NAME: SYED HABIB SHAH
ID: 6913
PAPER: INSURANCE MANAGEMENT & PRACTICES

Q NO 1:

ANSWER:

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 insurance company insurance carrier or underwriter. A person or entity who buys insurance is known as an insured or as a policyholder. The insurance transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate the insured in the event of a covered loss. The loss may or may not be financial, but it must be reducible to financial terms, and usually involves something in which the insured has an insurable interest established by ownership possession or pre-existing relationship. The insured receives a contract called the insurance policy which details the conditions and circumstances under which the insurer will compensate the insured. The amount of money charged by the insurer to the policyholder for the coverage set forth in the insurance policy is called the premium. If the insured experiences a loss which is potentially covered by the insurance policy the insured submits a claim to the insurer for processing by a claims adjuster. The insurer may hedge its own risk by taking out reinsurance whereby another insurance company agrees to carry some of the risks especially if the primary insurer deems the risk too large for it to carry.

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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. The adjuster must obtain legal counsel for the insured either inside house counsel or outside panel counsel monitor litigation that may take years to complete, and appear in person or over the telephone with settlement authority at a mandatory settlement conference when requested by the judge. If a claims adjuster suspects underinsurance, the condition of average may come into play to limit the insurance company's exposure. In managing the claims handling function insurers seek to balance the elements of customer satisfaction administrative handling expenses and claims overpayment leakages. As part of this balancing act fraudulent insurance practices are a major business risk that must be managed and overcome. Disputes between insurers and insured's over the validity of claims or claims handling practices occasionally escalate into litigation.

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Q NO 2:

ANSWER:

Marketing Tools:

Insurers will often use insurance agents to initially market or underwrite their customers. Agents can be captive, meaning they write only for one company, or independent, meaning that they can issue policies from several companies. The existence and success of companies using insurance agents is likely due the availability of improved and personalized services. Companies also use Broking firms, Banks and other corporate entities like Self Help Groups, Microfinance Institutions, NGOs, etc. to market their products. Any risk that can be quantified can potentially be insured. Specific kinds of risk that may give rise to claims are known as perils. An insurance policy will set out in detail which perils are covered by the policy and which are not.

Tools and techniques

Strategic planning focuses on the 3C's namely Customer, Corporation and Competitors. A detailed analysis of each factor is key to the success of strategy formulation.

The 'competitors' element refers to an analysis of the strengths of the business relative to close rivals and a consideration of competitive threats that might impinge on the business ability to move in certain directions.

The 'customer' element refers to an analysis of any possible changes in customer preferences that potentially give rise to new business opportunities.

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The 'corporation' element refers to a detailed analysis of the company's internal capabilities and its readiness to leverage market-based opportunities or its vulnerability to external threats.

Mintzberg suggests that the top planners spend most of their time engaged in analysis and are concerned with industry or competitive analyses as well as internal studies, including the use of computer models to analyze trends in the organization. Strategic planners use a variety of research tools and analytical techniques, depending on the environment complexity and the firm's goals. Fleitcher and Bensoussan, for instance, have identified some 200 qualitative and quantitative analytical techniques regularly used by strategic analysts while a recent Publication suggests that 72 techniques are essential. No optimal technique can be identified as useful across all situations or problems. Determining which technique to use in any given situation rests with the skill of the analyst. The choice of tool depends on a variety of factors including: data availability; the nature of the marketing problem; the objective or purpose, the analyst's skill level as well as other constraints such as time or motivation.

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Q NO 3:

Answer:

Underwriting and investing Process

Insurers' business model aims to collect more in premium and investment income than is paid out in losses and to also offer a competitive price which consumers will accept.

Profit can be reduced to a simple equation.
Profit = earned premium + investment
income – incurred loss – underwriting expenses.

Insurers make money in two ways through underwriting the process by which insurers select the risks to insure and decide how much in premiums to charge for accepting those risks and taking the brunt of the risk should it come to fruition. By investing the premiums they collect from insured parties. The most complicated aspect of insuring is the actuarial science of ratemaking (price-setting) of policies which uses statistics and probability to approximate the rate of future claims based on a given risk. After producing rates, the insurer will use discretion to reject or accept risks through the underwriting process. At the most basic level initial rate making involves looking at the frequency and severity of insured perils and the expected average payout resulting from these perils. Thereafter an insurance company will collect historical loss-data bring the loss data to present value and compare these prior losses to the premium collected in order to assess rate adequacy. Loss ratios and expense loads are also used. Rating for different risk characteristics involves at the most basic level comparing the losses with loss relativities a policy with twice as many

