

Class: M.Sc. Sem 3

Subject : Actuarial Practice 1

Chapter: Unit 1 Chapter 4

Chapter Name: Insurance Products

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1 Features of Life Insurance Contracts

Features of life insurance contracts are:

Long term

Usually allows only one claim
per policy

Known claim amount

Provide protection against
death, ill health

Can be sold to an individual
or a group of people

Without profit

With profit

Unit linked

Index linked

2 Terms in Life Insurance

Contract design

The insurance company is in the business to make profits, hence **profitability of the company is a key consideration** when designing a product to be sold.

Profitability is a result of an excess of cash inflow over outflow.

Cash inflows:

- The premium received net of any reinsurance premiums paid
- The income gains on investment

Cash outflows:

- Claims paid net of any reinsurance recoveries
- Expenses and brokerage
- Increase in provisions
- Increase in cost of capital
- Tax

2 Terms in Life Insurance

Contract design

An insurance company needs to make several **assumptions** when projecting the future profitability. They would be regarding:

- policy premium rates
- sales volume and business mixes
- investment opportunities and the returns earned
- expenses
- brokerage
- mortality rates
- morbidity rates
- withdrawal rates
- assumptions regarding reserves, i.e. interest rates
- taxation
- reinsurance premiums and claim amounts

2 Terms in Life Insurance

Underwriting

Underwriting is the process of **assessing the risk involved** in selling the insurance policy to a potential policyholder. Underwriting helps us estimate whether the **risk is higher than the standard risk** and whether a higher premium amount needs to be charged, or whether to **decline** an insurance to the policyholder completely.

Medical underwriting is the most common form of life insurance underwriting. It involves questioning the policyholder on their age, sex, smoker status, any pre-existing disease, weight, etc.

Setting premiums

Premium to be charged per policy is calculated using a pre-defined formula or a profit testing model taking the discussed factors into consideration.

2 Terms in Life Insurance

Provisioning

Once a policy is sold, it is a **regulatory requirement** for life insurance companies to set up **reserves or provisions** for the policy.

Reserve is an amount of money set aside, in order to meet future liabilities in the form of benefits promised and the expenses incurred.

Reserves can be calculated using a **profit testing models**, with assumptions being more prudent than the ones used for calculating premiums

2 Terms in Life Insurance

New business strain and capital

In the early stages of selling policies, a life insurance company will **experience greater cash out-flows** in the form of brokerage, administration and underwriting expenses, reserves, selling costs etc. than the **premiums earned**. This is known as **new business strain**.

Insurance companies need **sufficient capital** to write off this strain. As time passes, these losses are recouped by **releasing the reserves** and the **premiums earned** are now greater than the expenses incurred. This happens because reserves are calculated using a prudent approach.

Capital is required for

- Protection against adverse claim experience
- For investment freedom – the greater the capital, the greater is the ability to invest in high return assets
- To pay dividends and bonuses to the concerned stakeholders
- For research and product development – to offer new and innovative products that can meet policyholders needs

2 Terms in Life Insurance

Investment strategy

Asset liability matching is one of the investment strategies adopted by life insurance companies. It requires understanding the characteristics of liabilities before investing.

For example,

- Fixed interest bonds, for policies where the benefits are guaranteed in monetary terms
- Index linked equities, for benefits that are inflation linked
- Assets that match the term of the liabilities, such as long- and medium-term assets in case of term or endowment assurance
- Derivatives such as forwards and futures to hedge some guarantees

2 Terms in Life Insurance

Risks faced by life insurance companies

Risk is the variance of the actual outcome from the desired outcome.

A life insurance company faces several risks

- Mortality risk – with higher deaths than expected in case of term assurance
- Longevity risk – with more people living up to higher ages than expected in case of pure endowment and annuities
- Morbidity risk – with more number of people contracting a disease in case of health care
- Investment risk – with returns on investments being lower than expected or being volatile
- Expense risk – expenses being higher than those assumed while calculating premiums
- Early withdrawals – policyholders lapsing their policies, before sufficient premiums can be earned to cover expenses
- Credit risk – failure of a counterparty such as a reinsurer to perform his duties

2 Terms in Life Insurance

Monitoring experience

As seen earlier in the ACC, **monitoring the experience** plays a crucial role in the functioning of a life insurance company, which is long term in nature.

It helps with the doing away of incorrect and outdated assumptions that affect the profitability of the business.

