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Infra funding spurs engineering insurance premium

Premium in the segment has risen to ₹4,848 cr in April–February period of FY24 from ₹2,635 cr in FY20

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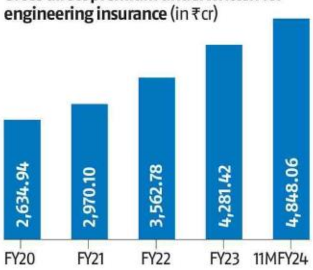
Mumbai, 11 April

UPTREND

Gross direct premium underwritten for engineering insurance (in ₹cr)



Source: General Insurance Council

Engineering insurance premiums in India have doubled in four years on the back of a surge in infrastructure investments during the period.

The gross direct premium underwritten in the engineering segment has risen to ₹4,848.06 crore in the April-February period (11 months) of 2023-24, or FY24 (the annualised figure is nearly ₹5,300 crore), from ₹2,634.9 crore in 2019-20 (FY20).

According to General Insurance Council data, the gross direct premium underwritten increased by 30.84 per cent year-on-year in 11MFY24, from ₹3,705.35 crore in the corresponding period of 2022-23.

"Engineering is the fastest-growing business segment in the general insurance industry. The high growth can be explained by the huge public investment happening in the infrastructure space, which translates into construction insurance premiums for the general insurance market," said Hari Radhakrishnan, an expert from the Insurance Brokers Association of India (IBAI) and regional director for First Policy Insurance Brokers.

The government has been increasing its share of outlay towards capital expenditure (capex). In the Interim Budget, the government set a target of ₹11.1 trillion in capex for 2024-25 as compared to ₹3.4 trillion seen in FY20.

Engineering insurance provides economic safeguard to risks faced by ongoing construction projects, installation projects, machines, and equipment in project operation.

According to insurance industry experts, in the past few years, India's economic growth has been supported by construction with major investments in roads, metros, renewable energy, heavy industries, rural electrification, railways, green hydrogen, semiconductors, etc.

The governments at the Centre, states along with Indian corporates have been making major investments in greenfield and brownfield projects.

Among the construction activities, roads form the major chunk of engineering insurance, followed by metros and renewables.

As infrastructure activities in India pick pace, the number of engineering insurance policies sold in the country has also nearly doubled. Further, although the loss ratio has been favourable (indicating profitability), the premium rate has experienced 10-15 per cent growth in the past four years in large complex engineering projects, which require support from reinsurers.

T A Ramalingam, chief technical officer, Bajaj Allianz General Insurance Company, said, "Natural catastrophe (nat cat) rates have increased since the insurance industry has suffered multiple losses, which have impacted the engineering lines of business also. Rates have gone up slightly, maybe about 10-15 per cent, owing to such natural calamities, especially across fire and engineering insurance; other than that, there is not much change."

The increase in natural catastrophes both globally and in India has led to an upward revision in storm, tempest, flood, and inundation (STFI) rates during the past four years.

"The (STFI) rates were 0.225 per mille before 2018, which have increased to 0.3 and further increased to 0.4 per mille in 2023. Earthquake rates have remained the same over the years. Overall, there is an increase in rates due to nat cat events happening during these years," added Pavanjit Singh Dhingra, director, IBAI, and joint managing director (MD), Prudent Insurance Brokers.

The engineering insurance premiums are determined by the nature of the project, sum insured, and topography, among other factors. In the case of larger projects, reinsurers carry nearly 80-85 per cent of the risk. Due to higher risk in this line of business, several large reinsurers like Munich Re, Swiss Re, SCOR, and others have entered into treaty arrangements with each other.

Furthermore, according to insurance brokers, despite the risk, there is no dearth of reinsurance capacity for the segment. However, insurance companies opine that they are finding it difficult to find reinsurers to support them.