Non-Life Insurance Assignment – 1

Div: A, Roll no. 50

1. A reinsurance contract is a contract of indemnity.

a) True

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

Reinsurance is when an insurance company insures itself to mitigate risk. The insurance company pays a certain amount of premium to the reinsurance company for the same.

Reinsurance is broadly divided into two types:

A. Proportional Reinsurance
   The direct writer i.e., the insurance company and the reinsurer share the cost of all claims. Proportional Reinsurance is further divided into two types:

   i. Quota Share Reinsurance
      The insurer and reinsurer share all premiums received and claims in a fixed ratio.

   ii. Surplus Share Reinsurance
      The insurer agrees to bear loss to a certain extent and anything above that threshold is compensated for by the reinsurer.

B. Non-Proportional Reinsurance
   Under a non-proportional reinsurance agreement, the direct writer pays a fixed premium and the reinsured is expected to make payment for claims that exceed a certain limit or fall under the reinsurance layer.

   i. Individual Excess Loss
      Reinsurer makes payment when the claim amount for an individual claim exceeds a specified threshold amount.

   ii. Stop Loss
      The reinsurer compensates the insurer for losses over an extended period of time that exceed a specified amount or percentage of some business measure such as earned premiums written.

3. Discuss the various ratios used in profit analysis of reinsurance.
   The following ratios are commonly used in profit analysis:

   i. Underwriting Profit: It consists of earned premium remaining after losses have been paid off and administrative expenses have been deducted.

Underwriting Profit = Gross Written Premium - Gross Incurred Claims – Expenses – Commission.

ii. Loss ratio: The percentage of losses incurred to the premium earned is known as the loss ratio.
Gross Loss Ratio = Gross Incurred Claims / Gross Written Premium

iii. Combined Ratio: Combined ratio is an indicator of the company's profit from its insurance business. It does not include the effect of investment income.
Combined Ratio = Loss Ratio + Net Commission Ratio + Expense Ratio.
OR
Combined Ratio = Gross Incurred Claims + Expenses + Commission / Gross Written Premium.

iv. Expense ratio: Expense Ratio is calculated as Underwriting Expenses divided by Net Written Premiums.
Expense Ratio = Expenses / Net Written Premium

v. Net Commission Ratio: Net Commission Ratio represents the cost of obtaining insurance business.
Net commission Ratio = (Acquisition cost - Reinsurance Commission) / Net Written Premium.

4. List the general exclusions under a motor insurance policy.
The following are not included under a motor insurance policy:
   a. Not having a valid Driving License
   b. Using vehicle for unlawful purposes
   c. Driving under the influence
   d. Accident taking place outside geographical limits of the insurance cover
   e. Electrical or mechanical breakdowns
   f. Damage to tyres and tubes
   g. Depreciation and/or periodical wear and tear.

5. Write about the history of general insurance in India.
1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India.

In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business.

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.

   Combined ratio = (Net Claims Incurred + Expenses + Commission) / Net Written Premium
   = (150000+8500+5700) / 50000
   = 3.284

7. List the various add-ons available on a motor insurance policy.
   Motor Insurance Companies offer a varied range of add-ons that enhance the coverage of the basic insurance policy. These riders to be purchased from the same insurer the base insurance policy was purchased from.
   Some of the riders are:
   i. Zero Depreciation Cover
      Also referred to as the nil depreciation cover or bumper-to-bumper policy, the zero-depreciation cover allows you to not account for the depreciation charges at the time of claim.

   ii. Engine Protect Cover
      Usually, a motor insurance plan does not cover the mechanical and/or electrical damages done to the engine. This add-on provides and extra layer of care for your engine.

   iii. Return to Invoice (RTI) cover
      In case of a car theft or total loss expense, this rider will provide for the invoice value of the vehicle i.e., without accounting for the depreciation.

   iv. Loss of Personal Belongings cover
      Loss of personal belongings left in the insured vehicle are covered under this add-on.

   v. No Claim Bonus (NCB) protect cover
      In case of no claim arising in a policy year, a bonus is awarded. This bonus can be preserved even after raising a claim.

   vi. Personal Accident cover for passengers
      A motor insurance policy can give enhanced protection by opting for this rider.

   vii. Key Replacement Cover

In case of loss of vehicle keys, this rider will compensate for the same.

viii. Roadside Assistance cover
This rider offers 24/7 protection of the insured from incidents such as flat tires, fuel deficiency, etc.

ix. Consumable Cover
The insurance companies generally do not bear the costs for nuts and bolts, oil, and other consumables a vehicle requires. This rider provides for the same.

x. Daily Allowance Cover
In the event that your insured vehicle is getting serviced in a garage, the insurance company will provide for your daily travel expenditures, provided you have subscribed to this rider.

8. List the documents required to claim health insurance.
One can claim health insurance with the following documents:
   i. Health Card
   ii. Duly filled claim form
   iii. Medical Certificate
   iv. Discharge Summary or Card, availed from hospital
   v. All original bills and receipts
   vi. Prescription and cash memos from pharmacies/hospital
   vii. Investigation Report
   viii. If it is an accident, then the FIR or Medico Legal certificate (MLC) is required.

9. Explain in detail Third Party Liability Insurance cover?
TP 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 vehicle act, 1988.This cover protects you against the loss and damage that occurred to the third-party vehicle or property that causes someone's death or injury due to your vehicle. In this circumstance, you have to deal with the situation. It would be easier when you already have a third-party liability cover. And, if not you have to incur the loss expense from your pocket.

10. List any 7 types of health insurance products.
Types of Health Insurance Products:
   i. Individual Health Insurance
   ii. Family Floater Health Insurance
   iii. Critical Illness Cover
   iv. Maternity Cover
   v. Group Health Insurance
   vi. Disease-Specific Health Insurance Cover
   vii. Hospital Daily Cash Cover