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Impact of de-notification of tariffs

Guide :

Presented By :

1. Satish Thuwal
2. Nitin Poddar
3. Deshna Jain
4. Jhanani Mahalingam



Agenda

- Case study - background
- Overview of Regulatory Changes w.r.t. detariffication
- Impact of denotification across LOBs:
 - Marine, Engineering, Workers Comp
 - Fire
 - Motor Own Damage
- Motor Third Party - Impact from possible detariffication
- Q&A

General Insurance Technical Case Study:

Impact of de-notification of tariffs

You are the appointed actuary of large-sized multi-line general insurance company. The company majorly writes personal lines insurance in India with Motor being the largest line of business.

The CEO has asked for your opinion and assessment of the impact of the recent regulatory changes. He has asked you to present the following:

- Challenges and strategies with the de-notification of tariffs, general terms and conditions, policy and endorsement wordings on various lines of business
- Impact on the business of the possible de-tariffication of the Motor TP rates across various vehicle segments.

You are required to:

- Evaluate the potential impact of regulatory changes on the pricing and profitability of the insurance product.
- Analyze the key challenges you might face due to the above changes
- Propose a strategic approach that the company could adopt to strike a balance between competitive pricing and sustainable profitability while ensuring the products remain attractive to customers.

Regulatory Changes Overview

Year	Particulars
1994 to 2007	● 1994: Detariffication of Aviation, PA, Health, certain liability coverages, Marine Cargo ● 2005: Detariffication of Marine Hull ● 2007: Detariffication of Fire, Engineering, Motor (excluding Motor Third Party Liability cover), Workers' Compensation, Public liability coverages ● Pre-detariffication policy wordings still applicable ● Till 2007 : discount from tariff rate upto 49% for Fire & Engineering; 20% for Motor OD allowed without IRDA approval ● 2008: Insurers allowed to charge actuarially determine rate after filing with IRDA. Flexible wordings allowed w.e.f. April 1, 2008

Regulatory Changes Overview

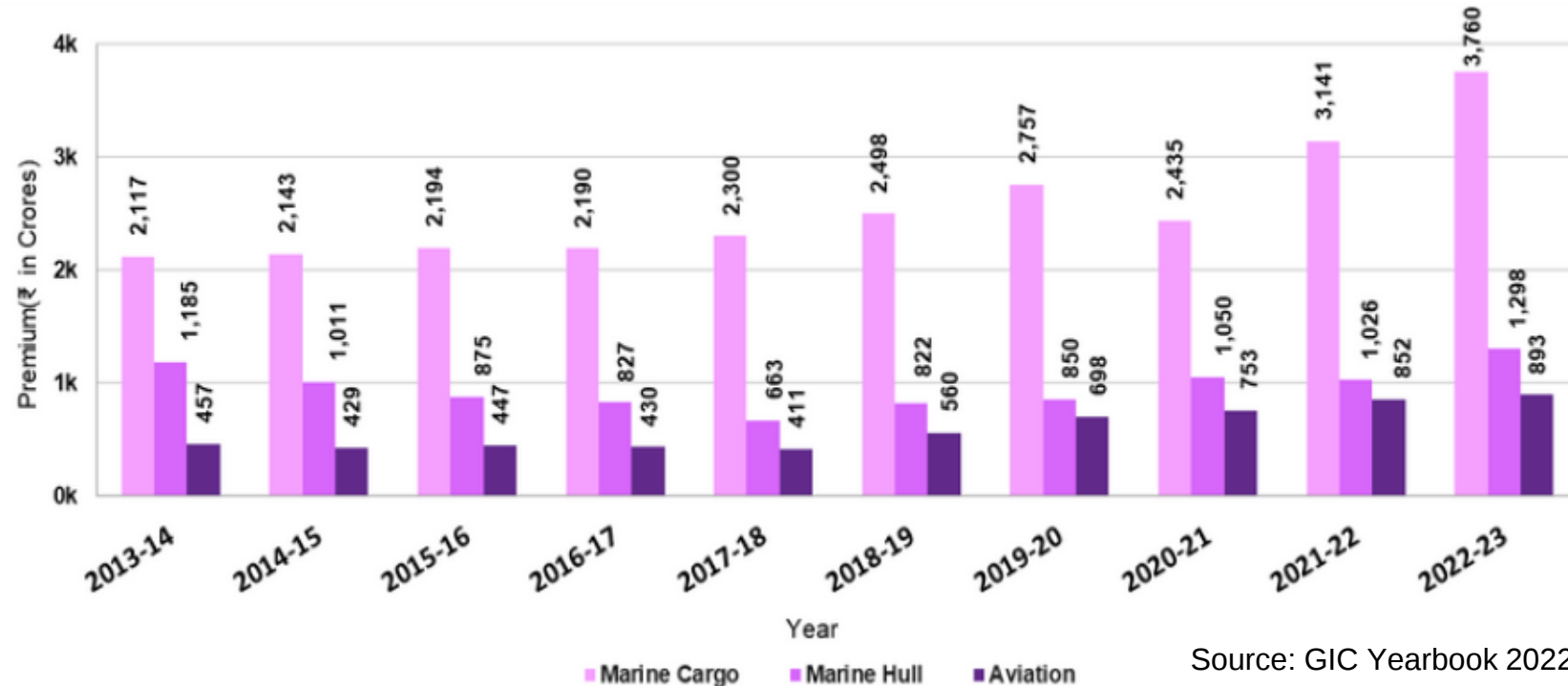
Year	Particulars
2023	● Amendment of the Arbitration Clause in General Insurance policies w.e.f. October 26, 2023 ● Arbitration clause removed for Retail policies and Standardised for Commercial policies. ● Existing policies will not be impacted by this amendment
2024	● w.e.f. April 1, 2024: Complete denotification of Fire, Motor (All India Motor Tariff), Engineering, Miscellaneous (Workmen's Compensation Insurance tariff), Marine (Tea Tariff) ● insurers can offer their own policy wordings and policy structures for all LOBs except Motor TP but cannot decline or discourage the choice of tariff products by the customer ● coverage of risks coming within the scope of denotified tariffs shall be subject to the other standard regulations

Impact of De-notification in Marine, Engineering, Workers Comp

Marine Insurance

- Globally, Marine insurance market experienced growth due to post-pandemic rebound trends.
- Global Marine Loss ratios ranging from 55% to 65% while Indian market Marine Loss ratio was around 75% for 2022-23
- Marine contributes Less than ~ 2% of total non-life GDPI

