13</td>
<td>191</td>
<td>199</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2002-03</td>
<td>19</td>
<td>34</td>
<td>53</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2003-04</td>
<td>15</td>
<td>65</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2004-05</td>
<td>12</td>
<td>34</td>
<td>46</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2005-06</td>
<td>18</td>
<td>67</td>
<td>85</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2006-07</td>
<td>18</td>
<td>83</td>
<td>99</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2007-08</td>
<td>12</td>
<td>152</td>
<td>164</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2008-09</td>
<td>8</td>
<td>117</td>
<td>117</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2009-10</td>
<td>8</td>
<td>107</td>
<td>115</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2010-11</td>
<td>4</td>
<td>81</td>
<td>85</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2011-12</td>
<td>20</td>
<td>144</td>
<td>164</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2012-13</td>
<td>15</td>
<td>94</td>
<td>109</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2013-14</td>
<td>11</td>
<td>43</td>
<td>54</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2014-15</td>
<td>8</td>
<td>821</td>
<td>907</td>
<td></td>
</tr>
<tr>
<td>POST-DE TARIFF</td>
<td>Total</td>
<td></td>
<td>86</td>
<td>821</td>
<td>907</td>
</tr>
</tbody>
</table>


# Data relating to year 2000-01 not available.

During the first year after liberalization neither the public sector nor the private sector insurers filed any product with IRDA for approval. In the very next financial year 2001-02, the industry registered the highest number of non-life insurance products cleared by IRDA till date. A total of 199 products were cleared of which public sector introduced only 8 products and the remaining 191 products were filed by the new entrants. It is interesting to note that just after one year of opening of the sector to private players the highest filing and clearing of products was witnessed by the private sector insurers. Throughout the period of study private sector has always been on the lead to file new products with the IRDA for approval. In the year 2002-03 also the private entities filed for approval a total of 122 products, this gives a good impression that the entry of private
players have infused competition in the market and also provided customers with more choice. Again noteworthy that during the pre-detariff period that is just after the entry of private players the highest number of products were registered by the private sector insurers.

<table>
<thead>
<tr>
<th>Year</th>
<th>National</th>
<th>Oriental</th>
<th>United</th>
<th>New India</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-2001</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2001-2002</td>
<td>2</td>
<td>2</td>
<td>-</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>2002-2003</td>
<td>5</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td>2003-2004</td>
<td>7</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>19</td>
</tr>
<tr>
<td>2004-2005</td>
<td>5</td>
<td>3</td>
<td>6</td>
<td>1</td>
<td>15</td>
</tr>
<tr>
<td>2005-2006</td>
<td>9</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>2006-2007</td>
<td>12</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>13</td>
<td>16</td>
<td>16</td>
<td>85</td>
</tr>
<tr>
<td>2007-2008</td>
<td>3</td>
<td>4</td>
<td>-</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>2008-2009</td>
<td>6</td>
<td>-</td>
<td>5</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>2009-2010</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>2010-2011</td>
<td>1</td>
<td>-</td>
<td>6</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>2011-2012</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>2012-2013</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td>2013-2014</td>
<td>11</td>
<td>2</td>
<td>-</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td>2014-2015</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>24</td>
<td>9</td>
<td>19</td>
<td>34</td>
<td>86</td>
</tr>
<tr>
<td>Grand total</td>
<td>64</td>
<td>22</td>
<td>35</td>
<td>50</td>
<td>171</td>
</tr>
</tbody>
</table>

*Data relating to year 2000-01 not available.

The industry registered a clearance of 199 products combined public and private sector insurers in 2001-02 and then there was a decline in introduction of products by the private sector insurers even then they were ahead of the public insurers. During the pre-detariff period a total of 598 products were cleared of which the public sector contributed only 85 products while the contribution of private insurers was 513.

During the post-detariff period there was a significant increase in the products being cleared and introduced in the market. The industry registered a total clearance of 907 products of which public sector offered only 86 products. The private sector insurers
were the leaders with a total of 821 products. The table above depicts that there has been consistent practice by the private entities to introduce products in the market and this may be the primary reason behind the increase in market share of the private sector insurers. In the year 2009-10 the public sector insurers have not cleared any product while the private sector received clearance for 117 products. In the post–detariff period private sector entities registered the highest number of products with the IRDA. The private sector insurers filed in total 191 products in the year 2001-02 while the public sector cleared only 8 products. Again noteworthy that during the pre-detariff period that is just after the entry of private players the highest number of products were registered by the private sector insurers.

