# Non - Life Insurance - PPP

## Assignment

1.) A reinsurance contract is a contract of indemnity.
A. b) False.

3) The different ratios used in profit analysis of reinsurance are as follows:-

→ Net earned premiums → Difference between the written premium and unexpired portion of the risk

→ Loss ratio - The percentage of losses (claims) incurred to premium earned during the period. It is indicator of an insurer's underwriting discipline and skill at mitigating risk.

⇒ Loss ratio = Incurred losses / Earned premium

→ Net commision ratio - It includes the intermediaries commission net of reinsurance commission and other expenses which relates to acquisition of business.

⇒ Net commision ratio = $\frac{\text{(Acquisition cost - RI commission)}}{\text{Net written premium.}}$

→ Expense ratio - It is calculated as an underwriting expenses divided by net written premiums, the expense ratio measures an insurer's efficiency.

⇒ Operating expenses ratio = Operating expenses / NWP.

→ Combined ratio - It indicates the profitability of an insurance company from its insurance business. It does not include the impact of investment income impact.

→ Combined ratio = loss ratio + net commission ratio + expense ratio.

4) The general exclusions under a motor insurance policy are :-

- 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 damaged at the same time.
- Consequential loss, depreciation, wear and tear.

5) 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 17 th century. It came to India as a legacy of the 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 Council, was ~~wing~~ 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 council framed a code of conduct for insuring ~~the~~ fair conduct and sound business practices.

→ In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then.

→ In 1972, with passing of the General Insurance Business (Nationalization) Act, general insurance business was nationalized with effect from 1st Jan, 1973.

→ Following the recommendations, 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 IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%.

→ In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructed as independent companies and at the same time GIC was converted to a national reinsurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.

→ 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.

6) Expenses amount - \$8500
→ Commission - \$5700
→ Net claims incurred - \$1,50,000
→ Net written premium - \$50,000
→ Premium earned - \$75000

$$\Rightarrow \text{Net loss ratio} = \frac{\text{Net claims incurred}}{\text{net earned premium}}$$

$$= \frac{150,000}{75000} = 2 = 200\%$$

$$\Rightarrow \text{Net expense ratio} = \frac{\text{expenses}}{\text{NWP}} = \frac{8500}{50,000} = 0.17 = 17\%$$

$$\Rightarrow \text{Net Commission ratio} = \frac{\text{commission}}{\text{NWP}} = \frac{5700}{50,000} = 0.114 = 11.4\%$$

⇒ Combined ratio = Net expense ratio + Net commission ratio + net loss ratio

$= (2 + 0.114 + 0.17) \times 100\%$

$= 2.284 \times 100\%$

$= \boxed{228.4\%}$

7. The various add-ons available on a motor insurance policy are:-

→ Zero depreciation cover - It offers significant savings at the time of a claim. It is also referred to as nil depreciation cover or bumper to bumper policy.

→ Engine protect cover - Buying an engine protect cover offers your engine the much needed protection, especially if you reside in an area prone to water logging.

→ Return to Invoice (RTI) cover:- This add-on plan protects your vehicle from total loss expenses.

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

→ No claim bonus (NCB) protect cover - You can preserve your significant offered bonus even after raising a claim of your vehicle insurance has an NCB protect cover

→ Personal accident cover for passengers - It offers protection for the passengers.

→ key replacement cover - The insurance company reimburses the cost of replacement of the vehicle keys if these were lost or misplaced.

→ Roadside assistance cover:- It offers 24/7 protection to policy holder from incidents such as flat tyre, fuel depletion, requirement for expert scrutiny, etc.

→ Consumables cover

→ Daily allowance cover

8) The documents required to claim health insurance are:-

→ Health card.

→ Duly filled claim form.

→ Medical certificate / form which is signed by the treating doctor.

→ Discharge summary or card (original)), availed from 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.

9) Third Party Liability Insurance cover (TP)

→ 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 occured 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 you not have to incur the loss expence from your pocket.

→ One thing that you need to know about third party cover is that it does not cover loss and damage to your own vehicle which is responsible for the damage to the third party's vehicles.

→ For the compensation of your own vehicle, you have to buy own damage cover. Also, it does not process claim for the stolen or vandalized vehicle.

10) The types of health insurance products.

- Retail Health Insurance.
- Group Health Insurance.
- Personal Accident
- Critical Illness
- Hospital Cash
- Family Floater health Insurance.
- Top Up Health Insurance.
- Disease specific.
- ULIPs

2) Reinsurance 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 other insurance company.

→ Insurers purchase reinsurance for four reasons: To limit liability on a specific risk, to stabilize loss experience, to protect themselves and the insured against catastrophes and to increase their capacity.

## Types of Reinsurance :-

- Reinsurance
  - Proportional
    - Quota Share
    - Surplus
  - Non- Proportional
    - Individual excess loss
    - Stop loss

### Proportional Reinsurance :-

→ The direct writer ( original insurance company) & the reinsurer share the cost of all claims. This is of two types.

**Quota share insurance**

Reinsurer and writer share all premiums and losses acc. to a fixed percentage

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

**Surplus Share insurance**

A surplus share treaty is reinsur ance treaty in which the cedin insurer retains a fixed amount of policy liability and the reinsurer takes responsibility o what remains.

Eg:- HDFC Ergo forms a surplus share reinsurance contract with Swiss Re and underwrites policie with a coverage of Rs 50,00,00 with retention of Rs 20,00,000. The remaining 30,00,000 are ceded to the reinsurer

## 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 the particular reinsurance layer. This includes -

### Individual excess loss

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

→ Eg: Apollo enters into a reinsurance treaty with Swiss Re. and reinsurance layer is fixed at 50 lac to 1 Cr.

$Y = X \; ; \; X < 50 \text{ lac}$

$Y = 50 \text{ Lac} \; ; \; 50 \text{ lac} < X < 1 \text{ cr}$

$Y = X - 50 \text{ Lac} \; ; \; X > 1 \text{ Cr}$

$Z = X - 50 \text{ lac} \; ; \; 50 \text{ lac} < X < 1 \text{ Cr}$

$Z = 50 \text{ lac} \; ; \; X > 1 \text{ cr}$

### Stop loss Reinsurance

- Under this kind of policy, the direct writer (Insurance company) agrees to carry the full burden of the loss up to a limit, L and claim amount exceeding L is paid by the reinsurance company.

→ Eg: Acko enters into a reinsurance contract with Munich Re and the contract indicates that the insurance company, Acko is responsible for losses upto $500,000 but that the reinsurance company Munich Re is responsible for losses above that limit.

$Y = X \; ; \; X < L$

$Y = L \; ; \; X > L$

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