Non-life Insurance.

Assignment - 1 (Unit 1 & 2)

Ajay Dhandha. - 09

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

2. How is surplus reinsurance similar to quota share reinsurance ~~the reinsurance~~ the reinsurer and 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 - True.

4. Non-proportional reinsurance is usually expressed as a percentage of the risk a reinsurer is taking from the primary insurer.
- True

~~5~~

5. A reinsurance contract is a contract of indemnity.
- False

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

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

~~Re~~

Types of Re insurance :-

- Proportional
  - Quota share
  - Surplus
- Non-Proportional.
  - Individual excess loss
  - Stop loss.

- Proportional Re-insurance :- the direct writer (original insurance company) & re-insurer share the cost of all claims. It's of 2 types :-

  1. Quota share - Re insurer and writer share all premiums and losses according to a fixed percentage.

  eg :- Bajaj Allienz enters into reinsurance contract with Munich Re with 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.

  2. 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 reinsurance takes responsibility for ~~that~~ what remains. Surplus share treaties are considered pro-rata treaties and are most commonly used withe property insurance.

- Non-proportional Reinsurance :- Under a non-proportional reinsurance arrangement, the direct writer pays a fixed premium to the reinsurer. The re-insurer will only be required to make payments where part of the claim amount falls in a particular reinsurance layer.

1. <u>Individual</u> <u>excess loss</u>:- reinsurer makes a payment when the claim amount for an individual claim exceeds a specified excess point or retention.
eg:- Apollo enters into a reinsurance treaty with Swiss Re and reinsurance layer is fixed at 50 lac to 1cr.

2. <u>Stop loss</u> <u>reinsurance</u>:- the reinsurance 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 full burden of loss upto a certain limit, L and claim amount exceeding L is paid by reinsurer.
eg:- Acko enters into a reinsurance contract with Munich Re and the contract indicates that the insurance company, Acko is responsible for losses up to $500000, but that the reinsurance company, Munich Re is responsible for anything above that limit.

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

Ans: In excess of loss reinsurance, the insurer will pay any claim in full up to an amount M, the retention level; any amount above M will be borne by the reinsurer. ~~The reinsurer~~ The excess of loss reinsurance arrangement can be written in the following way; if the claim is for amount X, the insurer will pay Y where:-

~~Y=M~~ $Y = X \quad ; X \le M$

$Y = M \quad ; X > M$

The reinsurer pays the amount $Z = X - Y$

Stop loss reinsurance:- This does not work on aggregate claim basis. It protects the insurer from suffering losses that exceed a certain limit over the course of year. For instantce, if an insurance company's total losses exceed 75% of its earned premiums, the reinsurer would pay for the losses up to a coverage limit. With stop loss reinsuronce, the part paid by the reinsurer is not determined by the aggregate claims of the individual policy, only by the aggregate claims of the whole portfolio. The amount covered by the direct insurance compan is called deductible.

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

Ans:-

1. Net written premiums:- It is the sum of premiums written by an insurance company over the course of a period of time; less premiums ceded to the reinsurance company, plus any reinsurance assumed.

2. Earned Premium:- the re premium collected by an insurance company for the portion of a policy that has expired. The earned premium is what the insured party has paid for a portion of time in which the insurance policy was in effect, but has since expired.

3. Net loss ration $= \dfrac{\text{net claims incurred}}{\text{net earned premium.}}$

4. Net expense ratio = $\frac{\text{expenses}}{\text{net written premium}}$

5. Net commission ratio = $\frac{\text{commission}}{\text{net written premium}}$

6. Net combined ratio = is the sum of loss ratio, expense ratio and commissioned ratio.

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

Ans:-

- Triton Insurance Company Ltd, established in Calcutta in 1850 AD.
- Indian Mercantile Insurance company Ltd. started in Bombay in 1906-07 107 insurer 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 Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1st 1973.

10. expense - \$8500, commission - \$5700, net claims incurred - \$150000, net written premium - \$50000, net earned premium - \$75000.

loss ratio = $\frac{150000}{75000} = 2$

Expense ratio = $\frac{8500}{50000} = 0.17$

commission ratio = $\frac{5700}{50000} = 0.114$

Combined ratio = $2 + 0.17 + 0.114 = 2.284$