Exposure Draft	
Ref: Exposure Draft	**Date:** 07-12-2022
Exposure Draft on Long-Term Fire Insurance products	

7.12.2022

Re: Exposure Draft on Long-Term Fire Insurance products

1. The Authority, vide notification F.No.IRDAI/Non-life Insurance/5/171/2020 de-notified erstwhile All India Fire Tariff (AIFT) for certain risks. Further, it was notified that with effect from 1st April, 2021, Fire and Allied perils covers for the specified risks shall be subject to Regulations and/or Guidelines enunciated in this regard by the Authority.

2. Accordingly, the Authority issued Guidelines relating to Fire and Allied perils standard products covering Dwellings, Micro and Small businesses, namely,
   - Bharat Griha Raksha (BGR),
   - Bharat Sookshma Udyam Suraksha (BSUS) and
   - Bharat Laghu Udyam Suraksha (BLUS)

   vide Guidelines Ref. IRDA/NL/GDL/MISC/004/01/2021 and Ref. IRDA/NL/GDL/MISC/005/01/2021 dated 4th January, 2021.

   These standard products replaced the 'Standard Fire and Special Perils (SFSP)' policy for the named risks and no product other than the standard products was permitted for Fire and Allied perils.

3. After considering the increasing demand for new Fire Insurance products, the Authority, vide circular Ref No. IRDAI/NL/CIR/MISC/96/05/2022 dated 12.5.2022, in exercise of powers under Section 14(2)(i) of IRDA Act, 1999, also permitted General Insurers to design and file "alternative products" covering Fire and Allied perils for the risks de-notified vide notification referred in para 1 above.

4. Taking in to consideration the need for long-term coverages in Fire Insurance products, under powers

vested with Section 14(2)(i) of IRDA Act, 1999, it is proposed to permit General Insurers offer "long-term products" covering Fire and Allied perils in variation to the 'standard product' or as 'alternative products', as referred to in point 5 hereunder.

5. Insurers shall follow *mutatis mutandis* the extant applicable Guidelines, namely,
   - Ref. IRDA/NL/GDL/MISC/004/01/2021 dated 4.1.2021 (hereinafter referred to as "BGR Guidelines") and
   - Ref. IRDA/NL/GDL/MISC/005/01/2021 dated 4.1.2021 (hereinafter referred to as "BSUS and BLUS Guidelines") dated 4th January, 2021).

   For the long-term Fire and Allied Perils products, the following norms are to be complied with:

   i) Policy duration shall be maximum up to 30 years in respect of Dwellings. Dwellings shall mean to include standalone residential houses, residential villa complexes as well as residential apartment blocks managed by Housing Cooperatives or Resident Welfare Associations or any other body representing the home-owners.

   ii) In respect of risks with Sums Insured up to Rs. Five Crores (any one risk accumulation) for Offices, Hotels and Shops (as per Section III Simple Risks of erstwhile All India Fire Tariff) the duration shall not exceed 5 years.

   iii) Norms specified under Clause 3.7 read with Clause 13 of the BGR Guidelines and Clause 3.7 read with Clause 15 of the BSUS and BLUS Guidelines, namely; the Standard Proposal Form, Standard Prospectus, Standard Policy Wordings (including optional covers offered in addition to the policy and in-built covers), Standard Key Features Document (KFD), Special Clause (Agreed Bank Clause), a "'Customer Information Sheet' or 'Benefit Illustration'", detailing the premium, benefits, norms of cancellation, premium and sum insured for each policy year and other key aspects, shall be provided for the policyholders' reference and information.

   iv) All add-ons shall be co-terminus with the base product.

   v) Long-Term Fire insurance can be cancelled during the tenure of the policy. The refund of premium in such instance would be as under:

      a. Future Year Premiums - to be refunded in full

b. For the policy year in which policy is cancelled:

i. Where no claims are reported during the year - Refund of pro-rata premium pertaining to the year of cancellation

ii. Where claims are reported during the year – No refund of premium

c. GST and other government taxes – refund to the extent permissible as per the applicable norms.

vi) There shall be a 'Board-approved policy' set up by the Insurer containing aspects relating to operational matters, accounting (including provisioning requirements) and disclosures for addressing the issue pertaining to cancellation of policy including claw-back of commission.

vii) Commission is payable once premium is recognised.

viii) Such new long-term policies shall have a 30-days free-look period from the date of inception of the policy, to enable the policyholder to review the terms and conditions of the policy. The policyholder is entitled for refund of premium on pro-rata basis in the event of exercising the free-look cancellation. Any Claims during the free-look period shall be admitted by the Insurer.

ix) Pricing of long-term policies is to be made based on sound actuarial principles considering all the relevant aspects of rating including claims experience, lower anti-selection, reduced policy administration and acquisition costs given higher renewal rates, long-term discount, expected NCB level by the end of the policy period and applicable government taxes etc. The pricing of add-on and optional covers may likewise consider the cost efficiencies of policy administration.

x) With respect to accounting and financial disclosure the following norms shall be complied with.

a. Recognition of Premium should be in-line with Para 2 of Part I of Schedule B of IRDA Preparation of Financial statements and Auditor reports of the Insurance companies) Regulation 2002.

b. Recognition of acquisition cost (including commission) should be in-line with the recognition of premium.

xi) In addition to the extant norms Insurers must maintain sufficient reserves including Unearned Premium Reserve (UPR)/ Premium Deficiency

Reserve (PDR) / Claims 'Intimated But Not Reported' (IBNR) Reserves to meet future obligations at all times. Such reserves, shall form part of the solvency calculations.

xii) In order to monitor pricing, reserving and assessing capital requirements of long-term policies separately, Insurers shall monitor the transaction-level data pertaining to long-term policies at regular intervals of at least one-year

xiii) Long-term products may be offered through the extant distribution channels by duly complying with the norms specified in the respective Regulations.

All stakeholders are requested to forward their comments on the above exposure draft by 22nd December, 2022 in the attached format at the e-mail id pradeep.singh@irdai.gov.in.

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