Among the public sector insurers the maximum number of products was cleared by National (64), followed by New India (50), united (35) and Oriental (22) during the pre-detariff period. The clearance of products of the public sector presents a cyclical trend increase in one year followed by decrease. During the pre-detariff period National was on the lead among the public sector insurers followed by United, New India and Oriental. But the scenario changed in the post-detariff period where the leader was the New India followed by National, United and Oriental. The private sector succeeded in capturing the market in terms of number of products during both the pre and post detariff period. The analysis in the table above indicates that the impact of de-tariffication is clearly evident in the performance of the private sector insurers. Although the public sector insurers have enjoyed the monopoly of operations for more than two decades yet they lacked to provide anything new to their customers this speaks of their experience and incapability to understand the needs of the market and quality of service provided. This gives a good impression that the entry of private players have infused competition in the market and also provided customers with more choice.
Table 4.5  Products Introduced By Private Sector Non-Life Insurers

<table>
<thead>
<tr>
<th>Period</th>
<th>Year</th>
<th>Bajaj</th>
<th>Bharti Axa</th>
<th>Chola man dalam</th>
<th>Future Gener ali</th>
<th>HDF C Ergo</th>
<th>ICICI Lomb ard</th>
<th>IFFC O Tokio</th>
<th>L&amp;T General</th>
<th>Liberty Videocono n</th>
<th>Mag ma -HDI</th>
<th>Rahej a QBE</th>
<th>Relian c e</th>
<th>Royal Sund aram</th>
<th>SBI Gener al</th>
<th>Shrira m</th>
<th>Tata AIG</th>
<th>Univers al Sompo</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRE-DETAIFF</td>
<td>2000-01</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>24</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2001-02</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>17</td>
<td>41</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>39</td>
<td>70</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>122</td>
</tr>
<tr>
<td></td>
<td>2002-03</td>
<td>2</td>
<td>-</td>
<td>53</td>
<td>-</td>
<td>12</td>
<td>27</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>19</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2003-04</td>
<td>6</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>11</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>9</td>
<td>-</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>2004-05</td>
<td>4</td>
<td>-</td>
<td>11</td>
<td>-</td>
<td>-</td>
<td>12</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>21</td>
<td>-</td>
<td>-</td>
<td>8</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2005-06</td>
<td>4</td>
<td>-</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>7</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2006-07</td>
<td>7</td>
<td>-</td>
<td>6</td>
<td>-</td>
<td>-</td>
<td>4</td>
<td>16</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>11</td>
<td>8</td>
<td>-</td>
<td>-</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td>POST-DETAIFF</td>
<td>2007-08</td>
<td>1</td>
<td>14</td>
<td>1</td>
<td>9</td>
<td>5</td>
<td>14</td>
<td>6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>13</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>2008-09</td>
<td>2</td>
<td>-</td>
<td>34</td>
<td>3</td>
<td>12</td>
<td>4</td>
<td>6</td>
<td>13</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3</td>
<td>1</td>
<td>5</td>
<td>-</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>2009-10</td>
<td>3</td>
<td>-</td>
<td>17</td>
<td>2</td>
<td>11</td>
<td>10</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>29</td>
<td>3</td>
<td>6</td>
<td>5</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>2010-11</td>
<td>3</td>
<td>-</td>
<td>4</td>
<td>4</td>
<td>10</td>
<td>2</td>
<td>2</td>
<td>28</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>-</td>
<td>9</td>
<td>19</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>2011-12</td>
<td>7</td>
<td>3</td>
<td>3</td>
<td>11</td>
<td>8</td>
<td>6</td>
<td>3</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>4</td>
<td>-</td>
<td>16</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>2012-13</td>
<td>9</td>
<td>-</td>
<td>3</td>
<td>1</td>
<td>11</td>
<td>6</td>
<td>-</td>
<td>14</td>
<td>30</td>
<td>23</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>19</td>
<td>2</td>
<td>7</td>
<td>8</td>
<td>144</td>
</tr>
<tr>
<td></td>
<td>2013-14</td>
<td>9</td>
<td>-</td>
<td>3</td>
<td>5</td>
<td>19</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>6</td>
<td>17</td>
<td>-</td>
<td>6</td>
<td>2</td>
<td>6</td>
<td>1</td>
<td>7</td>
<td>8</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2014-15</td>
<td>6</td>
<td>-</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>7</td>
<td>1</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: IRDA Annual Reports for various years.

"-" indicates the company has not started operations.
4.28 Product Development in International Context

Having discussed the product development regulations in India, in the following paragraphs the practices followed in other countries of the world regarding product development and approval process is summarized below.

4.28.1 INDIA

The regulating authority for insurance business in India is the IRDA and all insurers whether domestic or foreign operating in the market are required to file their product with the IRDA under “File & Use” system by submitting the hardcopy of the proposed product. The rating of various classes of insurance products is made on the basis as Class, Packaged products, Experience, Exposure, Large Risk. IRDA feedback regarding approval is given within a time frame of 30 days from the date of receiving the application.

