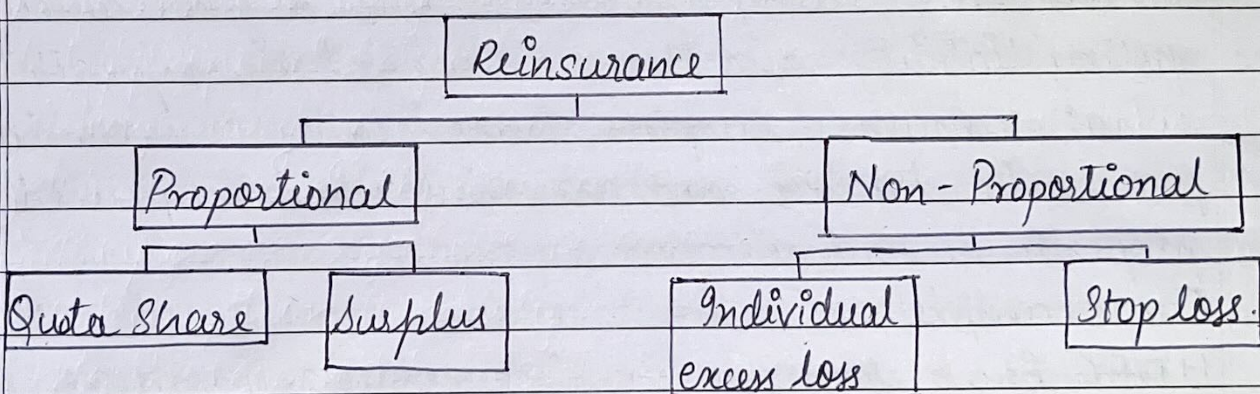
Assignment 1

Q1) A reinsurance contract is a contract of indemnity.

Ans. True

Q2.) What is Reinsurance? Discuss the types of reinsurance with examples.

Ans. Reinsurance is 'insurance for insurance companies', in other words a 'second level of insurance'. It 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.



Types of Reinsurance:

I] Proportional Reinsurance

The direct writer (original insurance company) & the reinsurer share the cost of all claims.

(1) Quota Share Reinsurance:

Reinsurance and writer share all premiums and losses according to a fixed percentage.

For example:

Bajaj Allianz enters into a reinsurance contract with Munich Re with retained proportion of 80%. This means Bajaj Allainz 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.

Retained Proportion denoted as α. Let X be the gross claim amount, Y be the net claim amount paid by the insurer and Z be the claim amount paid by the reinsurer. $\therefore$ $Y = \alpha X$ and $Z = (1-\alpha)X$

(2) Surplus Share Reinsurance:

A Surplus share treaty is a reinsurancy ~~policy~~ 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.

II] Non Proportional Reinsurance

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 ~~cla~~ claim amount falls in a particular reinsurance layer.

(1) Individual excess loss:

Reinsurer makes a payment when the claim amount for an individual claim exceeds a specified excess point or retention.

For example:

Apollo enters into a reinsurance treaty with Swiss Re and Reinsurance layer is fixed at 50 lac to 1 crore.

$Y = X$; $X < 50$ lac

$Y = 50$ lac ; 50 lac $< x < 1$ crore

$Y = X - 50$ lac ; $X > 1$ crore

$Z = X - 50$ Lac ; 50 Lac $< X < 1$ crore

$Z = 50$ Lac ; $X > 1$ crore.

(2) 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 (insurance company) agrees to carry the full burden of loss up to a limit, L and claim amount exceeding L is paid by the reinsurer.

For example:

Acko enters into a reinsurance contract with Munich Re and the contract indicates that the insurance company Acko is responsible for losses up to \$500,000 but that the reinsurance company, Munich Re is responsible for anything above that limit.

$Y = X$; $X < L$

$Y = L$; $X > L$

$Z = X - L$; $X > L$

Q3) Discuss the various ratios used in profit analysis of reinsurance.

Ans. The ratios are:

~~Profit before tax (PBT) = Underwriting result~~

(i) Net premium written is the sum of premiums written by an insurance company over the course of Period of time, less premiums ceded to reinsurance companies plus any reinsurance assumed.

(ii) Earned Premium is the premium collected by an insurance company for the portion of a policy that has expired.

