



बीमा विनियामक और विकास प्राधिकरण
**INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY**

IRDA/NL/~~PRD~~/MISC/246/11/2014

12th November, 2014

TO ALL CEO'S OF GENERAL INSURERS

Re: Further Guidelines on Pricing of Risk.

Insurance Regulatory & Development Authority (hereinafter referred as The Authority), de-tariffed the Indian non-life insurance industry w.e.f. 01st January 2007. In other words, the industry has free market approach with respect to pricing of various general insurance products [Motor Third party insurance being the sole exception]. The industry has been guided through Regulatory prescriptions and advisories such as File & Use Guidelines, Health Insurance Regulations, and Corporate Governance Guidelines etc.

Post de-tariffing of the market, Tariff Advisory Committee has ceased collection of data from the insurers. The Authority has addressed the issue of collection of data and its analysis by forming Insurance Information Bureau (IIB), a society registered under relevant Laws. The Authority has also mandated all licensed insurers, insurance brokers, TPAs to furnish transactional data in the prescribed manner through IRDA to IIB. IIB is now adequately equipped to come out with periodical analytical reports of generic nature as well as of specific requirements to be opted by the licensed entities.

Of late, it has been a concern for the Authority whether free market regime coupled with intense competition amongst licensed entities and various external factors have lead to deficient assessment of insurable risks and/or such insurable risks are not being priced at adequate levels.

The Authority would like to address this issue through further strengthening of Corporate Governance practices. As said earlier, IIB is poised to and is already in the process of releasing analytical reports on behavioural patterns of various segments like Fire, Motor OD, Motor TP, Health etc., The Authority hereby advises that insurers shall put in place a mechanism to enable underwriters and actuaries to follow a process as suggested below before pricing a risk in respect of policies issued to commercial entities (policies sold to other than individual customers):

- 1) The burning cost in a particular line of business and segment of risk for the industry as a whole as published by IIB from time to time is to be considered. In other words the industry wide Loss (Burning) cost must be the starting point for all insurers (existing as well as new) while pricing any product.
- 2) Burning cost of a particular risk on the company's own past acceptances, can be considered, for all available periods.
- 3) Insurers can choose lower of the above.
- 4) Since the burning cost for property risks as published by IIB are, for perils other than Nat Cat perils like STFI and Earthquake, insurers need to consider adequate pricing for said risks, if offered.
- 5) The insurer's own experience on procurement and management cost to be considered to a large extent of current levels.
- 6) The Board of the company may allow acceptance of risk at burning cost lower than as mentioned in point no. 3, after considering point no. 4 & 5.
- 7) In respect of all the instances in point No.6, an exception report to be filed before the Board by the underwriter through the Chief Risk Officer of the

company at its every meeting. The Authority will develop suitable reporting formats to capture the above instances on specified frequency not less than on quarterly basis.

- 8) The Board shall consider such submissions and advise the Management appropriately.

The Authority advises that insurers may put up an appropriate mechanism to ensure implementation of the above advice with effect from 1st January 2015.

As a starting point, the above will be strictly enforced initially in respect of all Fire, property and Group health risks underwritten by the insurers. The Authority will include other lines of Business also in due course of time.

The Authority will monitor compliance of insurers, on this subject. Any deviations to the above will be viewed seriously.



Member (NL)