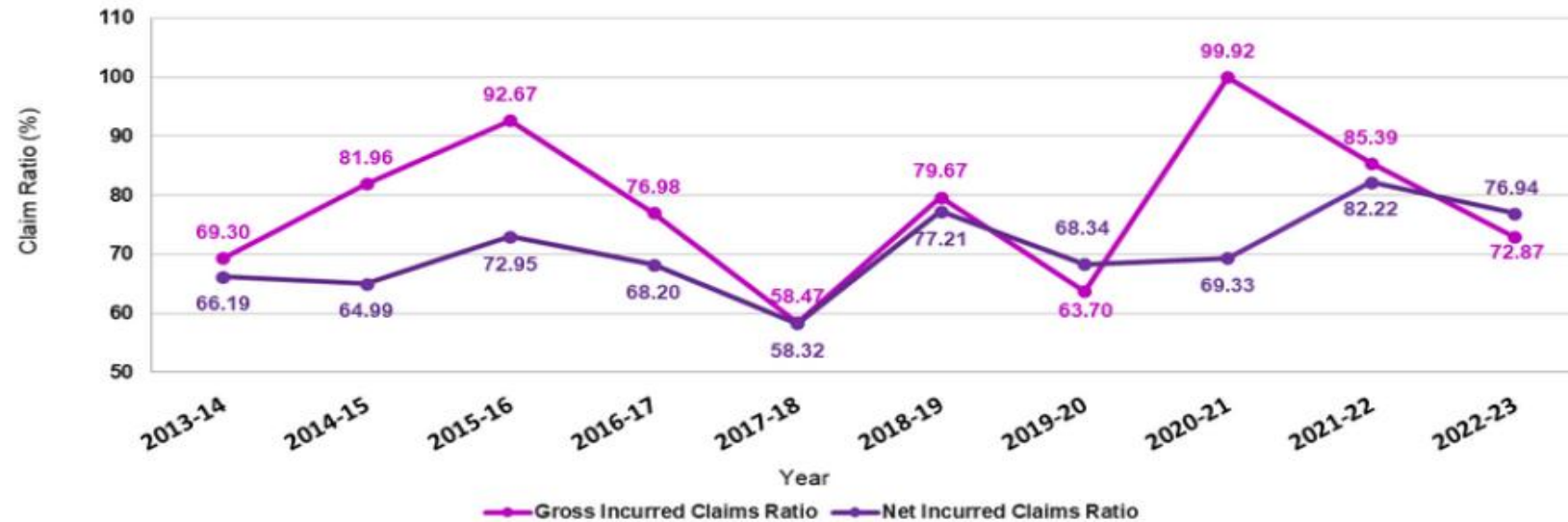
Marine Insurance



Source: GIC Yearbook 2022-23

Marine Hull insurance ~ 20% growth in GDPI as of Dec 2024: New tonnage addition by various players including Indian Navy has contributed to a significant chunk of Builder's Risk policies. There has also been considerable investment in coastal and inland shipping.

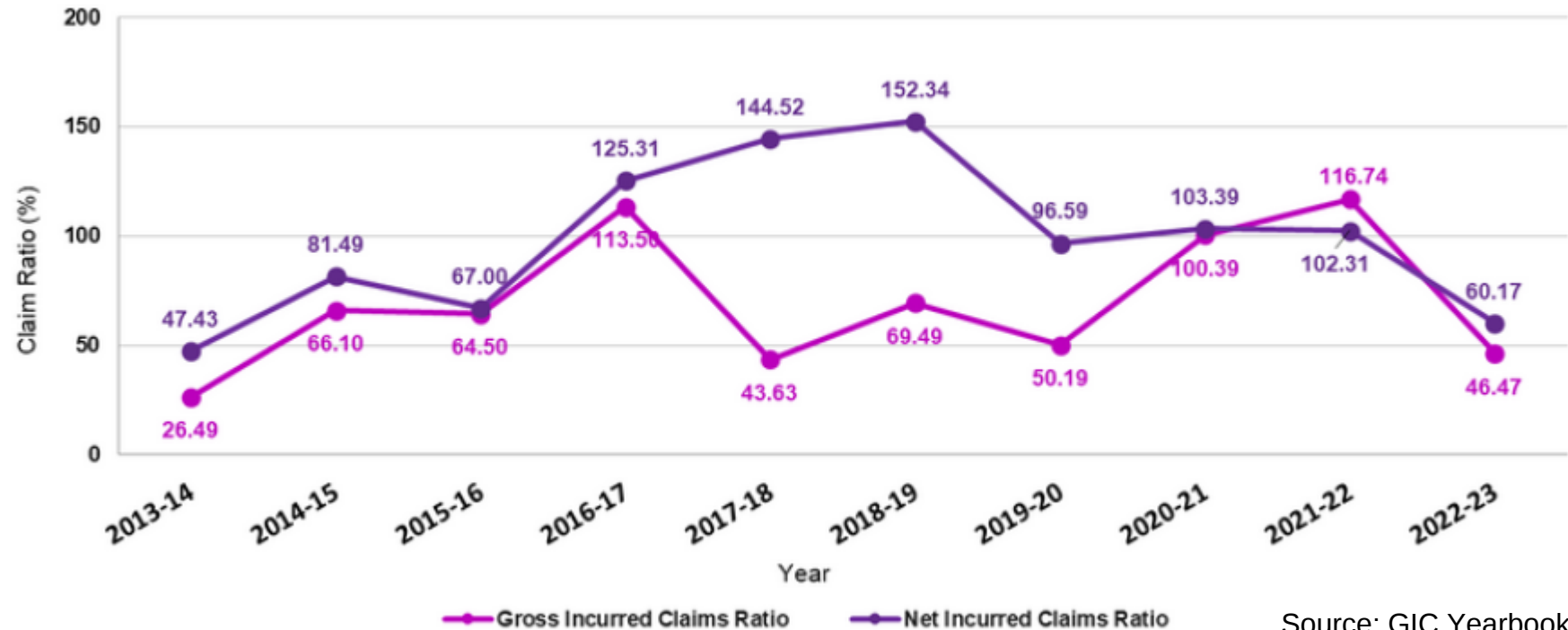
Marine Cargo Insurance: GIC and NIC LRs



Source: GIC Yearbook 2022-23

- Higher non-proportional RI contracts
- RI costs high but claims recoveries low due to high attachment points

Marine Hull Insurance: GIC and NIC LRs



Source: GIC Yearbook 2022-23

Marine Insurance

Challenges:

- Slow shift to e-marine (digital experience) by private players but PSUs are dependant on legacy systems;
- Shortage of skilled Underwriters and Intermediaries - longer duration to gain domain expertise, high cost of training
- Need to craft tailormade products - Case-wise Underwriting vs portfolio-based Underwriting
- Pricing :
 - pricing reduction post-detarrification
 - Product bundling vs Standalone Marine Cargo products

Marine Insurance

Interesting Market Trends

- Expecting a stronger positive correlation between infrastructure growth and Marine Insurance - scope to improve insurance penetration and density
- Traditional business now shifting to digital era -
 - potential for substantial cost reduction through online transactions and claims processing
 - Traders and companies prefer digital aggregators to meet their insurance needs
 - customers acclimatise to simplified experiences