(iii) Net Earned premium means the Net written premium recorded during the experience period plus the unearned premium reserves at the beginning of the period minus the unearned premium reserves at the end of period.

(iv) Net Loss Ratio = Net claims incurred / Net Earned Premium.

(v) Net Expense Ratio = Expenses / Net written premium.

(vi) Net Commission Ratio = Commission / Net Written Premium.

(vii) Net combined ratio is the sum of loss ratio, expense ratio & commission rati

(viii) Net claims incurred is the amount of claims incurred during an accounting period after deducting reinsurance recoveries.

(ix) Incurred Loss Ratio is percentage of losses incurred to premium earned

(x) Profit commission is commission over and above ceding commission offered by reinsurer to cedent to encourage good quality underwriting and probablity where cedent is insurance company the Reinsurer insures.

Q4. List the general exclusions under a motor insurance policy.

Ans. General exclusions under a motor insurance policy:

- Not having a valid driving license.
- Under influence of intoxicating liquor / drugs.
- Accident taking place beyond geographical limits.
- While vehicle is used for unlawful purposes.
- Electrical / Mechanical breakdowns.
- Damage to tyres and tubes unless the vehicle is damage at the same time.
- Consequential loss, depreciation wear and tear.

Q5. Write about the history of general insurance in India.

Ans. In India, insurance has a deep-rooted history. The history of General Insurance dates back to Industrial Revolution in the west and the consequent growth of sea-facing trade and commerce in the 17th century. It came to India as a legacy of british occupation. General Insurance in India has its roots 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 ~~set up~~ transact all classes of general insurance business.

1957, saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The general insurance council framed a code of conduct for ensuring fair conduct and sound business practices.

In 1968, the Insurance Act was amended to regulate ~~to~~ investments and set minimum solvency margins. The

Tariff Advisory Committee was also set up then.
In 1972 with the passing of the General Insurance Business (Nationalism) Act, general insurance business was nationalized with effect from 1st January, 1973. 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 ~~Company~~ Corporation of India was incorporated as a company in 1971 and it commence business on January 1st 1973.

Q 6:) Calculate combined ratio using the following information expenses amount to \$8500, commission is \$5700, net claims incurred in the period amount to \$150000. The net written premium is \$50000 and net premium earned is \$ 75000.

Ans.

Expenses = \$8500
Commission = \$5700
net claims in the period amt = \$150000.
NWP = \$ 50000
~~NPE~~ Net Premium Earned = \$ 75000.
Combined Ratio = ?

~~Combined Ratio = $\frac{\text{GIC + expenses + commission}}{\text{GWP}}$~~

Combined Ratio = Loss Ratio + Expenses Ratio + commission Ratio
Loss Ratio = $\frac{\text{Incurred Losses}}{\text{Earned premium}}$

$$= \frac{150000}{75000} \times 100 = 200\%$$

Loss Ratio = 200%

Combined Ratio = Loss Ratio + Commission Ratio + Expense Ratio.

~~= 200% +~~

$$\text{Commission Ratio} = \frac{\text{Commission}}{\text{NWP}}$$

$$= \frac{5700}{50000} \times 100$$

Commission Ratio = 11.4%

$$\text{Expense Ratio} = \frac{\text{Expenses}}{\text{NWP}}$$

$$= \frac{8500}{50000} \times 100$$

Expense Ratio = 17%

Combined Ratio = Loss Ratio + Commission Ratio + Expense Ratio.

= 200% + 11.4% + 17%

$$\text{Combined Ratio} = \frac{200 + 11.4 + 17}{100} = 228.4\%$$

Q7.) List the various add-ons available on Motor Insurance Policy.

Ans. Add-ons available on a Motor Insurance plan:

1) Zero depreciation cover - This is a popular motor insurance add-on plan that offers significant savings at the time of claim. It is also referred to as nil depreciation cover or bumper to bumper policy.

2.) Engine protect cover - A comprehensive motor insurance plan does not protect the vehicle from mechanical or electrical damages to the engine. Buying an engine protect cover offers your engine the much-needed protection, especially if you reside in an area prone to waterlogging.