Monitoring would particularly be with respect to:

- Claims experience – with respect to the number of people dying or falling sick
- Withdrawal rates – the number of people lapsing the policies and the reason for it
- Investment returns
- Expenses incurred and how the running of the company be made more cost-effective
- Sales volume and mix

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3 Types of life insurance contracts

Pure endowment and endowment assurance

Definition

- Pure endowment: Provides benefit to the insured upon **survival** to a specific date. Thus, acting as a **savings vehicle** providing a lumpsum for certain purposes such as retirement or loan repayment
- Endowment: Provides benefits upon the **survival** to the specific date as well as upon **death** before the date. It acts as a **savings vehicle** as well as provides **protection to the dependents** in case of early death of the insured
- An endowment assurance also gives the freedom of surrendering the contract before maturity, in return for a surrender value which is lower than the benefit promised at the time of the contract. Thus, providing protection in case of emergencies

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Pure endowment and endowment assurance

Use to meet customer's needs

- An endowment assurance plan can act as **guaranteed transfer mechanism** for the insured to transfer sufficient amount of wealth to the dependents upon death
- It can be used to meet **long term** as well as **short term** financial goals, such as repaying a loan, paying for child's education, buying a house etc.

Existence of a group version

- Employers can take a **group endowment assurance** for his employees as a means of providing for their retirement or protection to their dependents upon early death of the employee.
- A group version brings along the **task of administration** and a **risk of withdrawal** if employees leave their jobs before the policy matures

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Whole life assurance

Definition

A whole life assurance provides guaranteed benefits upon the **death of the insured**, which is not constrained by the timing of the death, i.e., this type of policy **does not have a fixed time period**, unlike and endowment assurance.

Use to meet customer's needs

- Its general purpose is to provide **financial security to dependents**, to cover certain costs that come with death, such as funeral cost etc.
- If the dependents inherit any form of assets from the insured on his death, and that asset is subject to inheritance tax, then the benefits can be used to pay this tax liability
- At times these contracts have the advantage of being **tax efficient** where the benefits promised may be free of tax

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Whole life assurance

- The policy may be **without profit**, thus providing a fixed benefit, or may be **with profit**, where a certain bonus level is provided with the benefits
- A **unit linked** version of this policy, provides the flexibility of choosing the higher of the unit fund and the sum assured

Existence of a group version

A group version of this policy is not a preferred option. Group policies are usually provided by employers to their employees who would like to undertake the employee's responsibility only till the time that he is employed at the company and not for his entire lifetime

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Term assurance

Definition

A term assurance provides benefits upon the **death** on the insured, provided the death occurs **within the term selected** at the outset of the contract. It **does not provide any benefits**, if the death occurs **after** the specified term, unlike an endowment or whole life assurance and is hence provided at a **lower level of premium**.



Term assurance policies do not have any early withdrawal benefits. If this happens, then policyholders who feel they are healthy, and will not be receiving any benefit once the term ends, will surrender their policies and receive a surrender benefit. This would leave the insurer with a higher proportion of healthy lives than sick lives

Use to meet customer's needs

- In case of a decreasing term assurance where the sum assured is paid on death within the specified term and a lower level of benefit if the insured survives the term, the amount can be used either as loan repayment or as protection for dependents

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Convertible or renewable term assurance

Definition

- A term assurance where the policy can be **converted** to a different kind **in case of the survival** of the policyholder **after the end of the term** specified in the policy or if he feels his financial needs have changed during the term of the policy.
- The policy can be converted to a **whole life or endowment assurance** subject to certain terms and conditions laid out by the insurer. It can also be converted at any time during the term of the contract.
- A **renewable term assurance** is one where the insured can **extend the term of the contract** if he feels he is healthy and is unlikely to die within the term specified at the outset of the contract. The extension of the term is however subject to medical underwriting.

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Convertible or renewable term assurance



Nowadays insurance companies have come up with various types of term assurance policies. For example:

- **Decreasing Term Assurance** – here the level of benefit starts with a high face amount and then declines yearly, making the policy suitable for needs that go down over time such as protecting the unpaid balance of a mortgage.
- **Increasing Term Assurance** – here the level of benefit starts with a low amount of protection, increasing over time. Thus, giving an extra death benefit if the insured dies during the later years of the term.
- **Return of Premiums Term Assurance** – this policy returns all premiums as a lumpsum or most of the premiums, if the insured outlives the term of the policy. In case of early withdrawal, a part of the premiums paid till date may be returned.

