Subject: Insurance Management and Practices.

ID: 13251

Q1. Write down the detail history of insurance from the beginning uptil now.

<u>Insurance</u>:-

Insurance is a contract, based by the representation of some policies, in which a person or entity receives financial protection from insurance company. It recovers the losses that are faced by an individual or a business entity.

Insurance has a history in the earlier times, Over the centuries, it has developed into a modern business of protecting people from losses and various risks.

The insurance industry was profitable for many years and became an important aspect of private and public long-term finance.

The first form of insurance was introduced by Babylonian and Chinese traders.

To limit the loss of goods, the

merchants used to divide their items among various ships that had to cross tracherous waters.

In 1750 BC, the method of limitation of loss was introduced in the code of Hammurabi. This method explained that, if a merchant receives a loan, he will pay extra amount of money in exchange for the contract that the loan will be cancelled if the shipment is stolen or gone in loss.

As the time passed, in 600 BC Romans and Greeks introduced some types of health and life insurances.

In 12th Century, another type of insurance was introduced in Anatolia. In this type, if goods are stolen from traders, the state treasury will help them with their losses.

As the time passed, different types of insurances were formed.

The first fire insurance and building insurance was formed by Nicholas Barbon. When in 1666, more than 30,000 homes were destroyed and caught fire. in London.

Later on, in 19^{th} Century, the accident insurance was introduced.

The Greeks and Romans first introduced the Marine insurance. The first marine insurance policy and contract was introduced in Genoa and in other Italian cities. in 14^{th} Century.

In the U.S history, the first insurance company was opened in 1732 to offer the coverage. No type of insurance was mandatory in U.S until the 1930s.

In Pakistan, the Government established the department of insurance in April 1948. Many insurance companies are introduced in Pakistan ~~ }~~ like:

Efu life Insurance, Jubilee, G.M. Awan life insurance etc.

Q 2. Explain all old and new methods of insurance. Furnish your answer with modern day examples. Moreover give two examples at least for each method.

Early Methods of Insurance:

There were many methods of insurance in early times, but following are some famous insurance methods in which the insurance companies offered services to the individuals or entities.

Chinese or Babylonian introduced the methods of reducing risks. Chinese merchants travelling treachous river rapid would re-distribute their wares accross many vessels to limit the loss. For example:
If a merchant recieved a loan to find his shipment, he will pay the lender an additional sum in exchange for the lender's guarantee to cancel the loan, in case the shipment be stolen or lost at sea.

The ancient Greeks had Marine loans. Money was advanced on a ship or cargo, to be repaid with large interest, if the voyage prosper, but not repaid at all.

For example if the ship be lost, the rate of interest being made high enough for the use of the capital, but for the risk of losing it.

Separate insurance contracts were invented in Genoa in 14th Century, as were insurance pools, backed by pledges of landed estates.

Life Insurance:-

The life insurance concept came from Egypt. The first life insurance policy was taken 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.

Life insurance is a contract between an insurance policy holder and an insurer, where the insurer promises to pay a sum of money in exchange of a premium, upon the death of an insured person.

Modern Methods of Insurance:-

In the 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.

Following are the Modern methods of insurance:

1) Self-insurance.
2) Re-insurance.
3) Co-insurance.
4) Dual-insurance.

1) Self-Insurance:-

Self insurance means an individual who has enough investment to bring in a healthy income for his loved ones after he is died. His dependents will not be worried about paying bills, putting food on the table and other needs.

Example 1:-

Self insurance example can be of a person who can save much money per month and insures himself with a company, in return, company pays double or the

Promised amount to the family after the death of that person.

Example 2:-

Self insurance may be feasable if a company owns a large number of buildings and each building is in different city. for example, a retailer with 100 small stores finds that the annual cost for property insurance to cover all 100 stores is 100,000. If the total actual property damages, for the stores never ~~damages~~ exceeded 40,000 in a year, The company may decide that self insurance is a good business risk.

2) Re-insurance:-

Re-insurance is the modern method of insurance which is purchased by insurance companies to minimize or reducce the risk. Reinsurance companies protects insurers from heavy losses. The treaty reinsurance agreement protects the insurer from high risk for certain time period.

Example 1:-

Jubilee insurance have high risk or maximum capacity to bear is upto 1,000,000 rupees. If the risk of 3,000,000 rupees is placed or occured, then the issuer must have to insure 2,000,000 rupees to make itself on safer side.

Example 2:-

Another example can be at Khyber Match Company which insures its half share of 10 crore rupees with an insurance company. Now, if the insurance company has the maximum capacity of 5 crore rupees then the ~~xx~~ company must insure its 5 crore risk with other insurance company.

3) Co-insurance:-

Co-insurance is the percentage of health care services an individual is responsible for paying after the individual hit his deductible for the year. ~~with~~ With co-insurance, the individual splitting the cost of medical services with his health insurance he reach out of pocket maximum.

Co-insurance is commonly used in health ~~care~~ insurance. It is the percentage that the insurer pays for a medical claim on behalf of the insured patient. after the deductible has been met.

Example 1:-

Example of co-insurance can be the car insurance, when a car is hit then, while repairing. the insurance company pays for example 80% of the amount and 20% is paid by the owner of the car. So, this is called Co-insurance.

Example 2:-

Another example can be an individual pays 20% towards the charges for a service and the insurance company pays 80%
After the insurer has paid the deductible the individual is responsible for a percentage of the costs, specified by the company. (80/20) 90/10, 70/30 are common splits.

4) Dual Insurance:-

Dual insurance can be defined as when the same party is insured with two or more insurers in respect of the same interests in the same subject matter against the same risk and the same period of time.

Dual insurance arises when the same Party is insured with two or more insurers. in respect of the same interest in the same subject matter against the same risk. and same period of time.

Example 1 :-

The example can be of

"Motor vehicle accidents where the driver is driving to work and suffers personal injury. Usually, both the driver's motor vehicle insurer and the worker's compensation insurer of the driver's employer are liable for the driver's injuries.

Example 2 :-

It can be the construction projects where a construction, all risks policies will typically insure the contractor and sub-contractor for liability for property damage or for personal injury. As the subcontractor will commonly carry its own public liability insurance.

Both policies will respond in the event that the subcontractor incurs liability for causing personal injury or property damage, baring any exclusion.

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