

## Circular

Ref: IRDAI/REIN/CIR/MISC/ 247 /12/2022

19<sup>th</sup> December, 2022

To,

The CEOs of Indian Reinsurers and Non-Life Insurers/Foreign Reinsurance Branches(FRBs)

**Sub: Reinsurance Treaty Agreements covering Fire and Engineering Lines of Business – prohibition of provisions that make for broad market price tariffs**

1. The Authority has been working on reforms in the Non-Life Insurance Sector to enable *ease of business* from the viewpoint of Insurers as also to enable *choice for insurance buyers/ consumers* and create a free-market regime that fosters prudent risk management and loss control. Towards this, the Authority had progressively de-notified various tariffs including the Fire and Engineering Tariffs prices set up by the erstwhile Tariff Advisory Committee.

In a background of reports and market feedback, the Authority vide its Circular dated 12<sup>th</sup> May, 2022 clarified that the IIB published only broad-occupancy market average burning costs (commonly now referred to as “IIB rates”) for Fire and Allied perils and these were not to be interpreted/ operated as a minimum mandated rate.

2. The Authority has observed that Reinsurance Treaty Agreements in many instances include, as a precondition or prescription, the requirement to apply the IIB published broad-occupancy market average burning costs, as minimum risk rates.

Such prescription by any Reinsurer that effectively creates / reinstates a market (price) tariff is not in line with the de-tariffed pricing regime currently in vogue and would distort the level playing field intended to be provided by the Authority.

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The said Treaty Agreement provisions do not acknowledge individual risk quality or accident / loss history and effectively discourage risk management along with the loss prevention/ mitigation investments of insurance buyers.

3. The Authority acknowledges that every Reinsurer should have the freedom to price its reinsurance product and freely negotiate terms of trade with its counterparties i.e. 'Cedants' (Insurers).

However, terms of trade shall not be an impediment on the freedom of the 'Cedant' (Insurer) to freely compete, negotiate, price and assume risks via its own contracts of insurance with its clients i.e. 'insurance buyers'.

The Authority hereby advises all Non-life insurers and reinsurers to ensure that IIB published broad-occupancy market average burning costs rates for Fire and Engineering risks are not embedded as minimum rates within Reinsurance Treaty Agreements applying to the Indian Market for the risks commencing on and after 1<sup>st</sup> April 2023.

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