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Convertible or renewable term assurance

Use to meet customer's needs

For individuals who do not have a sufficient income or savings currently, it provides a **cheaper alternative of death cover** as opposed to other expensive contracts, with the advantage of having it converted to a permanent contract such as a whole life or endowment assurance when it is affordable or having it renewed for a further period, with or without medical underwriting.

Existence of a group version

A group term assurance provided by the employer, where the employee is given the option of converting it or renewing it at the end of the term. However, **after the conversion or renewal** of the contract, the policy now becomes an **individual policy** and may be subject to new premium rates which may be higher than the group premium rates and which are to be paid by the employee

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Immediate annuity

Definition

- The policyholder receives a **stream of income in return for a single premium**. The income stream commences as soon as the premium is paid.
- Annuities may be **without profit** where the income amounts are fixed and may be **index linked** where the income amount changes with respect to the index.
- **Impaired life annuities** are a more recent innovation, where higher annuities are paid to those in poor health

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Why would an annuity provider pay higher annuities to those in poor health ?

3 Types of life insurance contracts

Immediate annuity

Use to meet customer's needs

An immediate annuity can be used by those who want a **regular level income** at **fixed intervals** for the rest of their lives, for example an individual in retirement. It can also be used by those who have fixed yearly expenses such as paying the children's education fee.

Existence of a group policy

A group version of this can be used by an employer to **fund the pensions** of his employees at retirement

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Deferred annuity

Definition

A deferred annuity is one where there is **some time between the purchases of the annuity and the date from when the income streams become receivable**. The policyholder pays a series of premiums up to the vesting date or a single premium at the start of the contract. The policyholder then gets a series of regular income from the vesting date. They differ from immediate annuities which start paying the income right away.

Use to meet customer's needs

- A deferred annuity can be used by someone who wants to build his pension which becomes payable on his retirement. There is also an option of taking a lumpsum amount on the vesting date instead of a stream of regular income which can be used to pay a home loan.
- A similar arrangement can be made possible by taking an endowment assurance and then buying an immediate annuity from the benefit receivable when the endowment policy matures

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Deferred annuity

Existence of a group version

An employer can use a deferred annuity to secure pensions for his employees.

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Income drawdown

Definition

Under this arrangement, a fund is created over the years. Upon **maturity**, instead of buying an annuity using the fund, **it remains invested**, and the member **withdraws an amount** of the fund each year. Now the amount may be only the returns earned on the fund or may also include some of the fund capital.

An income drawdown contract is subject to certain legislations:

- There is a **limit** on the amount of fund that can be withdrawn each year
- A **maximum age** after which the drawdown must cease, and a pension needs to be purchased with the remaining fund amount

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Income drawdown

Use to meet customer's needs

Income drawdown contract comes with certain **risks and limitations**:

- If a member draws only the income earned on the fund each year, then the income varies greatly
- If a member draws a high amount of income each year, then his overall fund value might reduce to zero, leaving him dependent on the state for his future arrangements
- Administration charges for an income drawdown are too high
- There are chances that any remaining fund at the end of the drawdown period might be insufficient for the dependents
- The remaining fund amount may be subject to taxation

Existence of a group version

Income drawdown contracts are designed to be **sold to individuals**, because a group version where different members **draw different amounts of income** can be difficult and costly to administer

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Investment bonds

Definition

- The member pays a **single premium**, in return for a **higher lumpsum amount** to be paid **on death** or if there is a **fixed term**, then at the end of that term.
- The lumpsum amount paid on maturity or death is guaranteed to be no less than the premium amount, but the actual value will depend on the returns earned over the years. They are **unit-linked or index-linked**

Use to meet customer's needs

- They can be used as a means of **medium to long term** investment option.
- Members have the advantage of **withdrawing funds** from the bond, subject to a certain penalty in the initial years.
- If the bond is taken on a fixed term basis and the member dies before the term ends, then a **minimum guaranteed amount** is payable to the dependents

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Investment bonds

Existence of a group version

Investment bonds are sold on **an individual basis**, as preferences of each individual may vary making it difficult for a group version to fulfill the needs of each member and may also lead to high administration charges.

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Income protection insurance

Definition

- An income protection insurance, acts as a **regular source of income** for the member and his dependents, if the member is unable to earn in the event of an insured risks.
- Insured risks would typically consist of any **long-term illness** or **incapacity** to earn due to an accident.