Marine Insurance

Interesting Market Trends

- 60% increase in single transportation inquiries. This pattern demonstrates the increasing demand for adaptable, short-term coverage options catered to certain shipments and transportation requirements
- consumer mix: traders 40%, manufacturers at 30%, with individuals and transporters comprising 8% and 22% respectively - nuanced requirements and risk profiles inherent in the above consumer mix;
- Transport mode preferences : 98% percent of consumers opt for singular transit insurance for road transport; 87% of clients exclusively seek coverage for automobile transportation
- heightened demand observed for ITC-A (All Risk Cover) compared to ITC-B (Basic Cover)

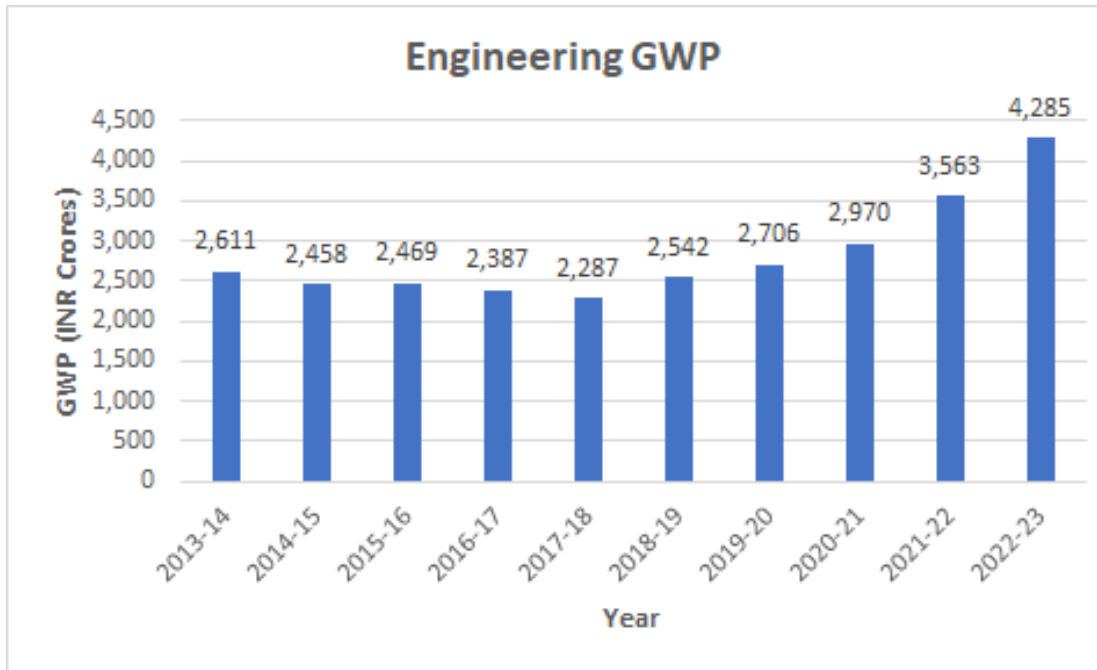
Engineering Insurance

- Covers financial risks associated with engineering projects (loss or damage of equipment, construction projects, TP liability etc.)
- Detariffication covering a wide array of risks from contractors' risks to machinery breakdown:
 - i. Contractors All Risk Insurance
 - ii. Contractors Plant and Machinery Insurance
 - iii. Machinery Breakdown Insurance
 - iv. Electronic Equipment Insurance
 - v. Civil Engineering Completed Risks Insurance
 - vi. Erection All Risk/Storage Cum Erection Insurance
 - vii. Loss of profit (MB & BLOP) Insurance
 - viii. Boiler and Pressure Vessels Insurance
 - ix. Deterioration of Stocks-(potato) Insurance

Engineering Insurance

- Opportunities:
 - Fast growing segment in insurance industry (contributes currently ~ 1.9% of total non-life GDPI).
 - Infrastructural development leading to growth in construction coverage premiums
- Challenges:
 - Premiums expected to increase due to increase in CAT claims (eg: Hydro energy companies);
 - pricing corrections by RIs
 - New technologies - better risk management practises vs new risks (cyber risks)

Engineering Insurance



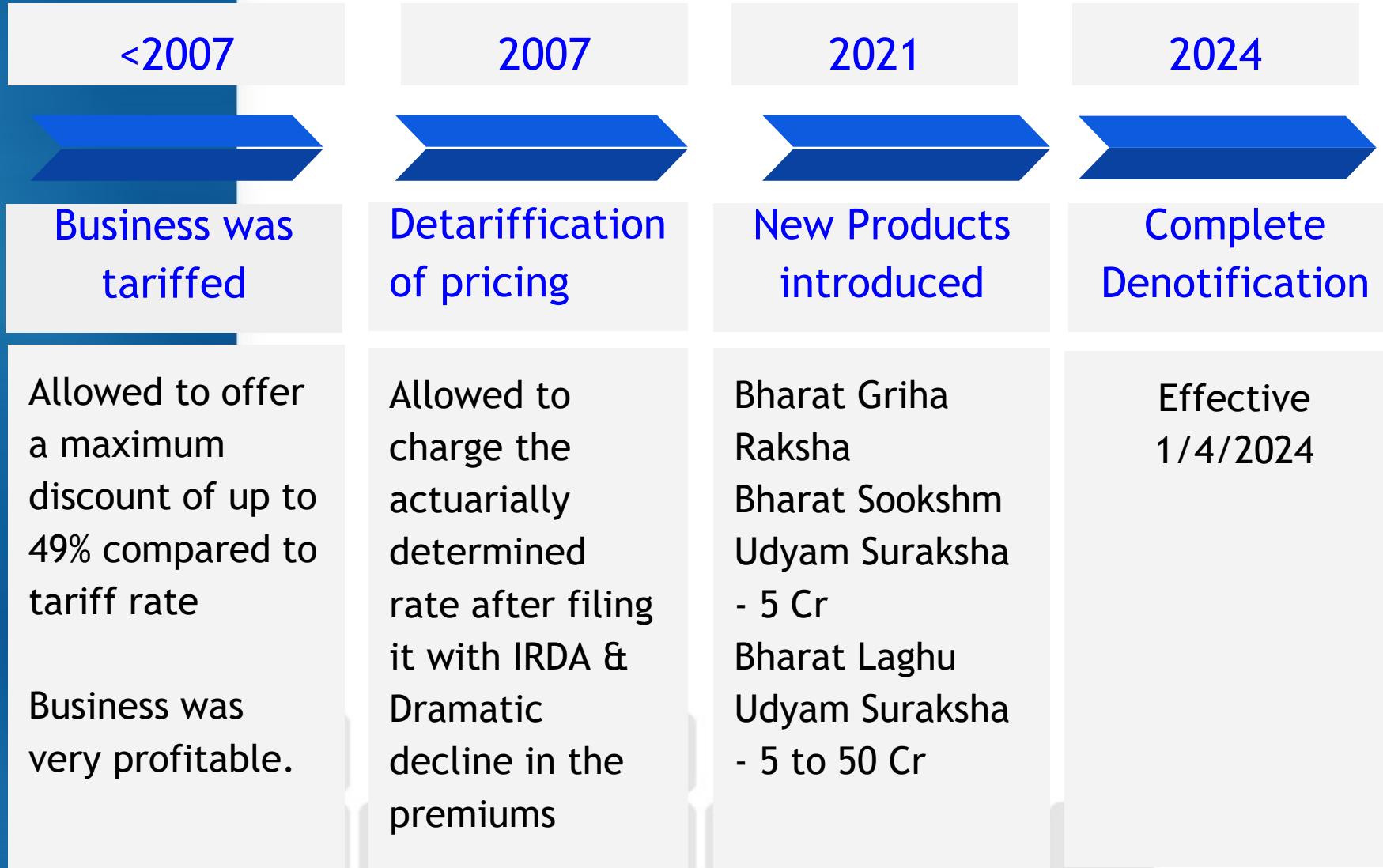
It is expected that the high loss-to-premium ratios will push reinsurance rates even higher in RI treaty premiums (w.e.f. 1 Apr 2025).

