भारतीय बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

Title: To all CEOs of General Insurers

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Tendering for Insurance Covers

It has been reported to IRDA that a practice of calling for tenders for insurance cover required by some clients has developed and that in some of these tender exercises, the insurer is required to pay some amount for buying the tender documents and also to pay an earnest money deposit.

It has also been reported that in some cases clients invite bidding through the internet where the portal is kept open for a short window of time and insurers are expected to compete on price.

Insurers are reminded that competition should not result in introduction of practices that are not suitable to technically sound transaction of insurance business. Insurance cannot be transacted like sale of a commodity. Proper underwriting requires that the insurer fully understands the requirements of the client and is able to ask for and receive all the information required to support a technically sound rating of the covers required. This is obviously not possible in the sealed tender system or e-bidding system. Besides, limiting competition to price alone is against the interests of the client to whom quotation is offered and since the policyholders' fund ultimately is affected by the results of the business, it is generally against policyholders' interests.

Insurers are therefore, advised to inform any client seeking to use the tender process about the impropriety of that system for insurance business and offer to provide competitive quotations for the covers best suited to the needs of the client after obtaining all the required underwriting information. Insurers should not canvass business through a non-participative process of tendering or e-bidding.

The Authority reserves the right to require an insurer to state the process of quoting terms for a particular client and to technically justify the premium quoted for its covers.

(C. S. Rao)
Chairman