IAQS: SEMESTER - 2

SUBJECT: NON-LIFE INSURANCE – PPP

ASSIGNMENT 1

1. c) Earned Premium

2. c) The reinsurer's share of the claim is a multiple of the reinsured's retention

3. a) True

4. b) False

5. a) True

6.

Reinsurance is insurance for insurance companies. When an insurer transfers a part of risk on a particular insurance by insuring it with another insurer in order to safeguard its interests and spread the due risk, it is known as reinsurance. It is insuring the same risk. The different types of reinsurance are:

A) **Proportional Reinsurance**: the insurer and the reinsurer share premiums and the cost of all claims for each risk. It is of two forms:

a) **With Quota Share Reinsurance**: the reinsurer receives a fixed percentage of the premium and pays the corresponding percentage of claims.

Eg) Suppose Company A assumes a risk of $1,000,000 with a cession of 75% to Company B as a part of a quota share treaty. So, A will pay $250,000 (25% of $1,000,000) with B being liable for the remaining $750,000 (75% of $1,000,000).

b) **With Surplus Reinsurance**: the reinsurer assumes a part of the risk in proportion to the amount that the insured value exceeds the retained line, up to a given limit.

Eg) Suppose Company A, with a retention line of $25,000, enters into a surplus treaty with Company B for a policy issued at $150,000. So, A will be liable for $25,000 (16.67% of $150,000), and B will have to pay for the remaining 83.33% which is $1,25,000. If the policy issued was at $25,000 or below, then there would be no participation by B.

B) **Non-Proportional Reinsurance**: the reinsurer is liable if the insurer's losses exceed a specified amount, known as the retention limit. As a result, the reinsurer does not have a proportional share in the insurer's premiums and losses. It includes:

a) **With Individual Excess of Loss Reinsurance**: the insurer pays a claim in full up to a retention level, with any excess amount being borne by the reinsurer.

Eg) Suppose for a loss of $200,000, Company A decides to retain $100,000, and reinsure the balance amount with Company B with an upper limit of $80,000. So, A bears $100,000, with B being liable for $80,000. The remaining amount of $20,000 ($200,000 - $100,000 - $80,000) is borne as a balance against the upper limit by A. Hence, ultimately A bears $120,000 with B paying $80,000.

b) **With Stop Loss Reinsurance**: the reinsurer is liable for the insured's losses incurred over a certain period a year that exceed a specified amount, determined by the aggregate claims of the whole portfolio.

7.

Stop Loss Reinsurance does not work on an aggregate claim basis as it protects the insurer from suffering losses that exceed a certain limit over the course of year. The part paid by the reinsurer is determined by the aggregate claims of the whole portfolio. Excess of Loss Reinsurance works on an aggregate claim basis as the reinsurer will be required to make a payment when the claim amount for an individual policy exceeds the retention limit. It does not consider a group of policies.

8.

The various ratios used in profit analysis of reinsurance are:

Net Loss Ratio: Represents the ratio of the net claims incurred to the net premium earned

Net Expense Ratio: Represents the ratio of expenses incurred to the net written premium

Net Commission Ratio: Represents the ratio of commissions to the net written premium

Net Combined Ratio: It is the sum of the net loss ratio, the net expense ratio and the net commission ratio

9.

- The Triton Insurance Company Limited was established in Calcutta in 1850 AD along with the Indian Mercantile Insurance Company Limited in Bombay in 1906.

- 107 insurers were amalgamated and grouped into four companies: National Insurance Company Limited, New India Assurance Company Limited, Oriental Insurance Company Limited and United India Insurance Company Limited.

- The General Insurance Corporation of India was incorporated as a company in 1971 and commenced business in 1973.

- In 1999, general insurance entered the private sector with the IRDA Act, prior to which a public sector monopoly had prevailed.

- The general insurance market existed as a tariffed market before 2007, which hampered flexibility in pricing and product innovations.

- The IRDA initiated the process of detariff in 2007-2008.

10.

Expenses = 8500, Commission = 5700, Net claims incurred in the period = 150000, Net Written Premium = 50000, Net Earned Premium = 75000

Net Loss Ratio = 150000/75000 = 2

Net Expense Ratio = 8500/50000 = 0.17

Net Commission Ratio = 5700/50000 = 0.114

Net Combined Ratio = 2 + 0.17 + 0.114 = **2.284**