Workmen compensation Insurance

- As of Dec 2024, Liability insurance contributes ~ 1.9% of total non-life GDPI; Workers Comp GDPI is ~ 16% of the Liability GDPI
- Business entities - pro-active measures to improve workplace safety
- Shift in employee expectations
 - benefits besides monetary compensations
 - telehealth/telemedicines - faster recovery and reduction in expenses
- opportunities to draft customized WC policy terms and improve the market penetration

Impact of De-notification in Property Business

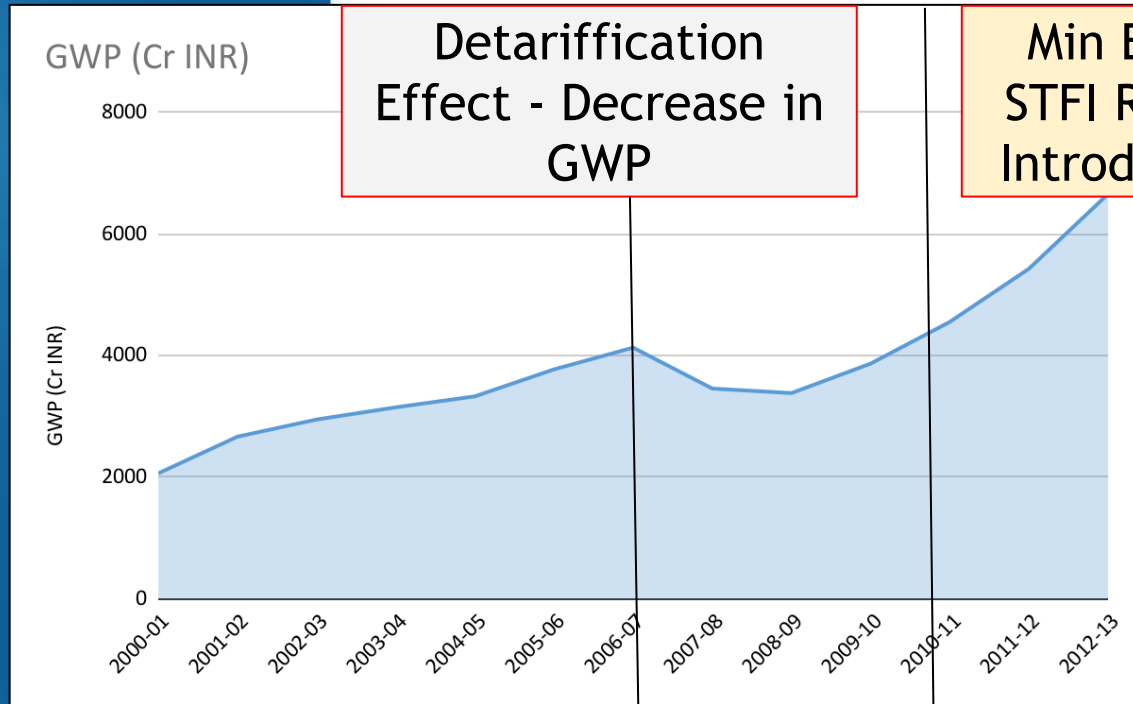
Property Business - Timeline



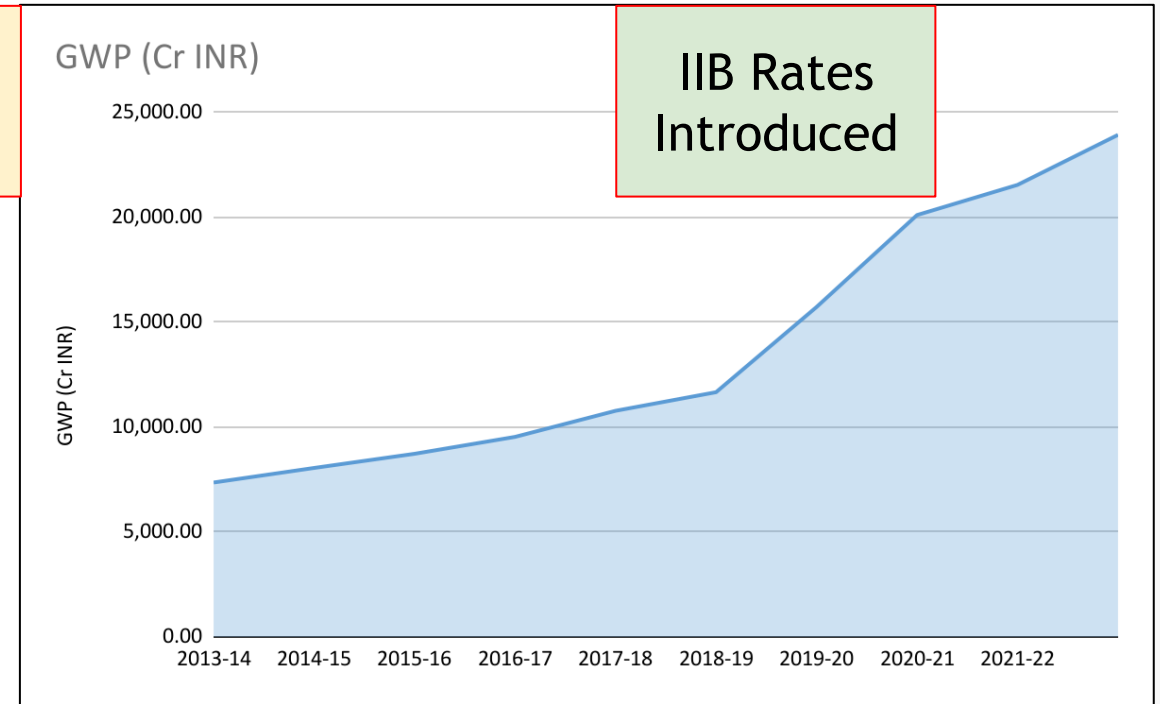
Market wide reactions

- Big discounts.
- Introduction of min EQ and STFI rates in 2010 - 11.
- Insurance Information Bureau of India (IIB) - Published occupancy wise industry burn cost to be used as a benchmark.
- Reinsurers used the IIB rates in treaty conditions as well.

