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### Property insurance rates up as insurers cut discounts after Gujarat floods



Property insurance premium rates are seeing an increase on the back of substantial claims due to several natural calamities over the past few months, according to experts. The insurance industry has estimated losses of nearly ₹5,000 crore in the aftermath of the Gujarat floods. Premium rates are hardening by nearly 25-30 per cent, according to Bajaj General Insurance, mainly through a reduction in discounts.

“In view of the losses and flood claims in Gujarat and the rising risk in the Himalayan region, the rates in property insurance are hardening mainly with reduction in discounts. The premium rates are hardening by nearly 25 – 30 per cent. Even as the base NATCAT (Natural Catastrophe) rates remain unchanged, discounting has come down,” said Gurdeep Singh Batra, Head--Commercial Underwriting, Bajaj General Insurance.

Some non-life insurers have set a minimum rate for fire insurance’s natural catastrophe component amid steep discounts in the segment which exposed the insurers and reinsurers to losses. The Insurance Regulatory and Development Authority of India (Irdai) had also warned general insurers against aggressive pricing in the fire insurance segment after receiving complaints of discounts of up to 99 per cent on large industrial risks, saying such pricing threatens insurers’ financial health and underwriting discipline.

Most leading general insurers are also facing underwriting losses, and further large claims in the segment could impact their profitability in the future.

According to experts, while high reinsurance capacity has kept pricing low, recent losses, like the ones after Gujarat floods, are beginning to push pricing upwards for both Natural Catastrophe (NATCAT) and Fire, Lightning, Explosion/Implosion, and Aircraft (FLEXA). NATCAT rates are seeing a more pronounced increase than FLEXA rates. They also added that it is the reduction in deep discounts in the segment owing to higher claims that is leading to upward movement in premium, rather than an increase in premiums by the insurers.

The fire and property insurance premium rates have been under pressure for nearly a year on account of discounts. During this time, there was no major loss in the segment, because of which, the insurers did not increase the premium.

In addition, the increase in the number of reinsurers participating in the market through Gujarat International Finance Tec (GIFT) City offices along with the existing state-owned reinsurer, foreign reinsurance branches and the newly established domestic reinsurers has also increased the capacity available in the market. This has led to intense competition and reduction in the premiums charged by direct insurers.

However, following a series of natural calamities in India in the past few months like floods in Gujarat, Assam, and Odisha, along with accidents in some of the manufacturing units, the industry is reducing the discounts, resulting in higher fire and property insurance rates.

“The property insurance market is beginning to see a shift after a prolonged period of aggressive discounting. Recent catastrophe and large-loss events have put pressure on insurers’ underwriting performance, and we are now seeing pricing begin to harden, particularly on the NATCAT side, although FLEXA rates are also moving up. The extent of the increase will vary from risk to risk, because there is no fixed market rate in the current free-pricing regime,” said Hanmant Dudle, senior director, head-- property, Construction and Surety Practice, Lockton India.

“The recent losses have reinforced the need for a more disciplined and sustainable pricing rather than the deep discounting we saw earlier. Also, for large hydro and infrastructure risks, particularly those exposed to natural catastrophes, clients are increasingly looking for higher limits,” Dudle added.