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Non Life Insurance - PPP

Roll no. 51
LoKit Nagi

Assignment 1

1. a) True

2. Reinsurance is a form of insurance purchased by insurance companies in order to mitigate risk. Hence, it protects insurance companies from financial ruin, thereby protecting the companies customers from uncovered losses.

Types of Reinsurance → • Proportional Reinsurance
→ With Quota Share Reins.
→ Surplus Loss Reinsurance
• Non Proportional Reinsurance
→ Excess of Loss Reinsurance
→ Stop Loss Reinsurance

• Quota Share Reinsurance,

→ The reinsurer pays a fixed proportion of the Size of claim.

Let claim = A, B = amt. paid by reinsurer.

Then, $B = XA$, where 'X' is the proportion (fixed) to be borne by reinsurer.

Eg. Claim amt - ₹. 1,00,000
Proportion of Reinsurer = 20% i.e. 0.2
Amt. paid by reinsurer = 0.2 (1,00,000)
= ₹ 20,000

→ This 'Quota Share Insurance is also Known as 'Standard Proportional Insurance'

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- ## Surplus loss Reinsurance / Surplus Treaty

→ A type of reinsurance treaty in which the ceding insurer retains a fixed amount of policy liability and the reinsurer takes responsibility for what remains.

→ In Surplus treaties, a retained line is fixed.

For eg. → Policy X ~~insurer~~ ~~Policy Y~~

Cover ₹. 1,00,000
Premium ₹. 1000
Claim ₹. 10,000

→ Here, retained line is ₹25000.

In ~~f~~ policy X,

Insurance Comp. Reinsurance Comp.

To ~~pay~~ cover ₹. 25000 (25% of claim amt.)
Prem. ₹. 250
To pay (claim) ₹. 2500

- ## Excess of Loss Reinsurance

→ In this type of reinsurance, insurance company will bear the claim upto a retention level. The claim above retention level will be met by reinsurance company, upto ~~an~~ a limit called 'upper limit'.

For eg. → Retention level → ₹. 50,000
Claim → ₹. 1,20,000
Upper limit → ₹ 50,000

Out of Claim, ₹120000 — ₹50000 Insurer
— ₹50000 Reinsurer
— ₹20,000 Insurer (above upper limit)

Loss borne by → Insurer → ₹70,000
Reinsurer → ₹ 50,000

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- Stop Loss Reinsurance.

→ Stop loss reinsurance is a type of excess of loss reinsurance wherein the reinsurer is liable for the insured's losses incurred over a certain period that exceed a specified amount of percentage of some business measure, such as earned premiums written, upto the policy limit.

For eg:-
If a one year stop-loss reinsurance policy is purchased on a portfolio of insurance risks that earns \$20m in premiums with a 75% stop loss. Then, reinsurance company would pay for any excess losses if that portfolio were to pay out over \$15M in claims.

3. The ratios used in profit analysis of reinsurance:-

- Net Loss Ratio = $\dfrac{\text{net claims incurred}}{\text{net earned premium}}$

- Net Expense Ratio = $\dfrac{\text{expenses}}{\text{net written premium}}$

- Net Commission Ratio = $\dfrac{\text{commission}}{\text{net written premium}}$

- Net combined Ratio = Net Loss Ratio + Net Expense Ratio + Net Commission Ratio

- Incurred Loss Ratio = The percentage of losses incurred to premiums earned.

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4. General exclusions under a motor insurance policy :-

- Damage incurred if the insured is driving under influence of alcohol.
- While vehicle is used for unlawful purposes.
- Damage to tyres and tubes unless the vehicle is damaged at the same time.
- Damage due to wear and tear, depreciation.
- Not having a valid driving license.
- Electrical / mechanical breakdowns
- Accident taking place beyond Geographical limits.
- Damage incurred during war, or due to Racing.

5. History of General Insurance in India :-

- General Insurance in India has its origin in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British.
- In 1907, The 'Indian Mercantile Insurance Ltd.' was set up. This was the first company to carry out all classes of general insurance business.
- In 1972, with passing of the General Insurance business (Nationalisation) Act, general insurance business was nationalized with effect from 1st January, 1973.
- 107 insurance companies were amalgamated and grouped into four companies, namely
  → The New India Assurance Company Ltd.
  → National Insurance Company Ltd.
  → The Oriental Insurance Company Ltd.
  → The United India Insurance Company Ltd.

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- The General Insurance Corporation of India was incorporated as a company in the year 1971 and it commence business on January 1st, 1973.

6. expenses = \$8,500
commission = \$ 5,700
net claims incurred = \$1,50,000
net written premium = \$50,000
net premium earned = \$75,000

To Calculate → Combined Ratio

Method 1 Combined Ratio = Loss Ratio + Net Commission ratio + expense ratio

Loss ratio (here) = $\frac{\text{net claims incurred}}{\text{net written premium}} = \frac{150000}{50000} = 3$

Net comm. ratio = $\frac{\text{Commission}}{\text{NWP}} = \frac{5,700}{50,000} = 0.114$

Expense ratio = $\frac{\text{expenses}}{\text{NWP}} = \frac{8,500}{50,000} = 0.17$

Hence,
Combined Ratio = $3 + 0.114 + 0.17 = \boxed{3.284}$

Method 2 Combined ratio (here) = $\frac{\text{NIC} + \text{expenses} + \text{commission}}{\text{NWP}}$

$= \frac{150000 + 8500 + 5700}{50000} = \boxed{3.284}$

(As RI ceded ie. premium ceded is not given, it is assumed that GIC = NIC and GWP = NWP.)

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7. Add ons available on a motor insurance policy:-

- Nil Depreciation
- Total Cover
- No Claim Bonus
- No Claim Bonus Retention Add on cover
- Engine protection cover
- Consumables cover
- Tyre protect cover
- Key replacement
- Return to invoice
- Roadside Assistance
- Loss of Personal belongings

8. The documents required to claim health insurance are:-

- All original bills and receipts
- Health card
- Prescription and cash memos from hospital / pharmacies.
- ~~All~~ Duly filled claim form
- Investigation report
- In case of accident, the FIR or Medico Legal Certificate (MLC) is required.
- Medical Certificate / Form signed by treating doctor
- Discharge summary or card (original), availed from the hospital.

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9. Third Party Liability Insurance Cover

- This cover protects us against the loss and damage that occured to the third party vehicle or property that causes someone's death or injury due to our vehicle.
- It is mandatory to buy a third party liability cover under the law of motor vehicle act, 1988.
- Damages to own car is not covered under third party cover.
- When the policyholder collides with the car of a third party leading to death or bodily injury to the third party, your liability to the third party is covered by the insurer.
- The Third party insurance premium is fixed by the Insurance Regulator on the Cubic Capacity of the vehicle and premium can be changed by IRDAI.

10. Types of Health Insurance Products

1) Individual Health Insurance
2) Critical Illness Insurance
3) Senior Citizen Health Insurance
4) Family Health Insurance
5) Personal Accident Insurance
6) Group Health Insurance
7) Mediclaim