

# How will IP premiums rise?

If claims rise by 5% per year

	2015	YEAR 1 (OF HIKE)	YEAR 2	YEAR 3
	(S\$)			
<b>Claims</b>	80	84	88	92
<b>Management expenses*</b>	15	15	15	15
<b>Distribution costs*</b>	15	17.50	18	18.90
<b>Total costs</b>	110	116.50	121	125.90
<b>Premiums earned</b>	100	121	121	121
<b>Underwriting loss/gain</b>	(10)	4.50	0	(4.90)

■ To break even, claims should generally not exceed 70% of total premiums.

■ Management expense\* is the only cost an insurer can control, thus it's a constant throughout illustration.

■ Distribution cost\* generally makes up about 15% of total premiums based on past industry data.

■ Therefore, IP premium has to rise by about S\$21 or more than 20 per cent in the coming review for an insurer to break even over a period of 3 years – the duration of a repricing cycle.