Property Business - Aftermath of detariffication - GWP Picture

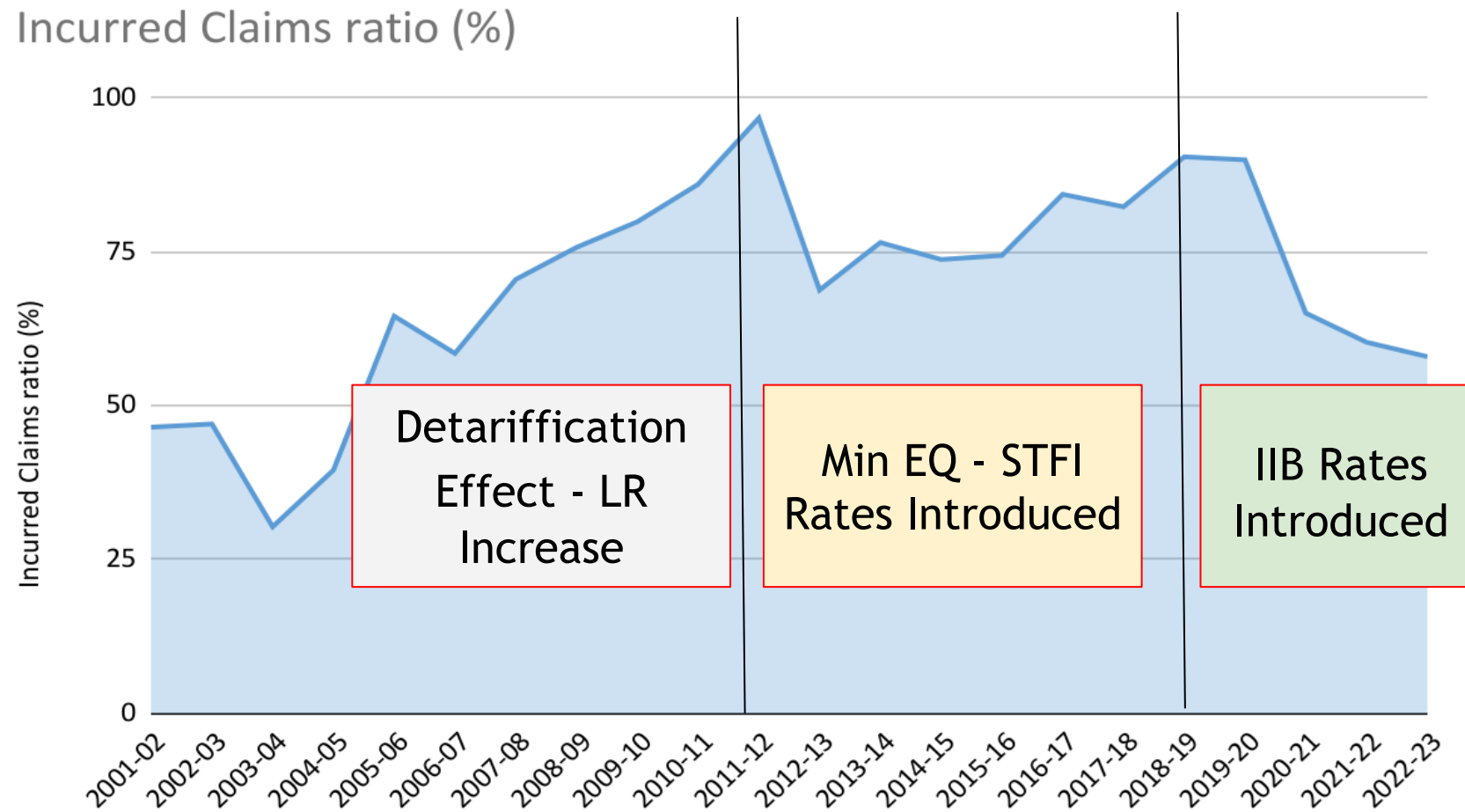


GWP (2000 to 2012)



GWP (2013 to 2021)

Property Business - Aftermath of detariffication - Profitability Picture



Property Business- Past & Future

- **Learnings from experience**
 - Increased competition
 - Industry margins shrink while volatility of results increase.
 - Benchmark rates were introduced.
 - Reinsurers managed the market with conditions on minimum rate.
- **Challenges**
 - Robust actuarial based risk prices.
 - Dependence on the industry benchmark need to be reduced over time, so the premiums reflect the risk characteristics, reducing the risk of anti-selection.
 - Ambiguity and slippage in wordings leading to unintended coverages.
 - Pricing for Innovative components & wording amendments.
 - Reinsurers buy in on rates & wordings.
 - Deviating the policy T&C and coverage from market may alienate customer if they do not understand the offerings and the consequential effects on prices.
 - Mis-selling

Property Business- Past & Future

- **Strategies for out performance**
 - Improvement in rating and underwriting
 - Build good quality data system and governance processes.
 - Actuarial based pricing and modelling.
 - Actuarially approved UW guidelines. UW governance process with regular audits eg. PML & aggregation monitoring
 - Get Reinsurer on-board in early stage of changes to coverages & wordings.
 - Use appropriate Limits, Sub-Limits, aggregate limits & deductibles for new offerings in case the prices are not based on enough data.
 - UW and business incentives aligned to bottom line.
 - Open communication with brokers and RIs to understand the market trends.
 - Develop agile culture so the company can react quickly to market developments.
 - Training of sales staff.

Impact of De-notification on Motor Own Damage

Motor OD - All India Motor Tariff & Post April 2024

Before 2024, insurers had freedom to price Own Damage (OD) policies since 2007, but policy structures followed India Motor Tariff (IMT) rules. The IMT provides a structured pricing model for motor insurance in India. It categorizes different types of vehicles and insurance policies, specifying premium computation, rating factors, discounts, and additional charges.

What Has Changed in 2024?

2024 De-Notification: Complete removal of IMT-based policy structure & underwriting rules → Insurers gain full flexibility in designing OD policies.

Motor OD - Terms and Conditions under IMT that have been de-notified

Premium Rating Methodology

Aspect	Old System (Post-2007 De-Tariffed IMT)
Premium Rates	Insurers could set their own rates, but pricing was still influenced by IMT's structured risk factors (vehicle age, location, cubic capacity).
Insured's Declared Value (IDV) Calculation	IMT-defined depreciation table for IDV calculation (e.g., 20% for 2-year-old cars).
Location-Based Pricing	Zone-based pricing: Zone A (metro cities and a few others like Bangalore, Ahmedabad, Hyderabad and Pune) vs. Zone B (rest of India) for most of the vehicles, three zones classification for a few categories of commercial vehicles.

