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Government of India
Ministry of Finance
Department of Financial Services
(Insurance Division)
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2nd floor, Jeevan Deep Building,
Parliament Street, New Delhi.
Dated: 30th May, 2012

To
Shri G. Srinivasan, CMD, United India, Chennai
Shri R. K. Kaul, CMD, Oriental Insurance, New Delhi
Shri A. R. Sekar, Current In-Charge, New India, Mumbai
Shri N.S.R. Chandraprasad, CMD, National Insurance, Kolka

Subject: Strategy to be adapted by companies for Fire Insurance

Dear Sir,

As we are all aware, Fire Portfolio has always, in the past, generated underwriting surplus and had, in fact, provided cushion to subsidize the losses being incurred in other portfolios. Of late, however, it is observed that some of the PSUs have been incurring losses in Fire Portfolio too with consistent regularity. The main reason seems to be de-tariffing of premium rates in 2007, which has resulted in a very unhealthy competition amongst the four PSUs, so much so that the sanctity of the basic concept of 'prudent underwriting' is lost. In view of the factual position as above, the PSUs are advised to be more cautious and prudent in underwriting Fire business by devising a proper underwriting / marketing strategy to maintain its age old status of a profitable segment of non-life insurance business. The Advisory is, accordingly, issued as under:-

1) Pricing of Fire cover is required to be made more realistic, so that the combined ratio including Claims, ME and Commission is substantially below 100% so as to leave sufficient margin of profit for the company. As a matter of rule,' Burning Cost' analysis should be the basis for working out the commercial rate of premium after providing for ME, Commission, contribution towards catastrophes & other necessary provisions along with a reasonable margin of profit.

2) In any case, it must be ensured that the premium charged in no case is lower than the last tariff rates, except in genuine cases, and where the ICR is less

than 70%, the operating offices shall be authorized to allow reduction in premium as compared to the old tariff rates, up to a maximum limit of 10 %

3) In genuine cases, if any further reduction in premium is considered necessary, or where a discount is required to be given even where the ICR was more than 0.70, the same may be considered at HO level, with the prior written approval of the GM concerned, who will certify that he has done the necessary due diligence. All such cases with proper justification shall have to be brought to the notice of the Risk Management Committee of the company (RMC) on monthly / quarterly basis for all such cases covered during that period and this to be reviewed based on the Board's decision. RMC shall take necessary review of such cases very carefully and shall brief the Board on all such cases that it is not satisfied with the due diligence exercised by the GM.

4) No business in Fire insurance where the sum insured is more than Rs. 100 Cr. can be shifted from one PSU to another, except for a specific NOC from the CMD of the company where such a policy is issued.

5) Existing systems of joint consultation before underwriting any big risk shall continue and shall be referred to and examined at HO level in consultation with the other three PSUs to ensure charging of appropriate premium on the one hand and retention of business with the existing PSU insurer on the other, so as to avoid unhealthy competition amongst the four PSUs.

6) Source-wise/channel-wise analysis of business underwritten and the losses emanating there-from should be made to identify loss making accounts so as to exercise extra underwriting precautions while accepting/renewing any such business.

7) Restrictions may be placed on such offices in terms of underwriting limits and settlement of claims which otherwise are contributing towards losses.

8) The companies may ensure formation of investigation teams at the level of underwriting offices as well as at ROs level to visit the site of accident immediately after the loss is reported. This must be strictly be monitored at least in big losses, (say of more than 20 lakh), in order to avoid exaggeration of claims and frauds etc.

9) The companies should ensure collaboration at the industry level and with Police Authorities and judiciary for prevention of frauds. They should consider filing of criminal cases against those entities found to be indulging / conniving in filing of fraudulent claims.

10) Keeping in view the above guidelines, each of the companies may devise a suitable Fire Underwriting policy. This policy will have to be approved by the respective Board of the Company after getting it approved first by the RMC.

11) Further, quarterly report in respect of such cases where the premium rate charged is lower than the old tariff rate and / or the combined ratio is more than 100% may be placed before the Board of Directors for their information and guidance within one month of the end of each quarter, with all relevant details, through the RMC and the Chair of RMC shall brief the Board on these cases and shall make available all details as sought for.

Please acknowledge receipt and confirm the action taken.

Thanking you,

Yours faithfully

Sd/-
(Arun K Misra)
Under-Secretary to the Govt. of India

Copy to:-

CMD, GIC of India, Mumbai
CE, GIPSA