3) Return to invoice (RTI) cover - This add-on plan protects your vehicle from total loss expenses. In the event of a total loss scenario such as a car theft, it provides you the actual invoice value of the vehicle, without accounting for its depreciation with age.

4.) Loss of personal belongings cover - Loss of expensive electronic equipment, laptops, etc. kept in the insured vehicle is offered coverage under this add-on insurance plan.

5.) No claim bonus (NCB) protect cover - No claim bonus is a significant bonus offered by insurers to drivers who refrain from raising motor insurance claims in a policy year. You can preserve this bonus even after raising a claim if your vehicle insurance has an NCB protect cover.

6.) Personal accident cover for passengers - The comprehensive car insurance policy can be enhanced to offer protection for the passengers by opting for this rider.

7.) Key replacement cover - Under this cover, the insurance company reimburses the cost of replacement of the vehicle keys if these were lost or misplaced.

8.) Roadside Assistance cover - This add-on offers 24/7 protection to the policyholders from ~~accidents~~ incidents such as flat tyre, fuel depletion, requirement for expert scrutiny, etc.

9.) Consumables cover - Components that are used in a vehicle such as nuts and bolts, screen washers, engine oil, etc are collectively referred to as consumables. The insurance company does ~~s~~ not bear the cost of these components at the time of a claim. However if your ~~vet~~ vehicle insurance was equipped with this rider, you will receive coverage for consumables.

10.) Daily allowance covers - This add-on cover offers reimbursement for the expenses involved in hiring an alternate vehicle when the insured automobile is.

undergoing repairs at a garage.

Q8.) List the documents required to claim health insurance.

Ans. Documents required to claim health insurance are:-
(a) Health card
(b) Duly filled claim form.
(c) Medical Certificate / Form which is signed by the treating doctor.
(d) Discharge summary or card (original), available from the hospital
(e) All bills and receipts (original)
(f) Prescription and cash memos from pharmacies / the hospital.
(g) Investigation report.
(h) If it is an accident case, then the FIR or Medico legal Certificate (MLC) is required.

Q9.) Explain in detail Third Party Liability Insurance cover.

Ans. If a third-party has ~~incured~~ ~~damages~~ incurred damages due to accident through your car, a comprehensive car insurance policy policy covers the cost of claims. Own damage is not covered in this policy. The term of Third party insurance is as follows:
1 year - for all vehicles except new two-wheeler & new four wheeler
3 years - for new private cars.
5 years - for new two wheeler
2/3 years - for old ~~three~~ two wheeler

Third party liability is the mandatory insurance cover for your vehicle to be safe and secured. One has to buy third party liability cover for the mandated purpose under the law of motor vehicles act, 1988.
This cover protects you againts the loss and damage that occured to the third party vehicle or property that causes someone's death or injury due to your vehicle. It would be easier when you have a third party liability cover and if not, you have to pay the expenses from your pocket.

Q10) List any 7 types of Health insurance products.

Ans. Types of Health insurance:

a. Individual Health Insurance - An individual health insurance plan is meant for a single person. The individual who gets himself insured with this plan is compensated for the expenses incurred for illness and medical expenses.

b. Family Health Insurance - Family Health Insurance Policy secures your entire family under a single cover including your spouse, kids, and elders.

c. Critical Illness Insurance - The critical illness insurance plan insures the person by offering a lump-sum amount of money for life threatening diseases. At the time of buying the insurance, the chosen health problems are included, and if you get affected by any of the pre-selected conditions, you can claim your insurance.

d. Senior Citizen Health Insurance - This policy provides coverage to people who are 65 years and above. The senior citizen health insurance will offer you coverage for the cost of hospitalisation and medicines, whether it arises from a health issue or any accident.

(e) Top up health insurance - An individual can buy the Top Up health insurance plan if he seeks coverage for higher amounts. But there is a 'Deductible Clause' added to this policy.

(f). Hospital Daily Cash - This plan can help you to protect yourself from unexpected expenses during your hospitalization. Convalescence benefits are also offered in some of the plans. if the individual gets hospitalised for more than seven days. Other add-ons include Parental accomodation and wellness coach.

(g) Personal Accident insurance - This policy provides a lump-sum amount to the victim or his/her family as support. It can be used in case of any loss or damage to the owner or driver.