Motor OD - Terms and Conditions under IMT that have been de-notified

Discounts and Risk-Based Pricing

Aspect	Old System (Post-2007 De-Tariffed IMT)
No Claim Bonus (NCB)	Standardized discount: 20% (1 year), 25% (2 years), up to 50% (5 years).
Voluntary Deductibles	Structured deductible discounts (₹2,500 = 20% off, max ₹2,500 discount).
Loyalty & Safe Driver Discounts	Not available.

Motor OD - Terms and Conditions under IMT that have been de-notified

Policy Coverage & Customization

Aspect	Old System (Post-2007 De-Tariffed IMT)
Standard OD Coverage	Coverage structure fixed by IMT (fire, theft, natural calamities, riots, etc.).
Add-ons (Zero Dep, Engine Protect, etc.)	Limited to predefined add-ons.
Usage-Based Insurance (UBI)	Not allowed under IMT.

Motor OD - Terms and Conditions under IMT that have been de-notified

Claims & Settlement Process

Aspect	Old System (Post-2007 De-Tariffed IMT)
Claim Processing	Standardized claims process with manual approvals, longer settlement times.
Depreciation for Parts in Claims	Fixed depreciation rates (50% for plastic, 30% for fiber).
Claim-Based Premium Increase (Loading)	Fixed loading structure for claim history.

Motor OD - Opportunities for insurers post de-notification: Flexibility in Product Construct

Premium Rating:

A Hyundai Creta (2021 model, Mumbai, IDV ₹7 lakh) had an OD premium of ₹18,000 under market-based rates. Now, insurers may use AI-driven risk models, offering ₹15,500 for safe drivers or ₹22,000 for high-risk areas.

IDV Calculation:

A Honda City (2019 model, 3 years old) had fixed IDV depreciation at 30%. Now, insurers may allow resale-adjusted IDV (e.g., 25% depreciation if well-maintained).

Location based pricing:

A Tata Nexon in Delhi and Chandigarh had nearly the same OD premium under IMT. Now, insurers may charge higher premiums in accident-prone Delhi than in a lower-risk city like Chandigarh.

Motor OD - Opportunities for insurers post de-notification: Flexibility in Product Construct

No Claims Bonus:

A Kia Seltos owner with 5 years of no claims got 50% NCB under IMT. Now, some insurers may offer 60-65% for long-term safe drivers.

Voluntary Deductibles:

A Toyota Fortuner owner opting for ₹5,000 deductible got a 25% discount under IMT. Now, they can choose ₹10,000 deductible for a 35% discount.

Loyalty & Safe Driver Discounts:

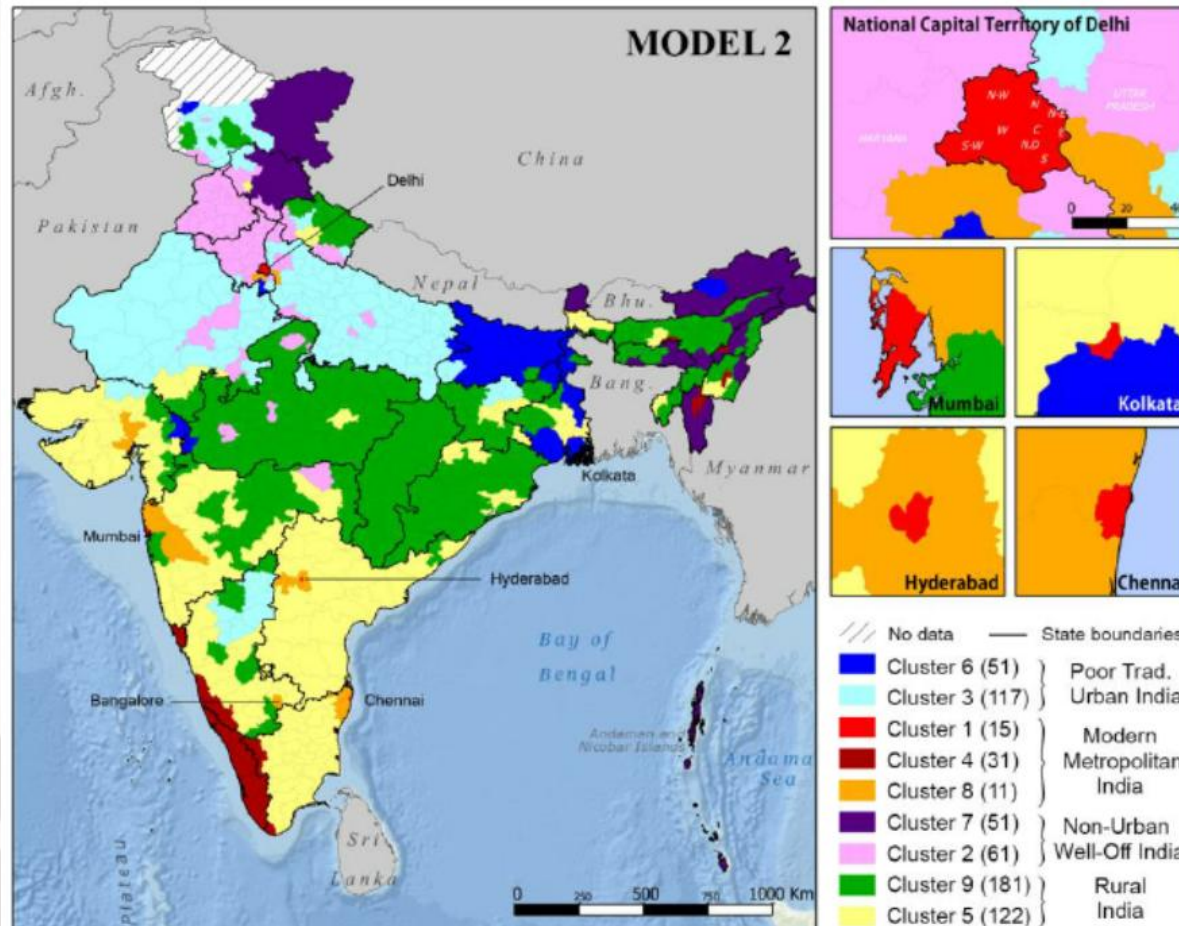
A Ford EcoSport owner with no claims and regular renewals for 5+ years may now get a loyalty discount of 5-10%.

Add-ons (Zero Dep, Engine Protect, etc.):

A Hyundai Verna owner earlier had 5 predefined add-ons. Now, they may get flood damage coverage, telematics-based discounts, etc.

Defining new rating territories is necessary to ensure accurate rating

Clustering provides a statistically based approach to territorial definitions.



Insurance companies can segment their customer bases with the help of clustering algorithms.

