



Ref: IRDA/NL/MISC/PRO/115/05/2017

5<sup>th</sup> May, 2017

The Chairman-Cum- Managing Directors/  
Chief Executive Officers of  
General Insurance Companies

**Re: Guiding Principles for Pricing of Risk**

Insurance Regulatory and Development Authority of India (hereinafter referred as the Authority) vide Circular No: IRDA/PRO/MISC/246/11/2014 dated 12<sup>th</sup> November, 2014 had advised all General Insurers to put in place an appropriate mechanism to ensure implementation of the process suggested before pricing of a risk in respect of policies issued to commercial entities.

Further, Para 3 of Schedule III under the Guidelines on Product Filing Procedures for General Insurance Products issued vide IRDAI/NL/GDL/F&U/030/02/2016 dated 18<sup>th</sup> February, 2016 advises that the Product Management Committee (hereinafter referred as PMC) of Insurers shall put in place a mechanism to follow the prescribed process in Fire / Property risks before pricing a risk under commercial products under Use and File procedures.

Insurance Information Bureau of India (hereinafter referred as IIBI) on 24<sup>th</sup> March, 2017 has published the 2<sup>nd</sup> Schedule of Loss Costs for 109 occupancies for the underwriting period from 1<sup>st</sup> July, 2017 to 30<sup>th</sup> June, 2019. In view of publication of the 2<sup>nd</sup> Schedule of Loss Costs, Insurers are advised to ensure that the following guiding principles being issued under the provisions of Section 14 (2) (i) of the IRDA Act, 1999 are adopted.

- 1) The Loss Costs for Fire line of business published by IIBI in the 2<sup>nd</sup> Schedule of Loss Costs for various occupancies is to be considered in determining the premium rates.
- 2) In the alternative, the Loss Cost of a particular occupancy based on the Insurer's own past acceptances may be considered, for all available periods.
- 3) The Loss Costs published by IIBI represents pure losses and allocated loss adjustment expenses and is in respect of FLEXA risks only. Hence, Insurers need to ensure appropriate pricing is also carried out for Natural Catastrophe perils such as STFI and Earthquake, if offered.

- 4) Apart from the Loss Cost, the Insurer's own experience on procurement and management cost and other relevant cost inputs are to be factored in before the Basic Rate is arrived at.
- 5) The Board of the Insurer, on recommendations of the PMC, may allow adoption of a Loss Cost lower than that published by IIBI/ the Insurer's own Loss Cost, if there is technical justification for the same.
- 6) Insurers are advised to now arrive at the Basic Rate (which would be effective from 1<sup>st</sup> July, 2017) that they would like to adopt for the various occupancies listed in IIBI's report based on the above provisions and maintain the information at their end in the format attached.

All other procedures set out in the Guidelines on Product Filing Procedures for General Insurance Products will continue to apply.

This circular is in supersession of Circular Ref. IRDA/NL/PROD/MISC/246/11/2014 dated 12<sup>th</sup> November, 2014.



**(P.J. Joseph)**  
**Member (NL)**

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