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Extreme weather poses one of the most significant risks in light of climate change and global warming. This has a direct impact on the insurance of property, as the frequency and severity of weather events such as storms, tempests, floods, and inundations (STFI) have increased significantly recently. Consider this: STFI rates for property catastrophe insurance have risen by 20-22% from December 15, 2023. The earlier revision occurred on April 1, 2023, when rates were hiked by 25%, resulting in a cumulative jump of up to 50% within 9 months.

“The rates for reinsurance on property catastrophe insurance have significantly increased due to the rise in extreme weather events. Whether it’s floods, storms, or wildfires, these perils are occurring more frequently and causing greater damage. Naturally, with higher probabilities and increased damages, reinsurance rates have risen, impacting insurance market rates globally,” explained Sanjay Kedia, CEO of Marsh McLennan India (MMC) and President & CEO of Marsh India Insurance Brokers Pvt. Ltd.

Notably, STFI rates in India are not determined by the free market but are set by insurers. Thus, rates for the upcoming renewal season, typically due in April 2024, are expected to be higher. “There are two forces working on the Indian market. So, Indian market needs to be understood in a different way. One is the rate rise on the STFI, which is a prescribed rate, has gone up. On the other hand, on other coverage (such as fire, machinery breakdown), there is lot more free market being encouraged by the regulator on pricing of the products. So the insurance regulator has been very progressive, very pro-policyholder and they have been seeking more competition from insurers on price discovery in the last couple of years. And that has brought down the rates on other aspects of the coverage. So the weighted average increase has been moderate or sometimes even lesser weight wise,” said Kedia.

Furthermore, each customer’s rate is unique, depending on factors such as asset type and risk management practices, hence there’s no one-size-fits-all approach. However, the overall market trend has seen an increase, and the outcomes will be observed largely during the upcoming April renewal season.

“Climate change is a growing concern globally, including in India. Between 2001 and 2021, we've witnessed over 350 natural catastrophes (NAT CATs) in the country. Floods, cyclones, landslides, and other natural disasters are becoming more frequent and widespread. The protection gap between insured losses and economic losses exceeds 90%, highlighting the urgent need for a nationwide parametric insurance scheme. Insurers, governments, and regulatory bodies must collaborate closely to make this scheme a reality, bridging the protection gap and aiding citizens in rebuilding their lives swiftly after a NAT CAT event. While the industry already offers covers like crop, property, and motor insurance against natural disasters, the wide protection gap necessitates efforts to bring more Indians under the insurance umbrella,” emphasized Tapan Singhel during a previous interaction with Business Today in January.