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Paper: Insurance Management & Practices

Question No.1

Answer: >

History of Insurance

Insurance in Pakistan is regulated under the Insurance Ordinance, 2000. In the past few years it has transformed into a developing and fast growing market that is generally divided into three components life, insurance, and general insurance and health insurance. The Government of Pakistan established the Department of Insurance in April 1948 as a department of the Ministry of Commerce; the aim of this department is to take care of affairs related to the insurance industry. Out of the 54% that Pakistan's service sector contributes to the national GDP, insurance, along with transport, storage, communications and finance occupy 24% of the sector. The insurance industry in Pakistan is relatively small compared to its peers in the region. The insurance penetration and density remained very modest as compared to other jurisdictions while the insurance sector remained underdeveloped relative to its potential. The Pakistani insurance market has undergone major structural changes in last few years through mergers of companies to meet the increased statutory requirement of minimum paid up capital as per Insurance Ordinance 2000. Some companies who were unable to raise this capital have been asked to close down their operations. The Security and Exchange Commission of Pakistan (SECP), Insurance Division, is trying to improve the image of Pakistan Insurance Industry by issuing directives on financial security and transparency, code of good governance and sound market practice. The year 2015 showed improvement in Pakistan's overall economic indicators including containment of current account deficit, owing to continuing decline in international oil prices along with an uplift in remittances from abroad. The successful issue of Sukuk

Bond in the international market also helped the foreign exchange reserves to swell to unprecedented levels. China and Pakistan have made agreements to establish China Pakistan Economic Corridor (CPEC) between the two countries. The corridor is expected to boost economy, trade and connectivity of Pakistan with the regional countries. As part of CPEC, Pakistan has also signed a series of energy projects with China, which will enable to overcome the energy crisis in foreseeable future. The economy grew by 4.24% in fiscal year 2015 which is highest achievement since 2008-2009. Inflation during the year has remained significantly low, achieving the lowest levels since 2003. The services sector registered a growth of 5 percent against the target of 5.2% but remained higher compared to the last year growth of 4.4%.

List of notable insurance companies in Pakistan.

1) State Life Insurance Corporation of Pakistan
2) Jubilee Life
3) EFU Life
4) UBL Insurers Limited
5) IGI Insurance
6) Adamjee Insurance

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IN OTHERS COUNTORIES

The first known insurance contract dates from Genoa in 1347 and in the next century maritime insurance developed widely and premiums were intuitively varied with risks. These new insurance contracts allowed insurance to be separated from investment a separation of roles that first proved useful in marine insurance. Insurance became far more sophisticated in Enlightenment era Europe where specialized varieties developed. Property insurance as we know it today can be traced to the Great Fire of London which in 1666 devoured more than 13,000 houses. The devastating effects of the fire converted the development of insurance from a matter of convenience into one of urgency a change of opinion reflected in Sir Christopher Wren's inclusion of a site for the Insurance Office in his new plan for London in 1667. A number of attempted fire insurance schemes came to nothing, but in 1681. Economist Nicholas Barbon and eleven associates established the first fire insurance company the Insurance Office for Houses at the back of the Royal Exchange to insure brick and frame homes. Initially 5,000 homes were insured by his Insurance Office. At the same time the first insurance schemes for the underwriting of business ventures became available. By the end of the seventeenth century London's growth as a Centre for trade was increasing due to the demand for marine insurance. In the late 1680s Edward Lloyd opened a coffee house which became the meeting place for parties in the shipping industry wishing to insure cargoes and ships, including those willing to underwrite such ventures. These informal beginnings led to the establishment of the insurance market Lloyd of London and several related shipping and insurance businesses.

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The first life insurance policies were taken out in the early 18th century. The first company to offer life insurance was the Amicable Society for a Perpetual Assurance Office founded in London in 1706 by William Talbot and Sir Thomas Allen. Upon the same principle Edward Rowe Mores established the Society for Equitable Assurances on Lives and Survivorship in 1762. It was the world's first mutual insurer and it pioneered age based premiums based on mortality rate laying the framework for scientific insurance practice and development and the basis of modern life assurance upon which all life assurance schemes were subsequently based. In the late 19th century accident insurance began to become available. The first company to offer accident insurance was the Railway Passengers Assurance Company formed in 1848 in England to insure against the rising number of fatalities on the nascent railway system. By the late 19th century governments began to initiate national insurance programs against sickness and old age. Germany built on a tradition of welfare programs in Prussia and Saxony that began as early as in the 1840s. In the 1880s Chancellor Otto von Bismarck introduced old age pensions, accident insurance and medical care that formed the basis for Germany welfare state. In Britain more extensive legislation was introduced by the Liberal government in the 1911 National Insurance Act. This gave the British working classes the first contributory system of insurance against illness and unemployment. This system was greatly expanded after the Second World War under the influence of the Beverage Report, to form the first modern welfare state.

