

To,

The CMD's of all the Public Sector General Insurance companies.

Subject:- Strategy to be adopted in connection with Underwriting Health Insurance & Motor Insurance Policies vide letter No. 14017/115/2011-Ins.II dated 24.09.2012 and 14017/17/2010-Ins.II dated 30.07.2012 respectively.

Sir(s),

In order to contain the underwriting losses of the four PSU general insurance companies on account of various practices, including offering uneconomical and unviable discounts certain advisories were issued during 2012-13, specifically pertaining to underwriting of health and motor insurance.

2. The performance of companies during 2012-13, especially the profitability and operating results, have improved for all four companies. However, all the four companies have represented that the certain specific conditions laid down in the advisory of DFS dated 24.9.2012 pertaining to underwriting of health insurance business and dated 30.7.2012 pertaining to motor third party insurance need to be immediately modified as it is leading to shift of profitable business in these segments from PSU general insurance companies to other companies and is likely to affect the business operations of these PSU adversely, if not contained in time. The matter was examined and accordingly the following is communicated:-

- a. In supersession of the acquisition cost as specified vide circular dated 24.9.2012 regarding underwriting health insurance policies in para 2 (vii) it is clarified that the PSU general insurance companies can determine the acquisition cost on their own for each of the age groups, provided (i) the combined ratio does not exceed 100% and (ii) management expenses are well within the limits, as prescribed under Section 40C of the Insurance Act, 1938 and rule 17E framed under the Insurance Act, 1938.
- b. In the case of advisory dated 30.07.2012 of third party motor insurance, the second para of Point No.2 (ii) i.e. "*commissions/ brokerage/ discounts/ other incidentals shall not go beyond 35%*" is hereby deleted, provided (i) the combined ratio does not exceed 100% and (ii) the management expenses are well within the limits as prescribed under Section 40C of the Insurance Act, 1938 and rule 17E framed under the Insurance Act, 1938.

3. The other advices in the two communications remain as it is. Further, in case of any need for modification/ amendment in the advisory in future, you may seek the approval from the Company's Board.

This has the approval of the Secretary (FS).

Yours faithfully,

Sd/-

(Arun Kumar Misra)
Under Secretary to the Govt. of India
Tel. No.:- 23748789