

REGULATION OF INSURANCE INDUSTRY ACT – DIRECTION

CONDITION OF AVERAGE

19.06.2023

No. 01 of 2023

The Insurance Regulatory Commission of Sri Lanka, at its 229th meeting, having considered the current practices of General Insurance Companies in respect of Condition of Average of motor insurance policies in the event of claims, has decided to issue the following Direction to all General Insurance Companies:

Issuance and renewal of motor insurance policies to reflect market values of motor vehicles

1. An Insurer shall insure motor vehicles at its market value.
2. The premium payable amount shall be commensurate to the market value.
3. If a policyholder agrees to insure at the market value, the insurer cannot apply the condition of average in the event of claim/s.
4. If a policyholder disputes the market value and the commensurate premium, the policyholder can provide the insurer with an independent valuation of the motor vehicle from a valuer recognized under the approved criteria of IRCSL and published in IASL website. The insurer is required to provide the premium payable to such value provided by the policyholder and the condition of average cannot be applied.
5. If a policyholder disputes the market value and the commensurate premium given by the insurer and does not provide an independent valuation as stated above, then, the insurer shall inform the policyholder that the condition of average will apply and the consequences of underinsurance in the event of claim. The insurer shall issue the cover only if the policyholder agrees to the application of the condition of average. Records of such consent shall be maintained by the insurer.

Application of the Condition of Average during the policy period

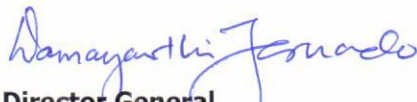
The Insurer can apply the condition of average when settling a claim, only;

1. If the market value of a motor vehicle has appreciated more than 20% of the sum insured; and
2. The insurer has informed the insured in writing to increase the sum insured to reflect the market value with notice of the consequences of underinsuring. Records of such communications shall be maintained by the insurer.

Reassessing motor insurance policies issued

The Insurer shall ensure that the values of all motor insurance policies in force under its portfolio reflect the current market value. If the policies do not reflect the current market value, the insurer shall inform the policyholders in writing to increase the sum insured to reflect the current market value and the consequences of underinsuring.

This Direction is issued in terms of Section 96A of the Regulation of Insurance Industry Act, No. 43 of 2000 and shall come into effect immediately.


Director General
Signed for and on behalf of the Commission