The goal is to define homogeneous territories (low “variance” within territories)

Motor OD - Action Plan

Build a Robust Pricing Framework

- Implement risk-based pricing by leveraging customer behavior, vehicle usage, and geographic risk profiles.
- Use predictive modeling to set premiums dynamically. For instance, incorporate telematics to reward safe drivers.

Focus on Product Innovation

- Launch modular products where customers can select add-ons (e.g., engine protection, roadside assistance).
- Develop unique offerings like “Pay-As-You-Drive” or “Pay-How-You-Drive” policies for specific customer segments.

Enhance Customer Engagement

- Develop loyalty programs offering discounts on renewals for long-term customers.
- Use data analytics to provide proactive support, such as reminders for policy renewals or suggestions for suitable add-ons.

Motor OD - Action Plan

Prioritize Operational Excellence

- Train claims processing teams on new policy variations to ensure faster settlements.
- Use fraud detection algorithms to minimize losses from fraudulent claims.

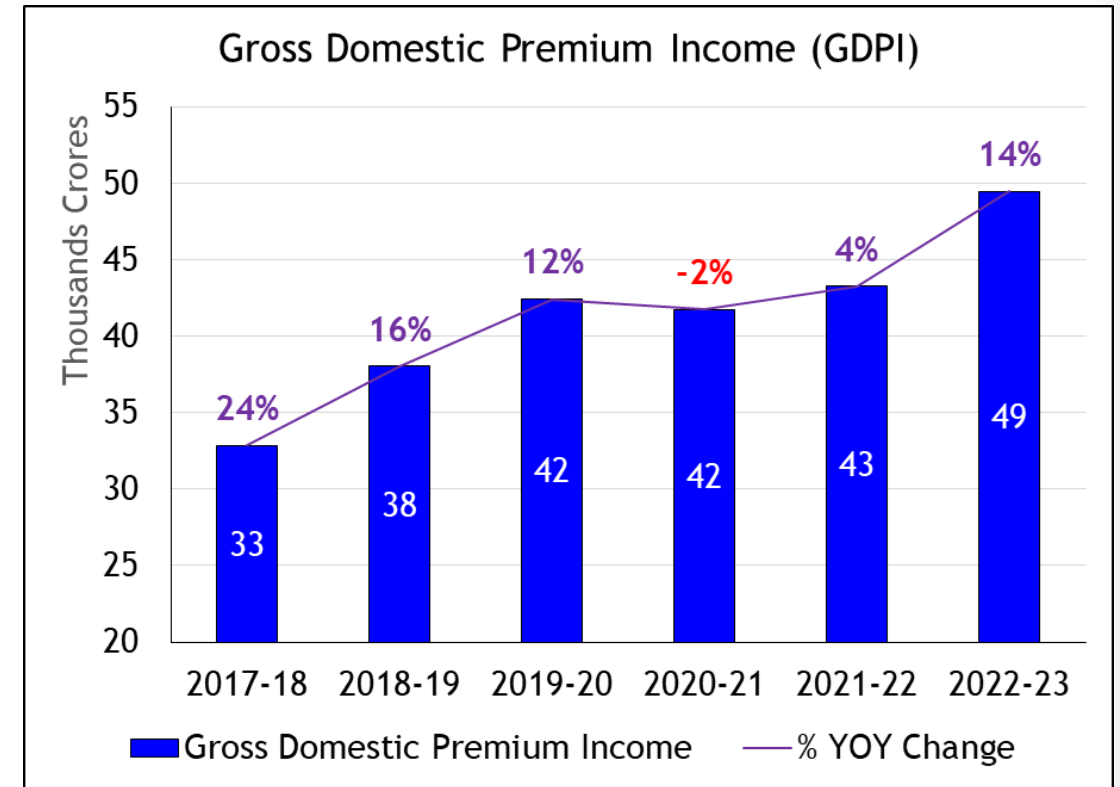
Strengthen Governance and Compliance

- Establish a dedicated task force to review and approve new policy wordings and endorsements.
- Monitor and audit pricing practices to prevent regulatory non-compliance.

Impact on the business of the possible de-tariffication of the Motor TP rates

Motor TP- Market Trend (GDPI)

- **Motor TP** contributes ~25% of the total industry market share
- 11% annually growth over the past 6 years.
- **14% growth** in FY 2022-2023 driven by factors beyond just rate increases
- Motor CV- Good Carry is most material segment in FY 2022-2023



Vehicle Segment	Motor 2W	Motor 3W	Motor 4W - Private	Motor CV - Passenger	Motor CV - Goods Carry	Motor CV - Misc	Motor CV - Other
GDPI Mix	11%	8%	23%	11%	42%	3%	0.4%

Motor TP- Market Trend (Loss Ratio)

- **Decreasing** Loss ratios
- Commission ratio **<2.5%**

But....

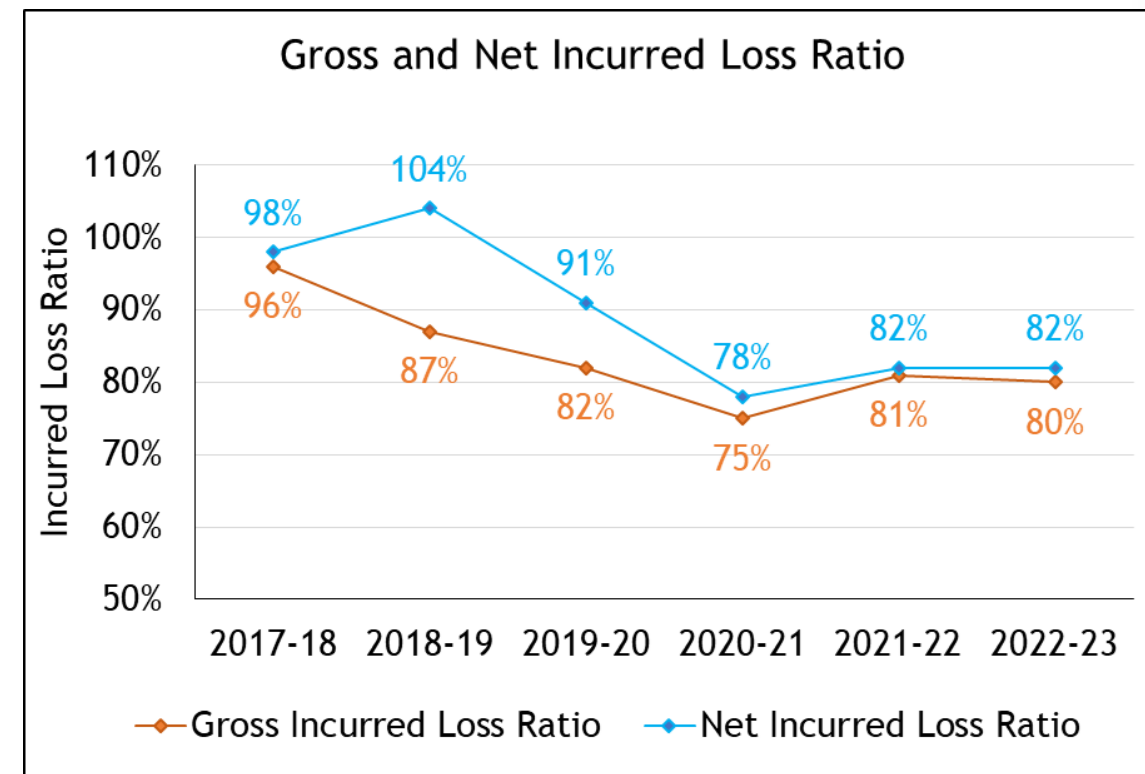
- **High** Claim handling expenses and **court inflation**
- **IBNYR** claims