Use to meet customer's needs

- The contract pays a **regular income**, till retirement and can be ceased if the insured is able to work again before retirement.

Existence of a group version

Employers may use this to provide a **sick pay scheme** to their employees.

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Critical illness insurance

Definition

This contract provides a **cash lumpsum** to the member on the **diagnosis of a critical illness**, such as a heart stroke, cancer, etc. This lumpsum can then be used to provide for nursing and other hospital expenditures. The critical illnesses covered by the contract will be **explicitly listed in the contract wording**.

Use to meet customer's needs

- It meets the important need for **financial security**, in the event of contracting the disease, which may leave the member incapable of earning.
- It reduces the burden on the dependents to **fund the treatment costs**.
- These contracts are **stand-alone** and there is no benefit payable on death of the member.
- It can however be provided as a **rider** along with some other contract such as a term, endowment or whole life assurance contract.

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Critical illness insurance

Existence of a group version

An employer may provide a stand-alone version of this contract to secure his employees finances in case of contracting a critical illness

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Key person cover

Definition

- A life or critical illness insurance taken to by a company to cover the **life of a keyperson**, i.e. someone without whom the business may find it difficult to function.

Use to meet customer's needs

The money given to the business on the happening of the insured event can be used to:

- **Buyout** the keyperson's share of partnership
- **Recover any losses** as a result of the loss of the keyperson
- Can be used to **cover the cost of recruiting**, hiring and training a replacement for the deceased keyperson

Existence of a group version

A company can have only a few particular keyperson. Hence a group version covering all the employees is unlikely.

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Long-term care insurance

Definition and use to meet customer's needs

- The contract can be used to help provide financial security against the risk of needing **either home or nursing home care** as an elderly person, post retirement.
- The contract pays a cash lumpsum or an annuity to contribute towards the cos of care in return for a single premium or a series of regular premiums.
- Claims can be made if the member is deemed disabled and is unable to perform day to day living activities.

Existence of a group version

A group version of the contract may be provided by the employer to cover the cost of care of his employees and their spouses or parents

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4 Investment Types

Without profit

- A **without profits** life insurance contract, is non-discretionary in nature, where the insurer has no thoughts on the level of benefits to be payable. **The benefit amount or the method of calculating it, is stated in the policy wording.**
- The policyholder knows the level of premiums and benefits at the outset. Only the surrender benefits if any will be left at the discretion of the insurer.

With profit

- The policyholder is entitled to receive **a share in the profits made by the company**. The level of profits he earns is at the discretion of the company. However, the members are also **promised a guaranteed amount** giving them some form of security.
- The primary purpose of with profits contract is to earn high expected returns on a member's savings, which is why the savings are invested in assets riskier than without profits contracts.

4 Investment Types

With profit

- The policy providers need to consider the following points, when **setting bonuses in a with profits contract**:
 - Not **all profits generated in a year**, need to be distributed among the members, some of it can be held back as a **buffer** for the years in which no profits may be earned.
 - **Expectations of the policyholders** based on the company's past performance, as well as the bonus provided competitors selling similar products.
 - The level of bonuses allowed by **regulation**



A 20-year conventional with-profit endowment assurance has a benefit comprising

- A guaranteed sum assured of \$20,000
 - Regular bonuses of 3% compound per year
 - A terminal bonus of 25% of the guaranteed sum assured plus regular bonuses
- Calculate the total maturity benefit for a policyholder who survives to maturity

4 Investment Types

Unit linked

Unit linked contracts are unitized contracts, whose **value of units** is directly linked to the **value of the underlying assets**.

- It involves investing the policyholder's funds into **pooled invested funds**.
- The benefit payable to the policyholder upon maturity is the **product of the number of units and the value of each unit minus any charges** levied by the insurer, thus adding a savings feature to the policy.
- A protection element of the policy would be if it promises a fixed sum or a fixed value of units, below which the benefit will not fall.
- Premiums are allocated to the **unit fund** which is the policyholder's fund and the **non-unit fund** which is the insurers fund.
- The insurer also levies different **charges** such as administration, fund management mortality charge on the unit fund. The **profits** for the insurer arises from the difference between the charges levied and the actual cost of these expenses and the cost of guaranteed death benefits.

4 Investment Types

Unit linked

- A unit linked contract enables consumers either to obtain a higher expected level of benefits for a given level of premium or a lower expected level of premium for a given level of benefits, than a non linked version of the contract. This happens because by accepting greater risk, the consumer expects a higher return at the expense of a possibility that the actual return might be lower than a non-linked contract.

