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An Analysis of NPA in Indian Commercial Banks 5

Dr. A. R. Krishna

Detariffing - Whether Profitable to Insurer or Insured 11

Sangeetha Natrajan | Dr. S. Poornima

Promotion of Brand in Rural Market 18

Ashish Bagla | Vivek Gupta

Inculcating a Corporate Revolution in the New Millennium 23

Dr. Naveen Kumar Garg | Dr. Aditi Garg

Cross Selling - Trend Setter of Modern Banking 26

Mohd. Arshad Khan

Critical Analysis of Mutual Fund in India 30

Chandradeep Mishra | Mani Kansal

India's Foreign Trade in Post Reform Period 39

Vivek Srivastava

Vocational Guidance: What, Why, How 44

Dr. Ritu Mittal | Dr. Deepa Verma

Marketing Philosophy of Indian Banking Industry: New Trends 47

Dr. G. S. Rawat

HR Development in LIC of India 51

Dr. Preeti Rani

Value Based Quality Budgeting Model 55

Sushil Sharma

Development of Rural Economy Through Banking Reforms in India 60

Dr. Mayank Mohan | Shivani Chaudhary

Personality: The Essentials of Life 63

Gajendra Kumar

Women Entrepreneur - Challenges Ahead 67

Lallan Tripathi | Dr. B. K. Agarwal

Applying Total Quality Management in Peddagoogy 72

Col. (Dr.) Naresh Kumar Goyal

E- Advertising: Theory and Practice 79

Rahul Agarwal

Role of RRBs in Indian Rural Economy 82

Dr. R. K. Singhal | Hari Om Agarwal

Essay: The Financial System 86

Dr. Gaurav Goyal

Biographein - Marry Parker Follett 89

Book Review 91



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Detariffing - Whether Profitable to Insurer or Insured

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ABSTRACT

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

1. INTRODUCTION

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

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

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

2. WHAT IS "DETARIFFING" ?

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

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

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