

Commercial Lines (Fire) Pricing

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Acknowledgements

The ideas presented by me with the help of these slides have been gathered from different sources. Some of these sources are the IRDA, ISO, Casualty Actuarial Society publications, my own experience in the insurance markets of India, Bermuda, London, Europe, and USA, ICICI Lombard and GIC Re. I am alone responsible for the content. My presentation should not be construed either as actuarial advice in individual situations or as being representative of stated positions of the various organizations cited above.

Agenda

- Current Status
- Drawbacks – Open Discussion
- What Should BE
- Exposures & Perils
- Possible Pricing Structures
- Factor(s) Examples -- Open Discussion and on board derivations
- Take Away

Current Status

- The following sequence shall be adopted for computation of the rate :-
- Basic Rate
- 5% Reduction for Sprinklered blocks if applicable (for risks ratable under Sections III ,IV, V and VI).
- Reduction in rates for deletion of STFI and/or RSMD perils, if opted out.
- Tariff extra for `Kutchha' Construction, if applicable (to be applied on 1-2-3)
- Discount/loading for claims experience (to be applied on 1-2-3-/+4)
- Discount for FEA on protected blocks (to be applied on 1-2-3-/+4)
- Discount for voluntary deductible shall be applicable on the total premium calculated on the basis of final rate worked out as above .

What Should Be

- Principles of Ratemaking
- Each risk should pay its cost of risk transfer
- Subsidy between risks?
- Subsidy between lines?
- Risk Sharing and Risk Bearing
- How to draw the line between the two
- What is fair?

Exposures and Perils

- Both are intertwined; no single correct answer
- Common Practice: use Value
- Moral Hazard -- insurance to value
- Coverage -- HO example/Motor Example
- Complexity in Commercial Lines
- 2 Pricing Issues -- Combined/individual
- Additive or Multiplicative Model

Possible Pricing Structure(s)

- Expand the existing structure
- Introduce sensible Factors
- Examples
- Estimation techniques
- Data Issues
- CAT Loads
- Overhead Expenses
- Capital Cost

Take Away

Price the risk properly

Try to prevent Absurd Pricing

Thank You