Fire cover premium likely to rationalise

By R Srividhya Jun 12 2011 , Chennai

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Following three years of huge discount dole outs of up to 90 per cent, insurance companies are hoping and praying for some sanity and rationalisation to appear in the fire insurance sector. The sector constitutes the third largest line of business for non-life insurance companies after motor and health insurance.

The fire insurance business is dominated by the four public sector firms —New India Assurance, United India, National Insurance and Oriental Insurance with a 17 per cent growth in gross premium underwritten, to Rs 4,646 crore during FY11.

Since the de-tariffing of fire insurance in January 2007, where the insurers were given the liberty of setting their own rates, premiums have crashed by almost 90 per cent.

“What is happening is not good for the industry. The loss-ratios have increased so badly that almost all underwriters have losses on their portfolio, which may hit the balance sheet badly. Premium rates have to increase this year,” said a senior official with New India Assurance.

According to the official, while small companies with small sized risks enjoyed 20-25 per cent discount compared to the rates during the tariff regime, for mid-sized risks the rates dropped to Rs 25-35 lakh against Rs 50-70 lakh earlier. Large corporates with large risks that earlier paid a premium of Rs 1.2-1.3 crore were being charged only Rs 30-40 lakh with the discount being as high as 90 per cent.

The cross subsidisation of fire insurance premium in return for the huge group health insurance premium from large corporates is the reason why insurers offered huge discounts, point out industry experts.

Also unlike health, fire insurance claims would be placed by a customer only once in 10 or 15 years. Butthe rate at which the premiums were lowering, the claim placed would wipe away premium paid over the 10-15 year period, the New India official said.

“Earlier the fire insurance premiums were high and insurers reaped huge profits. After de-tariffing the competition increased and companies started undercutting rates significantly. Now that competitions for health insurance is mounting and fire insurance rates cannot go down any further, we expect the rates to stabilise in 2011-12,” **said Meena Nair, vice-president, India Insure Risk Management and Brokerage Services.**

It is for the same reason that many private insurers, over the last one-and-a-half years have stopped providing fire insurance, as the rates became unsustainable.

“The rates are very competitive and the discounts are huge. But in our bid to retain our number one position we are not giving up on our underwriting principles,” asserted CJ Philip, deputy GM, New India Assurance.

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