

NON-LIFE INSURANCE ASSIGNMENT

1. The premium collected by an insurance company for the portion of a policy that has expired

is called:

- a) Unearned premium
- b) Net direct premium
- c) Earned premium
- d) Underwritten premium

Answer: (c) Earned Premium

2. How is surplus reinsurance similar to quota share reinsurance?

- a) The reinsurer and reinsured's share of the claim is proportionate.
- b) The reinsured retains a more homogeneous portfolio.
- c) The reinsurer's share of the claim is a multiple of the reinsured's retention.
- d) The share of the reinsured and reinsurer differs from cession to cession.

Answer: (a) The reinsurer and the reinsured's share of the claim is proportionate.

3. An individual loss on an insured risk triggers the reinsurance coverage if it exceeds the

deductible, is described as an excess of loss per risk treaty.

- a) True
- b) False

Answer: (a) True

4. Non-proportional reinsurance is usually expressed as a percentage of the risk a reinsurer is

taking from the primary insurer.

- a) True
- b) False

Answer: (b) False

5. A reinsurance contract is a contract of indemnity.

- a) True
- b) False

Answer: (a) True

6. What is reinsurance? Discuss the types of reinsurance with examples.

Answer: Reinsurance- a form of insurance purchased by insurance companies in order to mitigate risk. With reinsurance, the company distributes some part of its own insurance liabilities to the reinsurers. **Types of Reinsurance-**

- a. **Proportional Reinsurance-** The insurer and the reinsurer share the costs of all claims. Proportional reinsurance is further divided into-
 - i. **Quota Share Reinsurance-** The insurer and reinsurer share all losses and premiums according to a percentage decided by both parties in a contract.
E.g.- In a contract that specifies a retained percentage of 75%, The reinsurer is obligated to 25% premiums and 25% claims.
 - ii. **Surplus Share Reinsurance-** A contract in which the ceding insurer retains a fixed amount of policy liability and the reinsurer takes responsibility for what remains.
E.g.- In a retention of 2Million in a policy with a total coverage of 5Million, the Reinsurer is obligate to pay the remaining 3Million.
- b. **Non Proportional Reinsurance -** Under a non-proportional reinsurance arrangement, the initial insurer writer pays a fixed premium to the reinsurer. The reinsurer will only be required to make payments where part of the claim amount falls in a particular limit.
 - i. **Individual excess loss-** Reinsurer makes a payment when the claim amount for an individual claim exceeds a specified excess point also called as retention.
E.g.- If an excess point of 1M has been specified, then the reinsurer would be obligated to pay the insurer when the claim amount exceeds 1M.
 - ii. **Stop Loss Reinsurance-** the reinsurer will be obligated to make payments if the total claim amount for a specified group of policies exceeds a specified amount.
E.g.- If the contract states a stop loss limit of \$500K, then the reinsurer will be liable to pay all claims over that amount.

7. How is stop loss reinsurance different from excess of loss reinsurance.

Answer: Both Excess of loss and Stop loss reinsurance are responsible for claims that exceed a specified limit. However, one trait that differentiates between the two is that Excess of Loss reinsurance has an upper limit above which the reinsurer is not liable to pay. Stop Loss on the other hand does not have an upper limit and the reinsurer is obligated to pay anything above the specified limit not matter how high the claims go.

8. Discuss the various ratios used in profit analysis of reinsurance.

Answer: Ratios used in Profit Analysis of Reinsurance-

- a. **Net Written Premiums-** sum of premiums written by an insurance company over the course of a period of time, less premiums ceded to reinsurance companies, plus any reinsurance assumed.

- b. **Earned Premium**-Sum of Premiums that are collected by an insurance company for the portion of a policy that has expired.
- c. **Net Earned Premium**- The net written premium recorded during the experience period, plus the unearned premium reserves at the beginning of the period, minus the unearned premium reserves at the end of the period.
- d. **Net loss ratio**- “Net Claims Incurred” divided by “Net Earned Premium”
- e. **Net Expense ratio**- “Expenses” divided by “New Written Premium”
- f. **Net Commission ratio**- “Commission” divided by “Net Written Premium”
- g. **Net Combined Ratio**- the sum of loss ratio, commission ratio and expense ratio.

9. Write about the history of general insurance in India.

Answer: History of General Insurance in India-

- a. First General Insurance company in India was Triton Insurance Company Ltd. Established in Calcutta in 1850 AD.
- b. Indian Mercantile Insurance Company Ltd was established in Bombay in 1906.
- c. Later, 107 insurers were amalgamated and grouped into 40 companies namely- National Insurance Company Ltd, the New India Assurance Company Ltd, the Oriental Insurance Company Ltd and the United India Insurance Company Ltd.
- d. The General Insurance Corporation of India was incorporated as a company in 1971 and it initiated business on January 1st 1973.

10. Calculate combined ratio using the following information: expenses amount to \$8500,

commission is \$5700, net claims incurred in the period amount to \$150000. The net written

premium is \$50000 and net premium earned is \$75000.

Answer: