

Non-Life Insurance Assignment 1

Q1) c - earned premium.

Q2) b - the reinsured retains a more homogenous portfolio

Q3) a - True.

Q4) b - False

Q5) b - False

Q6)

Reinsurance is insurance that an insurance company purchases from another insurance company to insulate itself (at least in part) from the risk of a major claims event. With reinsurance, the company passes on ("cedes") some part of its own insurance liabilities to the other insurance company. The company that purchases the reinsurance policy is called a "ceding company" or "cedent" or "cedant" under most arrangements. The company issuing the reinsurance policy is referred to as the "reinsurer".

In the classic case, reinsurance allows insurance companies to remain solvent after major claims events, such as major disasters like hurricanes and wildfires. In addition to its basic role in risk management, reinsurance is sometimes used to reduce the ceding company's capital requirements, or for tax mitigation or other purposes.

There are two basic methods of reinsurance:

1. Facultative Reinsurance which is negotiated separately for each insurance policy that is reinsured. Facultative reinsurance is normally purchased by ceding companies for individual risks not covered, or insufficiently covered, by their reinsurance treaties, for amounts in excess of the monetary limits of their reinsurance treaties and for unusual risks.

2. Treaty Reinsurance means that the ceding company and the reinsurer negotiate and execute a reinsurance contract under which the reinsurer covers the specified share of all the insurance policies issued by the ceding company which come within the scope of that contract. The reinsurance contract may obligate the reinsurer to accept reinsurance of all contracts within the scope (known as "obligatory" reinsurance), or it may allow the insurer to choose which risks it wants to cede, with the reinsurer obligated to accept such risks

Types of reinsurance

a) Proportional

Under proportional reinsurance, one or more reinsurers take a stated percentage share of each policy that an insurer issues ("writes"). The reinsurer will then receive that stated percentage of the premiums and will pay the stated percentage of claims. In addition, the reinsurer will allow a "ceding commission" to the insurer to cover the costs incurred by the ceding insurer (mainly acquisition and administration, as well as the expected profit that the cedant is giving up).

b) Non-proportional

Under non-proportional reinsurance the reinsurer only pays out if the total claims suffered by the insurer in a given period exceed a stated amount, which is called the

"retention" or "priority". The main forms of non-proportional reinsurance are excess of loss and stop loss.

Excess of loss reinsurance can have three forms - "Per Risk XL" (Working XL), "Per Occurrence or Per Event XL" (Catastrophe or Cat XL), and "Aggregate XL".

1. In per risk, the cedant's insurance policy limits are greater than the reinsurance retention.
2. In catastrophe excess of loss, the cedant's retention is usually a multiple of the underlying policy limits, and the reinsurance contract usually contains a two-risk warranty (ie. they are designed to protect the cedant against catastrophic events that involve more than one policy, usually very many policies).
3. Aggregate XL affords a frequency protection to the reinsured.

Aggregate covers can also be linked to the cedant's gross premium income during a 12-month period, with limit and deductible expressed as percentages and amounts. Such covers are then known as "stop loss" contracts.

c) Risks attaching basis

A basis under which reinsurance is provided for claims arising from policies commencing during the period to which the reinsurance relates. The insurer knows there is coverage during the whole policy period even if claims are only discovered or made later on. All claims from cedant underlying policies inception during the period of the reinsurance contract are covered even if they occur after the expiration date of the reinsurance contract. Any claims from cedant underlying policies incepting outside the period of the reinsurance contract are not covered even if they occur during the period of the reinsurance contract.

d) Losses occurring basis

A Reinsurance treaty under which all claims occurring during the period of the contract, irrespective of when the underlying policies incepted, are covered. Any losses occurring after the contract expiration date are not covered.

As opposed to claims-made or risks attaching contracts. Insurance coverage is provided for losses occurring in the defined period. This is the usual basis of cover for short tail business.

e) Claims-made basis

A policy which covers all claims reported to an insurer within the policy period irrespective of when they occurred.

Q7)

Excess of loss reinsurance is a type of reinsurance in which the reinsurer indemnifies—or compensates—the ceding company for losses that exceed a specified limit, whereas, Stop-loss reinsurance is a type of excess of loss reinsurance wherein the reinsurer is liable for the insured's losses incurred over a certain period (usually a year) that exceed a specified dollar amount or percentage of some business measure, such as earned premiums written, up to the policy limit.

Excess of loss reinsurance works in a slightly different way; rather than require the reinsurer to be responsible for all losses over a certain amount, the contract may instead indicate that the reinsurer is responsible for a percentage of losses over that threshold. While, in case of stop loss, The reinsured is the primary carrier and is also sometimes referred to as the cedant because they are ceding - or giving up - a part of the risk to a reinsurer.

Also, Unlike Stop Loss covers, Aggregate covers(a type of excess of loss reinsurance) quite often encompass several Lines of Business; it is a good protection for the

insurance companies' balance sheets, but is very dangerous for reinsurers, and the price should hence be quite high.

Q8)

The loss ratio and combined ratio are used to measure the profitability of an insurance company. The loss ratio measures the total incurred losses in relation to the total collected insurance premiums, while the combined ratio measures the incurred losses and expenses in relation to the total collected premiums.

The combined ratio, also called "the combined ratio after policyholder dividends ratio," is a measure of profitability used by an insurance company to gauge how well it is performing in its daily operations. The combined ratio is calculated by taking the sum of incurred losses and expenses and then dividing them by the earned premium.

Q9)

The history of General Insurance can be dated back to the 17th Century; during the Industrial Revolution. General Insurance in India came as a British Occupation. So, Triton Insurance Company Ltd., in the year 1850 in Calcutta came to be introduced by the British. In the year 1907, Indian Mercantile Insurance Ltd, was the first company to manage all classes of general insurance business.

1957 saw the creation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council structured a code of conduct for ensuring fair conduct and sound business practices. In 1968, the Insurance Act was amended to regulate the investments and to set minimum solvency margins. The Tariff Advisory Committee was also set up then.

In 1972 with the passing of the General Insurance Business (Nationalization) Act, general insurance business was nationalized with effect from 1st January, 1973, 107 insurance companies were amalgamated and grouped into four companies, namely

- National Insurance Company Ltd.

- The New India Assurance Company Ltd
- The Oriental Insurance Company Ltd.
- The United India Insurance Company Ltd.

The General Insurance Corporation of India was incorporated as a company in the year 1971 and it commenced business on January 1st 1973.

Q10)

Net combined ratio = the sum of loss ratio expense ratio and commission ratio

$$(8500+5700+150000)/50000=3.284.$$