Non Life Insurance
Assignment 1

A1 True.

A2. Often times a profitable venture may come in front of an insurance company which carries a risk of loss greater than his retention limit. In such cases to minimize the risk of loss the insurer might transfer a part of the risk by insuring it with another insurer. Reinsurance is thus the practice of spreading out the risk an insurance company bears by insuring the policies with another insurer.

The two major types of reinsurance are proportional reinsurance and non-proportional reinsurance.

i) Proportional reinsurance: Under this, the original insurer retains a certain proportion of the risk and shares the cost of all claims with the reinsurer. It is of two types. Quota share reinsurance is where proportion of risk is the same for all claims. For example for a certain health insurance policy, the ceding company may retain 50 percent of the premium and be liable for ~~50~~ paying 50 percent of the claims whatever they may be. Surplus share reinsurance is a contract where the proportion to be paid by the ceding company is varied.

ii) Non Proportional reinsurance: Under this the original insurer has to make payments of premiums to the reinsurer who meets claims above a certain amount. Here, if the claim exceeds a certain retention limit of the ceding company, the reinsurer is required to make the payment. Such contracts usually have a lower limit which is the retention limit and may or may not have an upper limit. It can be of two types:

a) Individual excess of loss insurance is when the reinsurer is required to make payment when the loss amount on a particular claim exceeds the retention limit. For example Bajaj Allianz has insured a building for 3 lakh rupees with a retention limit of 1 lakh rupees. When the claim comes, Bajaj pays only 1 lakh and the rest is paid by the reinsurer.

b) Stop loss insurance is when a reinsurer has to pay when the total claim amount for a specific group of policies exceeds a specified amount. For example, if losses for the ceding company for a certain policy exceed a specified amount for a year, the reinsurer pays for anything above the specified amount.

A3 Some of the ratios used in the profit analysis of reinsurance are:

i) Underwriting Profit : GWP – GIC – Expenses – Commission
It consists of earned premium remaining after losses have been paid and administrative expenses have been deducted.

i) Net Loss Ratio : $\frac{\text{Net claims incurred}}{\text{Net premium earned}}$

It expresses the ratio of losses to premiums earned. Losses include paid insurance claims and adjustment expenses. Loss ratios help discern the profitability and financial health of the company. As it is the ratio of loss to premiums earned, a high loss ratio indicates that the company is in financial distress.

ii) Net Expenses Ratio : $\frac{\text{Expenses}}{\text{Net Written Premiums}}$

It helps to measure profitability by dividing the expenses of the insurance company by net premiums earned. The expenses refer to the costs associated with acquiring and underwriting premium

iii) Net Commission Ratio : $\frac{\text{Commission}}{\text{Net Written Premiums}}$

This ratio measures the commission the company pays against the premiums it earns. The higher this ratio is it indicates that the company pays higher commission to its middlemen.

iv) Net Combined Ratio: loss ratio + expense ratio + Commission ratio

It gives a picture of the company's financial position. The various components of the combined ratio must be studied seperately as well as together for a fuller understanding.

A4 A motor insurance policy is one which is taken to cover any loss to a motor vehicle or loss arising from damage as a result of a motor accident. There are many exclusions under a motor insurance policy such as:

a) Driving under the influence
b) Driving without a valid driving license
c) Consequential damages which are damages incurred not during the accident claimed for.
d) Accident taking place beyond the geographical limits.
e) Contributory Negligence which is when the driver does something unlawful or something he is not supposed to do.
f) Add ons not bought such as tyres or tubes
g) Learner's license holders if they are driving without a license holder.
h) Depreciation or wear and tear.

A5 General Insurance is any policy that covers assets and valuables such as vehicle, home, travel and health against damage, loss, theft or other such liabilities. General Insurance in India started with the establishment of the Triton Insurance Company ~~A~~ in Calcutta by the British in the year 1950. In the year 1907, the Indian Mercantile Insurance Ltd was the first company to transact all classes of general insurance. In 1972 with the passing of the General Insurance Business (Nationalisation) Act, general insurance was nationalized. In 1999 the Insurance ~~an~~ Regulatory and Development Authority (IRDA) was constitu as an autonomous body to regulate and develop the insurance industry and was incorporated as a statutory body in April, 2000. Today there are 34 general insurance companies including the ECGC and Agriculture Insurance Corporation of India.

A6 For Combined Ratio first we must calculate the net loss ratio, the net expenses ratio and the net commission ratio seperately.

$$\text{Net Loss Ratio} = \frac{\text{Net Claims Incurred}}{\text{Net Premium Earned}} = \frac{150000}{75000} = 2$$

$$\text{Net Expenses Ratio} = \frac{\text{Expenses}}{\text{Net Written Premiums}} = \frac{8500}{50000} = 0.17$$

$$\text{Net Commission Ratio} = \frac{\text{Commission}}{\text{Net Written Premiums}} = \frac{5700}{50000} = 0.114$$

$$\text{Combined Ratio} = 2 + 0.17 + 0.114$$
$$= 2.284$$

A7) A motor insurance policy may be purchased with add ons to enhance the coverage of the base policy. Some of them are:

a) No Claim Bonus
b) Nil Depreciation cover
c) Engine Protection Cover
d) Consumable Cover
e) Return to Invoice Cover
f) Roadside Assistance Cover
g) Tyre Protection Cover
h) Loss of Personal Belongings Cover
i) Key Replacement Cover
j) No Claim Bonus Retention

A8) The documents required to claim health insurance are as follows

a) A health card
b) A duly filled claim form
c) A medical certificate / form duly filled by the treating doctor
d) A discharge summary or card availed from the hospital
e) All bills and receipts (original)
f) Prescriptions and cash memos from the pharmacies or the hospital
g) An investigation report
h) If it is accident case then an FIR or a Medico Legal certificate (MLC) is required.

A9) Third Party Liability Insurance is that insurance which protects you from the damages resultant of being sued or being threatened to be sued for a physical damage to someone else or their property. This is a part of a home or a car policy which covers legal fees, settlement expenses or any other related expenses and is also called 'legal liability coverage'. For example, if the car of the policy holder crashes into another car causing injury to the other driver, third party liability insurance will cover the liability of the policyholder. It will also cover damage to the car of the third party. In case of lack of personal cover, injury to self can also be added on to the policy. But the policy does not cover damage to own property.

These are two types of automobile third party coverage. Firstly, body injury liability covers costs resulting from injury to person. This includes hospital expenses, lost wages and pain and suffering damages. Secondly, property damage liability covers damages to property.

Some examples of third party liability coverage includes if while riding a bike you ram into a pedestrian or while cutting a tree into in your house it falls onto your neighbour's car.

A10) There are 7 types of health insurance products :

1) Based on Payout :

a) Indemnity based products - These reimburse the covered person for incurred medical expenses. For example retail health insurance group health insurance products etc.

b) Based on Fixed Benefit - Under this a lumpsum amount is paid on occurence of the covered perils. Examples for this are personal accident, critical illness and hospital cash.

c) Classification based on segment - This is insurance provided to certain segments such as retail, group, employer - employee etc.