Therefore

- **Underwriting loss** making business

Offset By:

- **High** investment gains due to long claim settlement and reporting delays



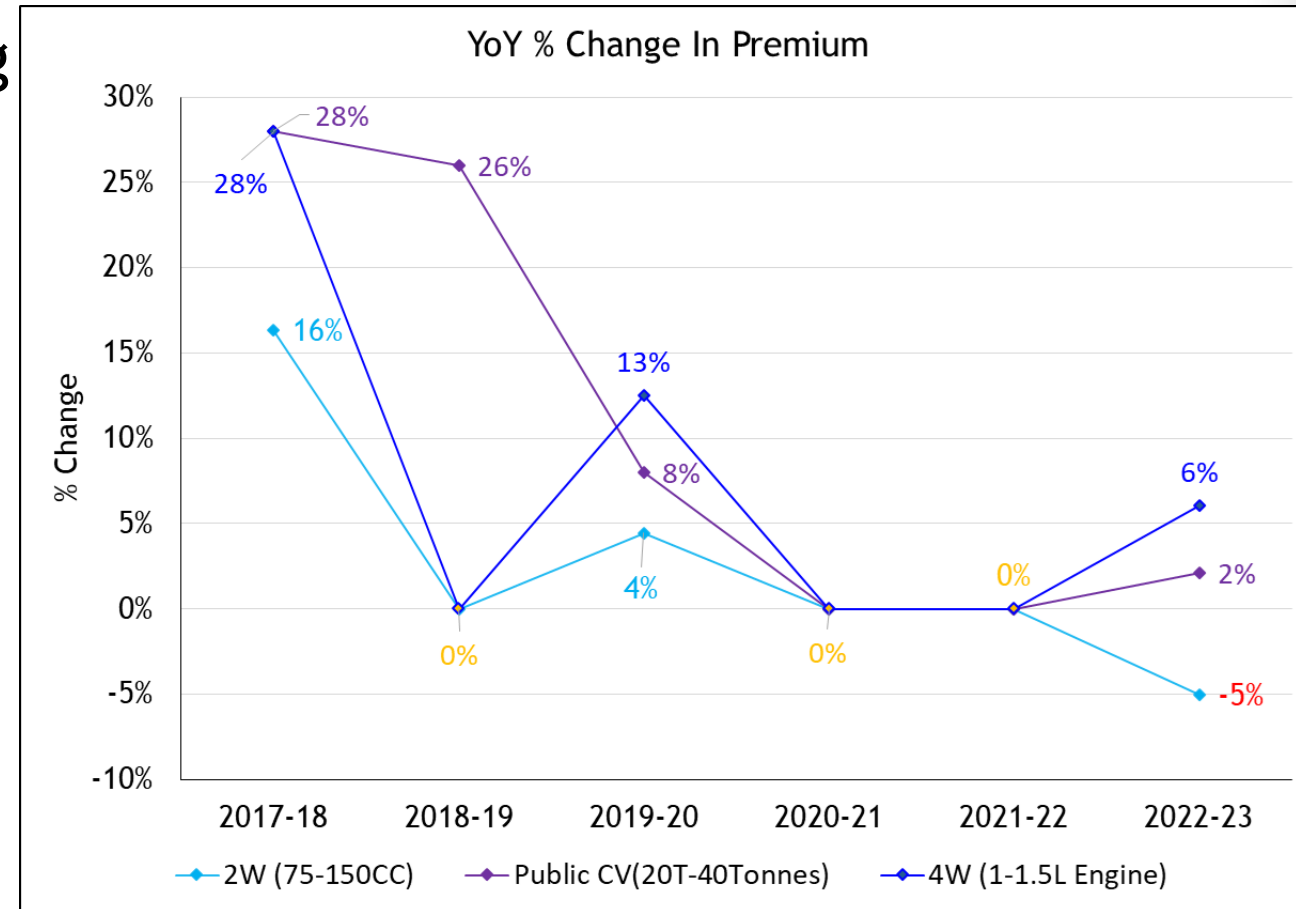
Note :- Loss ratios, sourced from the General Insurance Council Yearbook, remain consistent across years. For example, the FY 2018-2019 ratio is the same in both the 2019-2020 and 2022-2023 Yearbooks, ensuring consistency in comparisons, even if IBNR Claims are not included in incurred loss ratios.

Likely Impact of detarritifation on Motor TP Premium

Motor TP Gross Incurred Loss Ratio Trend- Vehicle Segment Wise					
Segment (% of GDPI)	2019-2020	2020-2021	2021-2022	2022-2023	Likely Impact
Motor 2W (11%)	67%	91%	110%	83%	Not much scope for price reduction
Motor 3W (8%)	57%	52%	129%	38%	Stable loss ratios may lead to lower premiums
Motor 4W (23%)	69%	73%	77%	53%	
Motor CV - Passenger (11%)	94%	86%	68%	76%	Favorable recent experiences but a volatile line
Motor CV- Goods Carry, Misc & Others (47%)	100%	95%	73%	126%	Higher Premiums & Stricter risk assessment
All	82%	75%	81%	80%	
Historical and Global Impact of Detariffication shows huge drop in premiums, short term volatility and re-establishments of some sort of pricing controls					

Historical Rate Changes

- IRDAI Regulated Pricing
- Limited rate increases in the past 7 years
- Notable hikes in FY 2017-2018
- Public commercial vehicle (CV) have experienced most increases
- In real terms, rate changes are not so material



Other Consideration

Challenges

- Profitability Concerns: Pressure to maintain combine ratios.
- Capital Adequacy: Need higher capital for increased underwriting risk.
- Reinsurance: Securing adequate reinsurance.
- Operational: Servicing new rates structure and underwriting guidelines

Possible Actions:

- If only rates are detariffed:
 - Improve renewals and rural reach.
 - Reduce claim-handling and operational costs- using advance technology.
 - Enhance direct claims process for an improved user experience.
- If Policy structure, wording, and coverage are also denotified:
 - Segment wise analysis- Quality data and Advanced analytics
 - Increase limits, remove deductibles.
 - Revise policy wordings for claim certainty.(e.g., setting maximum allowed claim reporting delays)

Question and Answers