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Property insurance likely to go up

IRDAI Advises Insurers To Peg New Rates To IIB Data

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Chennai: Insurers are likely to increase their rates on property/fire insurance post-July, after the insurance regulator on Wednesday instructed them to peg new rates to the Insurance Information Bureau's (IIB) revised data.

The regulator also increased the list of risk occupancies from 90 to 109, effective from July 1, 2017.

How does the move affect the industry? Till 2007, rates were fixed when it came to fire and property insurance. The only differentiater an insurer could offer was the service quality as rates fixed. Later, when the industry was detarriffed, there was unhealthy, cut-throat competition among insurers as they fought over clients; offering them lower and lower rates as incentives. "Charging lower premiums at some point started affecting the profitability of that line of business and the servicing of claims. Loss ratios increased from around 30% before de-tarrifing to 60-75% in recent years. And in an effort to cut losses IRDAI came out with the first set of regulations in 2015," said an executive from United India Insurance Co.

The guidelines are to ensure that insurers do not charge premiums that are lower than prudent

The regulator then set out guidelines on how much an insurer could charge on fire policies. "IRDAI then instructed the IIB to come with a rate insurers could charge for different occupancies. The way we insure a cinema theatre or rice mill or hospital would be different from how we'd insure a godown which had inflammable goods. For instance, an IT office would have a much lower insurance/fire risk than a manufacturing unit. So IIB put together rates based on occupancy. And now they've revised the rates in 2017, after the 2014 guidelines," said an executive at a private insurer.

The guidelines are to ensure that insurers' do not charge premiums that are lower than prudent.

"What the new guidelines say is that you can take IIB's rates. Or you can make your internal assessment and set your own rate. But your base rate cannot be lower than IIB rate," said the executive.

The assumption is that the base rate, plus the cost of acquiring the new business, management expenses — which is the "burning cost" should be proportional to the premium so that the company does not make losses.

"The idea being that with the new burning cost calculated, you cannot make losses. Of course fire as a line of business does not make as high losses as health and other portfolios; but it still is better to be prudent," said the executive.

Another guideline the IRDAI has issued is with regard to IIB data on burning costs does not include natural catastrophes such as strong typhoons, flood, inundation (STFI) risks and earthquake. The regulator has instructed insurers to use their own judgement for pricing add-on covers, apart from FLEXA risks (fire, lightning, explosion, aircraft (insurance).