

All CMs & DAs & RO & LCB i/c's.  
Kindly note the concern and strictly avoid under cutting of rates. Please focus on prudence in underwriting.

F.No. G. 14013/14/2011-Ins.II

Government of India

Ministry of Finance

Department of Financial Services

2<sup>nd</sup> Floor, Jeevan Deep Building,  
10, Parliament Street, New Delhi

Dated: 28 June, 2017

To

CMDs of all the Public Sector General Insurance Companies

**Subject:** Violation of Government advisories regarding prudent underwriting of business

Sir(s),

In order to contain the underwriting losses of the Public Sector General Insurance Companies (PSGICs) on account of various practices, including lack of prudent underwriting by indulging in unhealthy inter-company competition so as to snatch each other's business by offering uneconomical and unviable discounts it was felt necessary that a proper underwriting mechanism be put in place. Accordingly, certain advisories were issued by this department during 2012-13 and the PSGICs also issued underwriting circulars based on these advisories.

2. However, it has been brought to the notice of this department that the PSGICs are violating Government advisories leading to huge underwriting losses. As a result, these companies are solely dependent upon the investment income (profit from sale of investment). However, these are limited investments and are fast depleting as a result of indiscriminate disposal by the companies to make up for the losses on underwriting premiums. Such an arrangement is not sustainable in the long run and has the capacity to permanently harm the competitiveness of the public sector insurers.

3. In one such case of violation of advisory / internal circulars on health insurance brought to our notice, clarification has been called from a PSGIC and disciplinary action is also contemplated. It may be noted that an appropriate pricing mechanism for pricing Group Health Insurance should take into account the existing Incurred Claims Ratio (ICR), management expenses, medical inflation, commissions, likely increase in quantum of claims due to ageing of covered group, increase in size of group, cost of underwriting of business and other such associated factors.

4. Thus, in order to — (a) protect the interests of the policy holders, (b) ensure that the PSGICs continue to be effective players in the market for provision of insurance services on a long term basis, and (c) ensure that unhealthy underwriting practices in these companies do not cause unnecessary financial strain on their financial stability it is desirable that prudent underwriting practices suggested in government advisories are followed strictly.

Yours faithfully,



(Arun Kumar Misra)

Under Secretary to the Govt. of India

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