4.28.2 USA

In USA the business of insurance both under life and non-life branch is regulated by the National Association of Insurance Commissioners (NAIC). The filing of products is done online by submitting a statement of compliance along with the product details. The various classes of insurance available are the Personal property-casualty lines, Workmen Compensation, Medical malpractice and Commercial property-casualty lines, Health Insurance, Life and Annuity. The method of filing applied is called the Product Requirements Locator. Products which require prior approval from the regulating authority before launching it in the market are the personal property-casualty insurance and the Health insurance. While products relating to Workers’
Compensation, Medical malpractice, Commercial Property-Casualty insurance are subject to competitive rating approach i.e. the authority disapproves the rates if they find that competition is not working. “File and use” system is used for prior approval subject to deemed approved after 45 days. For withdrawal of any product a notice 20 days prior to withdrawal has to be given to NAIC. In case of revision of premium rates on an existing product performance of the product in the market and justification for revision has to be filed.

4.28.3 UK

The Financial Conduct Authority (FCA) regulates the insurance business in UK. Like USA, UK also follows an online mode of product filings through ‘Online Notifications and Applications’ or ONA. In UK the regulator is generally concerned about the conduct of the insurers. The method of filing the products is mainly ‘use and file’ and the products are regularly monitored through periodic performance reviews.

4.28.4 CANADA

The Office of the Superintendent of Financial Institutions (OSFI) is the insurance regulator in Canada. There is a well defined ‘Application and approval Guide’ for addition and deletion of class of insurance. For additional class of insurance, this list includes the description of type of risk, underwriting logics, reasoning, 3 year analysis of the effect of the financial condition, overview of the risk management and control processes, overall solvency of the organization. For deletion the insurer is required to provide a letter signed by a senior officer stating that the company has discharged, or provided for the discharge of, unearned premiums, unpaid claims and any outstanding liabilities in respect of the policies underwritten under the class of
insurance to be deleted, including a description of the manner in which it has obtained
the surrender of the outstanding policies, or discharged, or provided for the discharge
of, all of its liabilities under these policies; and a confirmation that all relevant
provincial insurance regulators have been notified.

4.28.5 CHINA
In accordance with the Chinese laws and regulations, the China Insurance Regulatory
Commission (CIRC) regulates the insurance clauses and insurance premium rates of
insurance institutions in China. All the products are required to be submitted online.
All insurance products distributed in China need to be pre-approved by CIRC. A
detailed examination and scrutiny is carried out by CIRC to ensure compliance with
laws and regulations before the product is allowed to be distributed and sold.
Insurance companies are allowed to develop new products or improved existing
products and only need to register the terms, conditions and premium rates with the
CIRC within 10 days after first sale. In case of Property insurance (property, Liability
and Credit) prior approval of CIRC is required. For approval the CIRC is required to
revert within 20 days of filing of the product by the insurer.

4.28.6 JAPAN
The business of insurance in Japan started in 1863. The Insurance Business Act, 1900
regulated the insurance market. 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 and resulted in benefit to the policyholders. 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. 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. The Detariffing experience of Japanese Economy however, gives an interesting picture of product innovation. In the first year of de-tariffing not a single new product was developed by the insurers. But consequently with each year year there was a significant increase in the number of products introduced. A steep spurt was experienced in all classes in the first two years of detariffing, which by the sixth year reduced considerably. The reasons may be legitimate interference of the Regulator; lack of transparency, value and comfort in the plethora of new products; the products were presumably ‘new for the sake of new’, concealing the ulterior motive of a possible Cross-Subsidisation.

4.29 CONCLUSION

The opening up of the sector has resulted in introduction of new products. Today, a wider choice is available to the customer, with products being tailor made to the needs of the insured. Availability of riders has been a positive development. Initiatives taken by the new players in the non-life segment are weather insurance launched in the country by a private insurer, reference of which was made by the
Finance Minister while presenting the Union Budget for the year 2004-05. Other new products launched by non-life insurers include Mutual Fund Package Policy, Pollution Liability Package Policy and Export Credit (Short Term) Policy. IRDA permitted customization of non-life insurance products such as in case of a motor insurance the insured has the option of either temporary replacement of the vehicle in case of break down or complete reimbursement of damages even if the vehicle is more than five years old. Such customization will attract extra premium.

After detariffication of the non-life the insurers are left alone to justify that they possess the expertise to price the market risk. And in these years post detariffication they have to some extent succeeded in bridging the expertise gap which is necessary for their existence in the market. The insurers have entered to face the realities of a new and crucial market and to confront this situation they need to be well equipped and prepared. They need to gather expertise on deal making negotiations and enhance the productivity of their human capital. Cost reduction and carving new ways to handle the situations of the real market scenario is also necessary and the market for them has become even tougher to break through. The insurers need to attract the customers and think out of the box to deal with the market challenges. What the law makers did in India in the end of the century other nations had done that in the beginning of the century. Today, insurance sector in India is following the global best practices and is expected to prosper with the combined efforts of public and private sector entities.
REFERENCES-

1. Darren Pain, “Product innovation in non-life insurance”, Sigma research publication of Swiss Re.
2. Ibid
3. Ibid
4. Ibid
5. Ibid
6. IRDA, Annual Reports.


43. Ibid.


48. ibm.com/bcs/ceostudy;

49. www.swissre.com/sigma


