Fire Tariff in the Philippines

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Under Section 169 of the Insurance Code, the term "*fire insurance*" shall include insurance against loss by fire, lightning, windstorm, tornado or earthquake and other allied risks, when such risks are covered by extension to fire insurance policies or under separate policies.

Fire insurance policies are among those tariffied products. It was deemed that setting tariffs was needed to address the cut-throat competition plaguing the insurance market. Premiums being paid are not commensurate to the risks being carried by insurers. In other words, insurers are undercharging. This scenario can eventually affect their ability to meet their obligations under the policies. Thus, insurers cannot set the premiums lower than the prescribed rates. The premiums can go higher, but not lower. Nonetheless, widespread breaches have been observed that has led the Commission to issue repeated reminders and reiterations to the industry. Violations of tariff rules for the year 2014 reached 3,368 breaches which resulted in the collection of Php5.41 million in penalties collected by the Commission. Of the total breaches, 65.77% and 21.56% were attributed mainly to motor car and fire policies, respectively. In 2015, insurers paid a total of Php 21 million in fines for breaches of tariffs.

On December 4, 1986, Insurance Commissioner Armando Ansaldo approved the PIRA Fire Manual. PIRA, as a rating organization, drafted the PIRA Fire Manual of rates providing for the minimum rate for fire insurance policies. The rates were fixed according to various factors such as a) the location of the property; b) type of construction materials used; c) number occupancy; and d) the nature of the use of the property whether general, industrial, residential, or commercial.

Subsequently, this was revised in 1997, such that the Insurance Commission approved a Revised Fire Tariff (Fire Tariff Manual of 1998) once again on September 17, 1997 for policies with inception dates from January 1, 1998. Circular Letter No. 13-97 was issued on November 6, 1997 implementing the approval. The 1998 tariff provided for a minimum rate of 0.15% for earthquake fire and earthquake shock. This tariff for earthquake insurance was, however, revised to **0.10%**, for all structures by Circular Letter No. 5-2000 (April 25, 2000). The 1998 tariff also provided for a minimum rate of **0.05%** for typhoon and floods (and/or); and 0.010% for extended coverages such as explosions, smoke, and others.

In Circular Letter No. 29-2006 (July 27, 2006), it was clarified that the minimum rate for earthquake, and typhoon and flood shall also apply to such perils under policies such as Industrial All Risks Policies, Commercial All Risks Policies, Electronic Equipment Insurance, Homeowners and Commercial Package Policies, and Equipment Floater Policies.

In Circular Letter No. 39-2006 (December 7, 2006) it was clarified that the minimum rate applies whether only typhoon or only flood cover is taken. It was also clarified that the minimum rates apply to the total sum insured whether a policy is issued on a “loss limit” basis, “first loss” basis or with higher than the standard deductibles.

Circular Letter No. 8-2007 (April 23, 2007) imposed a maximum commission rate of 15% for policies with a single composite rate (covering fire and allied perils inclusive of natural perils). The circular explained the need for setting maximum commission rates, “*minimum premium rates for natural perils cover are required by the Insurance Commission to enable insurance companies to build up their reserves and ensure their capacity to respond to losses and meet their liabilities on policies covering natural catastrophic perils. Information have been received that some insurers resort to paying excessively high commissions in order to circumvent provisions of Circular Letter No. 39-2006*.”

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