

Non-Life Insurance-PPP

Assignment - 1

Q1. A reinsurance contract is a contract of indemnity.

A) True

Q2.

Reinsurance

- Reinsurance is "insurance for insurance companies", in other words a "second level of insurance."
- When an insurer transfers a part of risk on a particular insurance by insuring it with another insurer or other insurers , it is called reinsurance.
- Every insurer has a limit to the risk that he can bear. If at anytime a profitable venture comes his way, he may insure it even if the risk involved is beyond his capacity which is his retention limit. In such cases , in order to safeguard his interest, he may reinsure the same risk for an amount in excess of his retention limit with other insurers, so that the loss due to risk is spread over many insurers.

Types of reinsurance

1. Proportional Reinsurance

- Under a proportional reinsurance arrangement, the direct writer (i.e. the original insurance company) and the reinsurer share the cost of all claims for each risk.

- For example, for a particular building insured against fire, the direct writer might retain 75% of the premium and will be liable to pay 75% of all claims, large or small.
- Proportional reinsurance operates in two forms:

a. **Quota Share Reinsurance**

- With quota share reinsurance, the proportions are the same for all risks.
- The reinsurer pays a fixed proportion of the claim, whatever the size of the claim.
- Under a regular quota share agreement, the ceding company and the reinsurer would experience the same loss ratio (losses/premium).

b. **Surplus loss Reinsurance**

- With surplus reinsurance, the proportions can vary from one risk to the next.
- Surplus treaty is a type of proportional or pro rata reinsurance treaty in which the ceding company determines the maximum loss that it can retain for each risk in the portfolio. This amount is called a line.
- Every risk that provides coverage greater than the retained line is ceded to the surplus treaty on a proportional basis, where the proportion varies with the size of the risk (hence the name “surplus”).
- Under a surplus treaty, the reinsurer’s experience might be worse than the ceding company’s. This is due to the fact that larger risks, for which the reinsurer has a higher share, are often subject to a smaller profit margin.

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 claim amount falls in a particular reinsurance layer (eg between £1m and £5m).
- The layer will be defined by a lower limit, the retention limit (eg £1m), and an upper limit (eg £5m or infinity if the cover is unlimited).
- There are two types of Non-proportional reinsurance:

a. Individual excess of loss (XOL) reinsurance

- With individual excess of loss (XOL) reinsurance, the reinsurer will be required to make a payment when the claim amount for any individual claim exceeds a specified excess point or retention.
- For example, the reinsurer might agree to pay the excess when any claim from a motor policy exceeds £50,000, but with an upper limit of £2 million.

b. Stop loss reinsurance

- With stop loss reinsurance, the reinsurer will be required to make payments if the total claim amount for a specified group of policies exceeds a specified amount (which may be expressed as a percentage of the gross premium).
- With stop loss reinsurance, 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.

Q3.

The various ratios used in profit analysis of reinsurance are:

1. Loss Ratio

- The percentage of losses (claims) incurred to premium earned during the period. It is indicator of as insurer's underwriting discipline and skill at mitigating risk
- $\text{Loss ratio} = \text{Incurred losses} / \text{Earned premium}$

2. Net Commission Ratio

- Represents the cost of obtaining the insurance business. It includes the intermediaries' commission net of reinsurance commission other related expenses which relates to acquisition of business.
- $\text{Net commission ratio} = (\text{Acquisition cost} - \text{Reinsurance commission}) / \text{Net written premium}$

3. Expense Ratio

- It is calculated as underwriting expenses divided by net written premiums, the expense ratio measures an insurer's efficiency.
- $\text{Operating expense ratio} = \text{Operating expenses} / \text{Net Written Premium}$

4. Combined Ratio

- Indicates the profitability of an insurance company from its insurance business. It does not include the impact of investment income impact.
- $\text{Combined ratio} = \text{Loss ratio} + \text{net commission ratio} + \text{expense ratio}$

Q4.

The general exclusions under a motor insurance policy are:

- I. Insured driving drunk
- II. Driving without a license - As a standard rule, no insurance can accept claims if the said person is driving illegally. Therefore, claims can only be made if you were rightly driving with a valid driver's license.
- III. Consequential damages - Consequential damages refer to damages that take place after an accident. Unfortunately, those won't be covered unless the damage has happened during the accident itself.
- IV. Contributory Negligence - In simple terms, this means your vehicle won't be covered if you've done something you weren't supposed to do. For example; if your city was already flooded and you still took your car or bike out in the floods.
- V. Driving without a Licence Holder - As per the law, if you only have a learner's licence, you need to have someone with a permanent driver's licence with you. If that's not the case, your vehicle won't be covered.
- VI. Wear and tear of the vehicle
- VII. Electrical or Mechanical breakdown
- VIII. Loss / damage to the car caused by war, mutiny or nuclear risk

Q5.

- The history of general insurance dates back to the Industrial Revolution in the west and the consequent growth of sea-faring 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 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 1972 with the passing of the General Insurance Business (Nationalisation) Act, general insurance business was nationalized with effect from 1st January, 1973.
- In 1993, the Government set up a committee under the chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein , among other things, it recommended that the private sector be permitted to enter the insurance industry.
- In 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased

consumer choice and lower premiums, while ensuring the financial security of the insurance market.

- The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.
- Today there are 34 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 24 life insurance companies operating in the country.
- The **insurance sector is a colossal one** and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country's GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long-term funds for infrastructure development at the same time strengthening the risk taking ability of the country.

Q6.

