Non-life cover in a free fall as restrictions go

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PROPERTY insurance rates have fallen by as much as 75-80% in the first day of free pricing in the non-life insurance market. Both state-owned and private non-life insurance companies have begun quoting rates aggressively as all price restrictions were removed from non-life products.

The free pricing regime has brought centrestage the broking community who until now played a limited role because of price controls. By helping corporates shop for the best deals brokers have driven down the price for medium and large-sized companies. However, individuals will have to wait for aggregators to play a bigger role before they get the benefit of competition. The discounts are largely for policies that come up for renewal as the regulator has barred companies from cancelling policies.

Speaking to ET India Insure Risk Management Services managing director V Ramakrishna said: "A further drop of 20-30% in fire insurance rates over the 51.25% reduction, which is already being enjoyed, is what companies are expecting.

What this means is that we are talking of 80% drop over '06 rates" He added that this party cannot go on long as with such low rates insurers would immediately withdraw if there were large claims.

"We would advise small and medium companies not to shop around for small gains, as insurers with long-term relationships are better placed to pay large claims.

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Advise against price shopping

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"WHERE there is a thin line an insurer in a long-term relationship would give the benefit of doubt to the client," he said.

Says Pavanjit Singh Dhingra of Prudent Insurance Brokers, "Prices have fallen dramatically in the first round of free pricing in '07 and rates cannot drop very significantly from present levels." While the price war is expected to continue for large risks, he sees only marginal change in price for motor own damage premium. "Insurers will get selective about the models they would like to write. Large, expensive cars will have the maximum discounts while smaller cars may see hardening prices," says Mr Dhingra. He says that the high frequency losses in entry-level cars are hurting insurance companies more than claims for luxury cars. This will reflect in the pricing in future.

Most of the insurance brokers are advising customers against shopping for the lowest price. "Wherever we have placed business, we have said that this sharp reduction is a temporary phenomenon and companies should ensure risk mitigation measures to get good deals in future," says First Policy Insurance Advisors chief operating officer P Sachidanand. He adds that insurance companies cannot continue to burn their books for long and rates would inch up in future.

According to Mr Dhingra, customers will find that insurance is no longer a commodity and they will have to factor in several factors other than price before making a purchase decision. "There may be confusion due to widely different prices, perceptions of service levels, and network capabilities," he said.

Brokers feel that although public sector companies have the wherewithal to carry on the rate war, they would call it off after some time. At present there is an information asymmetry in the market and insurers are quoting discounts to clients who are facing demands for higher premium from the existing players for bad loss experience.

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