

NON-LIFE INSURANCE ASSIGNMENT 1

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1. A reinsurance contract is a contract of indemnity. True or false?

True

2. What is reinsurance? Discuss the type of reinsurances with examples.

Reinsurance is a form of insurance purchased by insurance companies in order to mitigate risk. With reinsurance, the company passes on some of its own insurance liabilities to the other insurance company.

There are two types of reinsurance: Proportional and non-proportional, which further have more types.

Proportional reinsurance- the original insurance company and the reinsurer share the cost of all claims

- i) Quota share insurance – Reinsurer and writer share all premiums and losses according to a percentage. For example: Bajaj Allianz enters into a reinsurance contract with Munich Re with a retained proportion of 80%. This means Bajaj Allianz pays 80% of the claim amount and gets to keep 80% of the premium received. Munich Re has to pay 20% of the claim amount and receives 20% of the premium.
- ii) Surplus share reinsurance : A surplus share treaty is a reinsurance treaty in which the ceding insurer retains a fixed amount of policy liability and the reinsurer takes responsibility for what remains. Surplus share treaties are considered pro-rata treaties and are most commonly used with property insurance. For example: HDFC Ergo forms a surplus share reinsurance contract with Swiss Re and

underwrites policies with a coverage of Rs 50,00,000 with retention of Rs 20,00,000. The remaining 30,00,000 are ceded to reinsurer.

Non-Proportional insurance - Under a non-proportional reinsurance arrangement, the direct 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 reinsurance layer.

- i) Individual excess loss: : reinsurer makes a payment when the claim amount for an individual claim exceeds a specified excess point or retention.
- ii) Stop loss reinsurance: The reinsurer is liable for the insured's losses incurred over a certain period that exceed a specified amount or percentage of some business measure, such as earned premiums written, up to the policy limit. Under this kind of policy, the direct writer agrees to carry the full burden of the loss up to a limit, L and claim amount exceeding L is paid by the reinsurer.

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

The various ratios used in profit analysis of reinsurance are as follows:

- i) Combined ratio - indicates the profitability of an insurance company from its insurance business. It does not include the impact of investment income impact. Following is the formula for the calculation of the combined ratio.

Combined ratio = Loss ratio + net commission ratio + expense ratio

- ii) Loss ratio - - The percentage of losses (claims) incurred to premium earned during the period. It is indicator of as insurer's underwriting discipline and skill at mitigating risk
Loss ratio = Incurred losses / Earned premium
- iii) Net commission ratio - represent the cost of obtaining the insurance business. It includes the intermediaries' commission net of reinsurance commission other related expenses which relates to acquisition of business
Net commission ratio = (Acquisition cost – RI commission) / NWP
- iv) Expense ratio- It is calculated as underwriting expenses divided by net written premiums, the expense ratio measures an insurer's efficiency
Operating exp ratio = Operating expenses / NWP

4. List the general exclusions under a motor insurance policy.

The general exclusions under a motor insurance policy are as follows:

- i) Not having a valid Driving License
- ii) Under Influence of intoxicating liquor/drugs
- iii) Accident taking place beyond Geographical limits
- iv) While Vehicle is used for unlawful purposes
- v) Electrical/Mechanical Breakdowns
- vi) Damage to tyres and tubes unless the vehicle is damages at the same time
- vii) Consequential loss, depreciation, wear and tear

5. Write about the history of general insurance in india.

Triton Insurance company Ltd., established in Calcutta in 1850 AD

- Indian Mercantile Insurance company Ltd. started in Bombay in 1906-07 107 insurers were amalgamated and grouped into four companies, namely - National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd.
- The General Insurance Corporation of India was incorporated as a company in 1971 and it commenced business on January 1st 1973.

6. Calculate combined ratio using the following information: expenses amount to \$8500, commission is \$7500, net claims incurred in the period amount to \$150000. The net written premium is \$50000 and net premium earned is \$75000.

Expenses = 8500, commission = 5700, net claims = 150000, net written premium = 50000, net premium earned = 75000

Loss ratio = incurred losses / earned premium = 150000/75000 = 2.0

Net commission ratio = (Acquisition cost – RI commission) / NWP = 5700/50000 = 0.114

Expense Ratio = operating expenses / NWP = 8500/50000 = 0.17

Therefore, Combined ratio = Loss ratio + Net commission ratio + expense ratio = 2.0+0.114+0.17 = 2.284 = 228.4%

7. List the various add-ons available on a motor insurance policy.

Add-ons for motor insurance:

- Zero Depreciation cover
- Engine protect cover
- Return to invoice cover

- iv) Loss of personal belongings cover
- v) No claims bonus protect cover
- vi) Personal accident cover for passengers
- vii) Key replacement cover
- viii) Roadside assistance cover
- ix) Consumables cover
- x) Daily allowance cover

8. List the documents required to claim health insurance.

Documents required to claim health insurance policy are:

- i) Health card
- ii) Duly filled claim form
- iii) Medical Certificate/ Form which is signed by the treating doctor.
- iv) Discharge summary or card (original), availed from the hospital.
- v) All bills and receipts (original)
- vi) Prescription and cash memos from pharmacies/ the hospital.
- vii) Investigation report
- viii) If it is an accident case, then the FIR or Medico Legal Certificate (MLC) is required.

9. Explain in detail Third Party Liability Insurance cover.

Third Party Liability cover:

Third-party liability coverage is the portion of an insurance policy that protects you if you're sued (or threatened to be sued) for a physical injury or damage to someone else's property. Also referred to as "legal liability coverage," this section of your home or car insurance policy is set up to cover things like legal fees, the amount of money you have to pay to settle a lawsuit, and other related expenses.

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. It also covers damage to property of third party caused by policyholder's car. Damages to own car is not covered under third party cover. There are two types of automobile third-party liability coverage. First, bodily injury liability covers costs resulting from injuries to a person. These injuries' costs could include expenses like hospital care, lost wages, and pain and suffering due to the accident. Second, property damage liability covers costs resulting from damages to or loss of property. Examples of property damage include the payment to replace landscaping and mailboxes, as well as compensation for loss of use of a structure.

10. List any 7 types of health insurance policies.

Types of health insurance products:

- i) Individual health insurance
- ii) Family health insurance
- iii) Critical illness insurance
- iv) Senior citizen health insurance
- v) Top up health insurance
- vi) Mediclaim
- vii) Personal accident insurance