4 Investment Types

Index linked

- This contract provides benefits, that moves in line with the **performance of an index** specified in the contract. The index may be an investment or an economic one. Premiums may be fixed or may move in line with the index.
- Indices may be **domestic or international** equity market indices

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5 Features of General Insurance Contracts

A **general insurance contract** is one that provides protection on anything apart from an individual's life. There may be a variety of general insurance contracts such as **fire, marine, motor, home, accident and other miscellaneous non-life insurance**.

These tangible assets are susceptible to damages and there arises a need to protect their **economic value**.

General insurance aims at reimbursing this loss in economic value. General insurance may be split into:

- **Personal lines:** when policies are sold to individuals such as motor and home insurance
- **Commercial lines:** when policies are sold to businesses such commercial property, employers' liability etc

5 Features of General Insurance Contracts

The **features** of general insurance are:

- They are short term in nature, usually for a single year and hence need to be renewed every year
- They offer the advantage of making multiple claims on the same asset
- Claim amounts are to the extent of damage to the asset, and are therefore not known in advance. There can be a fixed upper limit to the claim amounts
- Delays in claims reporting and settlement

5 General Insurance Terms

Short tail vs long tail business

- A **short tail** business is one where the insurance will be **made and settled quickly**
- A **long tail** business is where there high incurred but not reported (IBNR) claims, as they take a long time to be reported and settled.
- It is important to characterize insurance policies into short and long tailed business, as it determines the kind of **risks associated** with them and the kind of investments that need to be made to match them in terms of amount and timing.
- **Reporting delay** is the time from the occurrence of the event, till the time they are notified to the company.
- **Settlement delay** is the time from which the claim has been reported till the time it is settled. Administration processing, estimating the claim amount, determining whether the insurer is liable for a settlement etc. leads to settlement delays

5 General Insurance Terms

Underwriting

- Just like life insurance, underwriting in general insurance is used to measure the risk factor of a policy and to estimate the premium to be charged. Underwriting strategies vary with the type of general insurance.
- Information collected in the underwriting process form rating factors, which help in assessing the riskiness of a policyholder



A **rating factor** is a factor used to determine the premium rate of a policy, which is measurable in an objective way and relates to the likelihood and/or severity of the risk. It must therefore be a risk factor or a proxy to a risk factor. For example, rating factors that affect the premium of a home insurance would be the location of the house, the replacement cost, roof condition, age of the home, home safety and protection features such as fire alarms and sprinklers etc.

5 General Insurance Terms

Contract design

Just like life insurance companies, profitability is a key consideration for general insurance companies.

The cash inflows would be:

- Premiums net of any reinsurance premiums paid
- Investment income and gains

The cash outflow would be:

- Claims incurred net of any reinsurance recoveries
- Expenses and commission
- Tax

There is no increase in reserves for general insurance companies as it is accounted for under the claims incurred head.

5 General Insurance Terms

Setting premiums

- General insurance companies, estimate what is known as the **risk premiums**. They use sufficient past claims data and fit a distribution to the **claim frequency** and the **claim amount**.
- Risk premium = expected claims frequency × expected cost per claim
- The risk premium found is the **basic premium**. The risk premiums are then **adjusted for loadings** that account for commission, bonuses, expense, reinsurance cost etc.
- Insurance companies need to provide **competitive premiums** with respect to companies selling similar products. Charging the theoretical premiums may at times prove to be uncompetitive and may lead to the company losing out on business.



Suggest some rating factors that could be used for car insurance premiums

5 General Insurance Terms

Provisioning

Just like life insurance companies, regulations require general insurance companies to hold **reserves** to pay for future liabilities.

General insurance companies have to hold several reserves for:

- Outstanding reported claims reserve – for claims that the company knows of but haven't been settled yet
- Incurred but not reported (IBNR) reserve – for claims that have occurred but haven't been reported to the company
- Unexpired risk reserve – for claims and expenses relating to the unexpired periods of risk for which the insurer has already received premiums or expects to receive premiums
- Catastrophe reserve – for large number of claims arising at the same time due to unexpected disasters
- Claims handling expenses reserve

5 General Insurance Terms

New business strain

Like life insurance companies, general insurers need sufficient capital to overcome new business strain. The level of this strain is **directly proportional** to the level of business written and the risk associated with the new business.