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Question No.2

Answer: >

Methods of insurance

According to the study books of The Chartered Insurance Institute, there are variant methods of insurance as follows.

1. **Co-insurance** – risks shared between insurers.

   For example if you have 20% Co Insurance, and you pay 20% of each Medical bill so your health insurance will cover 80%.

2. **Dual insurance** – having two or more policies with overlapping coverage of a risk both the individual policies would not pay separately under a concept named contribution they would contribute together to make up the policyholder's losses. However in case of contingency insurances such as life insurance dual payment is allowed.

   For example when dual Car Insurance occur is when you have specifically Possessions when going on holiday through an extra gadget cover Add-on whilst also being covered for the same thing on your home insurance and having the exact same risk covered through a travel insurance policy.

3. **Self-insurance** – situations where risk is not transferred to insurance companies and solely retained by the entities or individuals themselves.

   For example if a retailer decides to self-insure its buildings, the retailer will not have an insurance policy to pay for losses that may occur to its buildings. If a person causes a loss to one of the retailer's buildings, the retailer will have to bring a claim against that person.

4. **Reinsurance** – situations when the insurer passes some part of or all risks to another Insurer called the reinsurer.

   For example, a windstorm insurance company could seek a reinsurance agreement that would cover all losses from a hurricane in excess of $1 billion.

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Life insurance

Life insurance provides a monetary benefit to a decedent's family or other designated beneficiary and may specifically provide for income to an insured person's family burial funeral and other final expenses. Life insurance policies often allow the option of having the proceeds paid to the beneficiary either in a lump sum cash payment or an annuity. In most states a person cannot purchase a policy on another person without their knowledge Annuities provide a stream of payments and are generally classified as insurance because they are issued by insurance companies are regulated as insurance and require the same kinds of actuarial and investment management expertise that life insurance requires. Annuities and pensions that pay a benefit for life are sometimes regarded as insurance against the possibility that a retiree will outlive his or her financial resources. In that sense they are the complement of life insurance and, from an underwriting perspective are the mirror image of life insurance. Certain life insurance contracts accumulate cash values which may be taken by the insured if the policy is surrendered or which may be borrowed against. Some policies such as annuities and endowment policies are financial instruments to accumulate or liquidate wealth when it is needed. In many countries, such as the United States and the UK, the tax law provides that the interest on this cash value is not taxable under certain circumstances. This leads to widespread use of life insurance as a tax-efficient method of saving as well as protection in the event of early death. In the United States, the tax on interest income on life insurance policies and annuities is generally deferred. However, in some cases the benefit derived from tax deferral may be offset by a low return.

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Claims

Claims and loss handling is the materialized utility of insurance it is the actual product paid for Claims may be filed by insured's directly with the insurer or through brokers or agents. The insurer may require that the claim be filed on its own proprietary forms or may accept claims on a standard industry form such as those produced by ACORD. Insurance company claims departments employ a large number of claims adjusters supported by a staff of records management and data entry clerks. Incoming claims are classified based on severity and are assigned to adjusters whose settlement authority varies with their knowledge and experience. The adjuster undertakes an investigation of each claim usually in close cooperation with the insured determines if coverage is available under the terms of the insurance contract and if so the reasonable monetary value of the claim and authorizes payment. The policyholder may hire their own public adjuster to negotiate the settlement with the insurance company on their behalf for policies that are complicated where claims may be complex the insured may take out a separate insurance policy add-on called loss recovery insurance which covers the cost of a public adjuster in the case of a claim. Adjusting liability insurance claims is particularly difficult because there is a third party involved the plaintiff who is under no contractual obligation to cooperate with the insurer and may in fact regard the insurer as a deep pocket.