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Mid Paper : Insurance management and practices

**Q1 #**

**Insurance** :

Insurance is a means of protection from financial loss. It is a form of risk management, primarily used to hedge against the risk of a contingent or uncertain loss.

An entity which provides insurance is known as an insurer. A person or entity who buys insurance is known as an insured.

**Historical Of Insurance**

Insurance in some form is as old as historical society. So-called bottomry contracts were known to merchants of Babylon as early as 4000–3000 BCE. Bottomry was also practiced by the Hindus in 600 BCE and was well understood in ancient Greece as early as the 4th century BCE. Under a bottomry contract, loans were granted to merchants with the provision that if the shipment was lost at sea the loan did not have to be repaid. The interest on the loan covered the insurance risk. Ancient Roman law recognized the bottomry contract in which an article of agreement was drawn up and funds were deposited with a money changer. Marine insurance became highly developed in the 15th century.

In Rome there were also burial societies that paid funeral costs of their members out of monthly dues.

The insurance contract also developed early. It was known in ancient Greece and among other maritime nations in commercial contact with Greece.

**England**

Fire insurance arose much later, obtaining impetus from the Great Fire of London in 1666. A number of insurance companies were started in England after 1711, during the so-called bubble era. Many of them were fraudulent, get-rich-quick schemes concerned mainly with selling their securities to the public. Nevertheless, two important and successful English insurance companies were formed during this period—the London Assurance Corporation and the Royal Exchange Assurance Corporation. Their operation marked the beginning of modern property and liability insurance.

No discussion of the early development of insurance in Europe would be complete without reference to Lloyd’s of London, the international insurance market. It began in the 17th century as a coffeehouse patronized by merchants, bankers, and insurance underwriters, gradually becoming recognized as the most likely place to find underwriters for marine insurance. Edward Lloyd supplied his customers with shipping information gathered from the docks and other sources; this eventually grew into the publication Lloyd’s List, still in existence. Lloyd’s was reorganized in 1769 as a formal group of underwriters accepting marine risks. (The word underwriter is said to have derived from the practice of having each risk taker write his name under the total amount of risk that he was willing to accept at a specified premium.) With the growth of British sea power, Lloyd’s became the dominant insurer of marine risks, to which were later added fire and other property risks. Today Lloyd’s is a major reinsurer as well as primary insurer, but it does not itself transact insurance business; this is done by the member underwriters, who accept insurance on their own account and bear the full risk in competition with each other.

**United** **States**

The first American insurance company was organized by Benjamin Franklin in 1752 as the Philadelphia Contribution ship. The first life insurance company in the American colonies was the Presbyterian Ministers’ Fund, organized in 1759. By 1820 there were 17 stock life insurance companies in the state of New York alone. Many of the early property insurance companies failed from speculative investments, poor management, and inadequate distribution systems. Others failed after the Great Chicago Fire in 1871 and the San Francisco earthquake and fire of 1906. There was little effective regulation, and rate making was difficult in the absence of cooperative development of sound statistics. Many problems also beset the life insurance business. In the era following the U.S. Civil War, bad practices developed: dividends were declared that had not been earned, reserves were inadequate, advertising claims were exaggerated, and office buildings were erected that sometimes cost more than the total assets of the companies. Thirty-three life insurance companies failed between 1870 and 1872, and another 48 between 1873 and 1877.

After 1910 life insurance enjoyed a steady growth in the United States. The annual growth rate of insurance in force over the period 1910–90 was approximately 8.4 percent—amounting to a 626-fold increase for the 80-year period. Property-liability insurance had a somewhat smaller increase. By 1989 some 3,800 property-liability and 2,270 life insurance companies were in business, employing nearly two million workers. In 1987 U.S. insurers wrote about 37 percent of all premiums collected worldwide.

**Insurance in modern age**

By the 1800s and 1900s, society and industry were becoming far more complex, thus giving rise to many other forms of insurance. For instance, the 1st auto insurance was sold in 1897. During the 1920s, the sales of auto insurance greatly increased as the number of vehicles increased.

Casualty insurance 1st appeared in the mid-1800s to sell insurance offering protection against accidents to railroad passengers. The Travelers Insurance Company wrote its 1st policy in 1864. Boiler explosions were also common during this time, so companies started selling boiler insurance in 1886. Employers liability insurance followed in 1886, elevator and public liability insurance in 1889.

Health insurance also largely began in the 1900s, especially as healthcare became more specialized and expensive. As factories and other industries started to use more machinery, many people were injured on the job, giving rise to workers compensation in 1910. Also in the 1900s, many social insurance programs were enacted, including the Social Security Act in 1935 and Medicare in 1965.

Before 1950, many state laws required insurance companies to specialize in particular kinds of coverage, but later, insurers were permitted to offer package policies that combined the various forms of coverage, such as homeowners insurance and liability. Later, to increase competition, other types of companies besides insurance companies, such as banks, were permitted to sell insurance.

**Q2 #**

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

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

**Example 1 :**

if you have a 20% coinsurance, you pay 20% of each medical bill, and your health insurance will cover 80%, after your deductible have been met.

**Example 2 :**

Assume you take out a health insurance policy with an 80/20 coinsurance provision, a $1,000 out-of-pocket deductible, and a $5,000 out-of-pocket maximum. Unfortunately, you require outpatient surgery early in the year that costs $5,500. Since you have not yet met your deductible, you must pay the first $1,000 of the bill. After meeting your $1,000 deductible, you are then only responsible for 20% of the remaining $4,500, or $900. Your insurance company will cover 80%, the remaining balance.

**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).

**Example 1 :**

dual car insurance can occur is when you’ve specifically insured your personal 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 included with your bank account.

Without even trying, you’re now covered for the same thing under multiple policies – dual insurance is well and truly in place.

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

**Example 1 :**

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. In other words, the retailer will be on its own and will not be able to turn to an insurance company to take care of the problem.

**Example 2 :**

Self-insurance may be feasible if a company owns a large number of buildings and each building is in a 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 exceeded $40,000 in a year, the company may decide that self-insurance is a good business risk.

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

**Example 1 :**

let's say you run a small auto insurance company and you've collected a total of $10,000 in premiums from your customers this year. However, if one of your customers gets into a serious accident, it could easily create a claim for which you would have to pay out several times that amount. So you use a portion of the premiums you receive to purchase a reinsurance contract that will pay out in the event of an exceptionally large loss.

**Example 2 :**

consider a massive hurricane that makes landfall in Florida and causes billions of dollars in damage. If one company sold all the homeowners insurance, the chance of it being able to cover the losses would be unlikely. Instead, the retail insurance company spreads parts of the coverage to other insurance companies (reinsurance), thereby spreading the cost of risk among many insurance companies.