The **risk factor** of new businesses is based on:

- Whether the it is a short tailed or a long-tailed business
- The claims frequency and volatility (presence of a heterogeneous business mix)
- The company's exposure to disasters e.g. if the company insures houses situated in earthquake prone areas
- The level of reinsurance rate for a particular class of business

5 General Insurance Terms

Investment strategy

- Insurance companies follow **asset-liability management strategy**, which is why it is important to consider the characteristics of their liabilities in terms of **value and timing** before making investment choices.
- Investment choices are often restricted due to regulations and the need to be tax efficient
- General insurance companies are exposed to **inflation risks** as most of the claim amount are settled in real terms.
- They need to hold **investments** in
 - Cash or assets that are highly liquid to cover uncertain liabilities that may arise out of the blue
 - Fixed assets such as bonds to meet liabilities that are certain to be met
 - Assets whose returns match the liabilities in their term
 - Assets denominated in domestic and foreign currency, to cover claim amounts for costs incurred overseas if the policy wording allows it
 - Real assets to cover inflation linked liabilities and expenses

5 General Insurance Terms

Risks faced by general insurance companies

Insurers write business on several lines and face a number of risks such as:

- Claims risk – claim amounts or frequency being higher than expected
- Accumulation of risks due to disasters which may affect an entire class of business
- Investment risk – returns being lower and more volatile and being unable to fulfil liabilities
- Expenses being higher than expected
- New business volumes being too high leading to a higher business strain or not getting enough business to spread the fixed costs
- Operational risks due to system failure or sudden changes in regulations
- Credit risk – failure of reinsurer to oblige his duties

5 General Insurance Terms

Monitoring experience

General insurers need to **monitor** claims experience, expenses, lapses and renewal rates, investment returns, reinsurance performance etc.

They will need to monitor for:

- Setting assumptions for premium rating
- Assess profitability and its substantial contributors
- Terms of reinsurance and if they need to be improvised to make them more favouring to the insurer
- Marketing for new and innovative contracts
- Determine an appropriate investment strategy

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- Income drawdown
- Investment bonds
- Income protection insurance
- Critical illness insurance
- Key person cover

- Long term care insurance

Investment types

- Without-profit
- With-profit
- Unit-linked
- Index-linked

General insurance

Features and terms of general insurance products

Categories of general insurance products

- Liability insurance, property damage insurance, financial loss insurance and fixed benefits

6 Categories of General Insurance



Typically, the intention of insurance benefits is to **indemnify** the insured, i.e., compensate the insured for financial loss as a result of the insured event. The **principle of indemnity** is to restore the insured to the same financial position after a loss as before the loss.

The type of cover provided by a general insurance product can be categorised into the following types with some products having elements of more than one type of this cover:

- Liability
- Property damage
- Financial loss
- Fixed benefits



A **peril** is a type of event, whether manmade (theft) or due to natural disasters (earthquake) that may cause losses.

6 Categories of General Insurance

Liability insurance

- Liability insurance provides some form of indemnity where the insured due to some form of negligence, is **legally liable** to **pay compensation** to a third party. Any legal expenses relating to such liability are usually covered, however any illegal act of negligence will often invalidate the cover.
- Unless the policy wording mentions any **reinstatement clause**, once a claim has been settled by the company, the level of cover provided for the rest of the year, will be reduced by the claim amount paid. If the policyholder wishes to **reinstate the original amount of cover**, he will be required to pay additional premium
- The benefit provided to **indemnify** the policyholder, will be such that covers the entire financial loss, however subject to any statutory requirements this amount may be restricted by
 - A maximum amount per claim or per event
 - An aggregate maximum per year
 - An excess where the first part of any claim is not paid

6 Categories of General Insurance

Liability insurance

? Suggest reasons for a company having an excess, where only claim amounts the excess are paid.

Types of liability insurance are:

- Employers' liability
- Motor third party liability
- Public liability
- Product liability
- Professional indemnity

6 Categories of General Insurance

Liability insurance

Employers' Liability

The insurance indemnifies the insured against the legal liability of paying employees or their dependents for accidental bodily injuries, disease or death as a result of the employer's incapacity in providing safe working conditions.

