Non-Life Insurance Assignment 1

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Q1) Earned Premium

Q2) The reinsurer and reinsureds share of claim is proportionalte [illegible].

Q3) True.

Q4) False

Q5) True

Q6) What is reinsurance? Discuss the types of reinsurance. with examples.

Reinsurance is an insurance purchased by insurance companies in order to mitigate their own risk. With reinsurance, the company can pass on a percentage of its own insurance liabilities to other insurance company.

① Proportional Reinsurance -

Under this reinsurance arrangement the direct writer and the reinsurer share the cost of all claim for all claims for each risk.

For example, a particular car is insured against damage, the direct writer might retain 65% of premium and will be liable to pay 65% of the claim. The direct writer will have to pay 35% of the premium to the reinsurance company and the reinsurance company will be liable to pay 35% of the claim.

Proportional reinsurance operates in two forms:

- Quota share reinsurance: where the proportions are same for all the risk.
- Surplus reinsurance: the proportions can vary from one risk to the next.

② Non-proportional reinsurance.

Under this agreement, the direct writer pays a fixed amount of premium to the reinsurer, the reinsure will only have to payout if the claims fall in a particular insurance layer where the limits are defined. For example between (25 Lakh to 50 Lakh).

Two types of non-proportional reinsurance.

- Individual excess loss reinsurance: the reinsurer will be required to make a payment when the claim amount of an individual exceeds a specified excess.
- With stop loss reinsurance: the reinsurer will be required to make a payment when the claim amount of a group of policies exceeds a specified excess.

Q7) How is stop loss reinsurance different from excess loss reinsurance?

With stop loss reinsurance, the amount paid by the reinsurer is determined by the aggregate claims of the whole portfolio, and not by the aggregate claims of individual policy. where as in excess loss reinsurance the amount paid by the reinsurer is aggregated by individual policy claims.

Q8) Discuss various 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 = loss ratio + expense ratio + commission ratio

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Q9) Write about the history of general insurance in India.

Triton Insurance Company Ltd. introduced by British in Calcutta in 1850 AD. Indian Mercantile Insurance company Ltd started in Bombay around 1906-07. Approximatey 107 insurers were amalgamated and grouped into four companies named National Insurance Company Ltd, New India Assurance Company Ltd., Oriential Insurance company Ltd, and United India Insurance. The General Insurance Corporation of India was incorporated as a compay in 1971 and it commenced its business on January 1st 1973.

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Q10) Calculate Combined ratio using the following information: expenses amount to $85,000, commission is $5700, net claims incurred in the period amount to $150,000. The net written premium $50,000 and net premium earned is $75,000

Net combined ratio = loss ratio + expense ratio + commission ratio.

$$\text{Loss ratio} = \frac{\text{net claims incurred}}{\text{net premium earned}} = \frac{150{,}000}{75{,}000} = 2.$$

$$\text{Expense ratio} = \frac{\text{expenses}}{\text{net written premium}} = \frac{85{,}000}{50{,}000} = 1.7$$

$$\text{Commission ratio} = \frac{\text{commission}}{\text{net written premium}} = \frac{5{,}700}{50{,}000} = 0.114$$

$$\text{Net combined ratio} = 2 + 1.7 + 0.114 = 3.814 \approx \frac{1907}{500}$$