

A Brief Background to the Minimum Premium Rates

The Insurance minimum premium rates order 2018 came into effect on the 1st of July 2018 as a strategy to improve the stability of the insurance industry and ensure that insurance companies are financially sound enough to compensate clients fairly. This article looks at the history and market events that led to the minimum premium rates order.

History



Competition among insurers had led to disregard of certain premium rating principles

When an insurer quotes a particular rate on a risk, the premium encompasses key requirements for the insurer to be financially stable. Some of these considerations include, but are not limited to:

1. The nature of risk
2. Operations / Administration costs
3. Claims

Therefore, the quote that is charged takes into account the above general factors. Appropriate rating supports the liquidity of the insurance company. Application of this method was however insufficient.

Previous attempts to set tariffs and best practice codes since the liberalization of the Tanzanian insurance industry did not succeed. The attempts were in response to continued underwriting losses throughout the industry. Despite this, insurers, brokers and agents alike

continued undercutting each other to overcome competition.

Initially, the recommended minimum rates required the hiring of actuaries. An actuary is a person who compiles and analyses statistics used to calculate insurance risks and premiums. The actuaries prepared a report indicating minimum rates for different classes of insurance. This report became the basis for the minimum rates effective from 1st August 2015.

However, implementation collapsed as insurers continued to compete with one another based on price, and clients with adverse claims experience enjoyed consistently low rates. It was clear that despite significant growth in premiums booked for different classes of insurance, the industry was on a shaky foundation.

Market Developments 2015-2018



Cutthroat competition continued despite actuarial recommendations

In 2017, TIRA implemented measures that intended to support the growth of insurance in Tanzania.

The Insurance (Minimum Premium Rates) Order, 2018



Premium rates must be as per the order made under section 72 of the Insurance Act.

The minimum rates were the same as the recommended rates of the actuarial study previously mentioned. They applied to all classes of insurance except for life, medical and reinsurance driven risks.

As can be seen from the above and our experience, the minimum rates apply to very popular products within the market.

For the details relating to the exact rates for different classes, please click on the link provided below:

<https://www.tira.go.tz/content/general-insurance-gazetted-minimum-premium-rates>

The next issue of the ARiSe newsletter will address the topic of Cash before Carry.