Motor Third Party Liability

The insurance company indemnifies the owner of a motor vehicle against compensation payable to third parties for death, personal injury or damage to their property. In most countries such as India, under the Motor Vehicles Act, it is mandatory for vehicle owners to purchase this policy, with or without an upper limit on the amount of compensation

Public Liability

The insured is indemnified against legal liability of paying compensation to third parties for death, bodily injury or damage caused to their property, other than those liabilities covered by other liability insurances. Public liability insurance is an umbrella term that covers different types of insurances under it.

6 Categories of General Insurance

Liability insurance

Product Liability

The insured is indemnified against the legal liability for the death of, or bodily injury or disease to a third party or for damage to property belonging to a third party, which results from a product fault. There could be a faulty design, faulty manufacturing, incorrect or misleading instructions etc.



A company producing rechargeable batteries was hit with numerous claims and lawsuits over its product causing fires and burn injuries when the batteries exploded while charging. The claims and defense cost totaled nearly \$200,000 which was paid by product liability insurance coverage



An insurance company is considering the information it will require from a company manufacturing talcum powder for babies in deciding whether to offer them a product liability cover, and if so then what price to charge. List the information you would advise the company to obtain.

6 Categories of General Insurance

Liability insurance

Professional Indemnity

The insured is indemnified against the legal liability resulting from negligence in the provision of a service eg. Unsatisfactory medical treatment or incorrect advice from a solicitor, actuary, etc with the perils depending on the insured's profession

6 Categories of General Insurance

Property damage insurance

The main purpose is to indemnify the policyholder against **loss or damage to material property**, with the benefit payable subject to any limits or excess at the time of the occurrence of the incident.

Household and Commercial Buildings Property

Here peril caused by fire is the principal peril insured against, but policies may also offer cover against others such as explosion, lightning, storm, flood and theft which may result in damage caused due to forceful entry

Moveable Property

This typically consists of household contents, which may include the insured's personal and household goods as well as the personal possessions of a visitor present at the time of the event, however policy wordings will precisely define what moveable property is covered by the company.

Motor Property

The perils include accidental or malicious damage to the insured vehicle and fire or theft of the vehicle. In many countries including the UK, this cover is typically provided with motor third party cover, whilst in some it is taken as a separate policy.

6 Categories of General Insurance

Property damage insurance

Marine Property and Aviation

Provides cover for damage to marine hull, marine cargo, marine freight and aviation insurance as a result of :

- Perils of the sea
- Fire
- Explosion
- Jettison
- Piracy

6 Categories of General Insurance

Financial loss insurance

The benefit provided is to indemnify against **financial losses** arising from a peril covered by the policy. Financial loss insurance can be categorized as follows:

Pecuniary Loss

Any insurance that mitigates financial losses such as mortgage indemnity insurance, which protects the insured against bad debts or the failure of a third party.

Mortgage indemnity insurance protects the lender, covers the risk of the borrower defaulting on his loan payments, or the sale proceeds from his property are insufficient in covering the actual loan amount.

Fidelity Guarantee Insurance

Covers the insured against financial losses caused by the dishonest actions by its employees (fraud or embezzlement). These will include loss of money or goods owned by the insured or for which the insured is responsible and reasonable fees incurred in establishing the size of the loss (fees paid to auditors and accountants)

6 Categories of General Insurance

Financial loss insurance

Business Interruption Cover

It indemnifies the insured against losses made as a result of not being able to conduct business for various reasons specified in the policy for example fire in the insured's office space.

Cyber Insurance

It is a specialty insurance product intended to protect the businesses from internet-based risks, and risks relating to information technology infrastructure and activities such as hacking, phishing, viruses. It covers pecuniary losses, fidelity guarantee and business interruption cover losses for a business. They are different from traditional insurance policies.

6 Categories of General Insurance

Fixed benefits

Personal Accident Insurance

Benefits are pre-specified amounts that are payable if the insured or his family member suffers the loss of one or more limbs or any other specified injury. This is not an indemnity insurance as it is impossible to quantify the loss of a limb.

Health Insurance

Its fundamental benefit is to provide money for medical treatment. It is a form of indemnity insurance, where benefits are fixed irrespective of the actual cost of treatment. Hospital expenses plans also exist, that pay a fixed amount for each day the patient is treated at the hospital as an in-patient.

Health insurance is a broad term that provides covers such as income protection, critical illness, long-term care, private medical insurance.

Unemployment Insurance

This provides a lumpsum or an income stream usually up to a year, in the event of the policyholder losing his job. The purpose of the benefit is to provide an additional source of income to maintain his lifestyle or pay any debts till the time he is employed again.

Topics covered

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