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

EXPENSES= 8500

COMMISSION=5700

NET CLAIMS INCURRED = 150000

NET WRITTEN PREMIUM= 50000

NET PREMIUM EARNED= 75000

NET LOSS RATIO = NET CLAIMS INCURRED/NET EARNED PREMIUM

$$= 150000/75000$$

$$= 2:1$$

NET EXPENSE RATIO = EXPENSES / NET WRITTEN PREMIUM

$$= 8500/50000$$

$$= 17:100$$

COMMISSION RATIO = COMMISSION / NET WRITTEN PREMIUM

$$= 5700/50000$$

$$= 57:500$$

NET COMBINED RATIO = $2 + (17/100) + (57/500)$

$$= 571:250 \text{ OR } 2.284:1$$

Q7.

VARIOUS ADD-ONS AVAILABLE IN MOTOR INSURANCE POLICY

1. No Claim Bonus- No claim bonus (NCB) is a discount, given by an insurer to a policyholder for making no claims during the policy term. NCB can be accumulated over the years and the discount ranges from 20% to 50% on the own damage premium.

2. NCB Retention Add on Cover- Protects the NCB of the insured even if he/she claims (Own Damage) during the policy period. Benefit: The NCB as per policy is allowed provided renewal of policy is done with us within 90 days of the expiry of the policy, NCB is protected in case of 1 OD claim during the policy period. Claim amount should not be more than 25% of IDV.

3. Nil Depreciation-This cover pays the amount of depreciation deducted on the value of parts replaced under own damage claim. The cover operates for maximum of 2 claims during the policy period. Special Conditions applicable to this cover in addition to the General Conditions: A claim where replacement of any part is not involved and no depreciation is deducted under its own damage claim, will not be considered as a claim under this cover.

4. Total Cover-This cover pays for the amount spent on the registration fee, Octroi and/ or any other charges levied by the government authority towards the insured vehicle. Also, the insurance premium shall be paid. This cover will trigger in the event of theft or total loss/ CTL.

5. Engine protection cover - offers financial protection for damages caused to the engine of the vehicle. Any damage caused, from water entering the engine to leakage of the lubricating oil, is covered under the policy.

6. Consumables cover - pays for the cost of consumables ,like engine oil, gear oil, nuts and bolts, lubricants and similar items except for fuel, required to be refilled or replaced because of the accident.

7. Return to invoice -In case of theft or damages beyond repair, return to invoice add-on gives you the benefit of getting back the complete amount of your car/bike invoice value, including the cost of registering a new vehicle and its road tax respectively.

8. Roadside assistance – How do you fancy your set of wheels breaking down on a lonely dacoit-infested road at the stroke of midnight? Fear not, roadside assistance is there to rescue. All you need to do is give them a call and they'll come to the spot and repair your vehicle. If not possible, they will tow it to the nearest service station and towing charges will be paid by the insurer.

9. Tyre Protect Cover- Generally, tyre damage isn't covered in standard insurance unless the damage takes place during an accident. That's why this tyre protect add-on gives you the benefit to safeguard and cover for your car's tyre damages such as tyre bursts, bulges or cuts during all other situations possible.

Q8.

DOCUMENTS REQUIRED TO CLAIM HEALTH INSURANCE:

- Health card
- Duly filled claim form
- Medical Certificate/ Form which is signed by the treating doctor.
- Discharge summary or card (original), availed from the hospital.
- All bills and receipts (original)

- Prescription and cash memos from pharmacies/ the hospital.
- Investigation report
- If it is an accident case, then the FIR or Medico Legal Certificate (MLC) is required.

Q9.

THIRD PARTY LIABILITY INSURANCE

→Third-party liability coverage is the portion of an insurance policy that protects you if you're sued (or threatened to be sued) for a physical injury or damage to someone else's property.

→Also referred to as "legal liability coverage," this section of your home or car insurance policy is set up to cover things like legal fees, the amount of money you have to pay to settle a lawsuit, and other related expenses.

→When the policyholder collides with the car of a third party leading to death or bodily injury to the third party, your liability to the third party is covered by the insurer. It also covers damage to property of third party caused by policyholder's car. In case of absence of personal cover, damage to self can be also be added as an add-on in the third-party cover. Damages to own car is not covered under third party cover.

→There are two types of automobile third-party liability coverage. First, bodily injury liability covers costs resulting from injuries to a person. These injuries' costs could include expenses like hospital care, lost wages, and pain and suffering due to the accident.

→Second, property damage liability covers costs resulting from damages to or loss of property. Examples of property damage include the payment to replace landscaping and mailboxes, as well as compensation for loss of use of a structure.

What does third party insurance cover?

- Third party liability insurance covers death or bodily injury to any person including occupants carried in the vehicle.
- Damage to property other than property belonging to the insured or held in trust or in the custody or control of the insured.

Q₁₀ .

TYPES OF HEALTH INSURANCE PRODUCTS

1. 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.

2. Family Health Insurance

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

3. 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.

4. 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 hospitalization and medicines, whether it arises from a health issue or any accident.

5. 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.

6. Hospital Daily Cash

This plan can help you to protect yourself from unexpected expenses during your hospitalisation. 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 accommodation and wellness coach.

7. 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.

8. Mediclaim

The Mediclaim Policy ensures compensation for your hospitalization expenses in case of any illness and accident. The Mediclaim Policy is available in the market as group Mediclaim, individual medical insurance, overseas medical insurance, etc.

9. Group Health Insurance

This type of health insurance is bought by the employer of the company for its employees. It is offered to the group of employees to meet the financial crisis and prudence in the company.

10. Disease-Specific (M-Care, Corona Kovach , etc.)

Disease-Specific comes under the situation-oriented types of medical insurance policy that provides you coverage for specific diseases .It is suitable for those who are suffering from pandemic-manifested conditions or prone to one.

11. ULIPs

ULIPs expands to Unit Linked Insurance Plans. In these plans, a part of your premium is invested, and the other remaining part is used for buying health covers. Therefore, this plan helps you earn a return besides providing you a safety net.