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Losses would, therefore, be charged twice as much. More complex multivariate analyses are sometimes used when multiple characteristics are involved and a univariate analysis could produce confounded results. Other statistical methods may be used in assessing the probability of future losses. Upon termination of a given policy, the amount of Premium collected minus the amount paid out in claims is the insurer's underwriting profit on that policy. Underwriting performance is measured by something called the combined ratio which is the ratio of expenses/losses to premiums. A combined ratio of less than 100% indicates an underwriting profit while anything over 100 indicates an underwriting loss. A company with a combined ratio over 100% may nevertheless remain profitable due to investment earnings. Insurance companies earn investment profits on float. Float or available reserve is the amount of money on hand at any given moment that an insurer has collected in insurance premiums but has not paid out in claims. Insurers start investing insurance premiums as soon as they are collected and continue to earn interest or other income on them until claims are paid out. The Association of British Insurers (grouping together 400 insurance companies and 94% of UK insurance services) has almost 20% of the investments in the London Stock Exchange. In 2007, U.S. industry profits from float totaled $58 billion. In a 2009 letter to investors Warren Buffett wrote we were *paid* $2.8 billion to hold our float in 2008. In the United States the underwriting loss of property and casualty insurance companies was $142.3 billion in the five years ending 2003. But overall profit for the same period was $68.4 billion, as the result of float. Some insurance-industry insiders, most notably Hank Greenberg, do not believe that it is possible to sustain a profit from float forever without an underwriting profit as well, but this opinion is not universally held. Reliance on float for profit has led some industry experts to call insurance companies investment companies that raise the money for their investments by selling insurance. Naturally the float method is difficult to carry out in an economically depressed period. Bear markets do cause insurers to shift away from investments and to toughen up their underwriting standards so a poor economy generally means high insurance premiums. This tendency to swing between profitable and unprofitable periods over time is commonly known as the underwriting or insurance cycle.

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Q NO 4:

ANSWER:

Types of Insurance

Vehicle insurance would typically cover both the property risk theft and damage to the vehicle and the liability risk legal claims arising from an accident. A home insurance policy in the United States typically includes coverage for damage to the home and the owner's belongings certain legal claims against the owner and even a small amount of coverage for medical expenses of guests who are injured on the owner's property. Business insurance can take a number of different forms such as the various kinds of professional liability insurance also called professional indemnity which are discussed below under that name and the business owner's policy (BOP) which packages into one policy many of the kinds of coverage that a business owner needs in a way analogous to how homeowners insurance packages the coverage's that a homeowner needs.

Auto insurance

Auto insurance protects the policyholder against financial loss in the event of an incident involving a vehicle they own such as in a traffic collision. Coverage typically includes Property coverage for damage to or theft of the car Liability coverage, for the legal responsibility to others for bodily injury or property damage Medical coverage for the cost of treating injuries rehabilitation and sometimes lost wages and funeral expenses

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Gap insurance

Gap insurance covers the excess amount on your auto loan in an instance where your insurance company does not cover the entire loan. Depending on the company's specific policies it might or might not cover the deductible as well. This coverage is marketed for those who put low down payments have high interest rates on their loans and those with 60 month or longer terms. Gap insurance is typically offered by a finance company when the vehicle owner purchases their vehicle but many auto insurance companies offer this coverage to consumers as well.

Health insurance

Health insurance policies cover the cost of medical treatments. Dental insurance like medical insurance protects policyholders for dental costs. In most developed countries all citizens receive some health coverage from their governments paid through taxation. In most countries health insurance is often part of an employer's benefits.

Income protection insurance

Disability insurance policies provide financial support in the event of the policyholder becoming unable to work because of disabling illness or injury. It provides monthly support to help pay such obligations as mortgage loans and credit cards. Short term and long term disability policies are available to individuals but considering the expense long term policies are generally obtained only by those with at least six figure incomes such as doctor's lawyers etc. Short term disability insurance covers a person for a period typically up to six months paying a stipend each month to cover medical bills and other necessities. Long term disability insurance covers an individual's expenses for the long term up until such time as they are considered permanently disabled and thereafter Insurance companies will often try to encourage the person back into employment in preference to and before declaring them unable to work at all and therefore totally disabled. Disability overhead insurance allows business owners to cover the overhead expenses of

Their business while they are unable to work. Total permanent disability insurance provides benefits when a person is permanently disabled and can no longer work in their profession often taken as an adjunct to life insurance. Workers compensation insurance replaces all or part of a worker's wages lost and accompanying medical expenses incurred because of a job related injury.

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. This depends upon the insuring company, the type of policy and other variables (mortality, market return, etc.). Moreover, other income tax saving vehicles (e.g., IRAs, 401(k) plans, Roth IRAs) may be better alternatives for value accumulation.

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Property

Property insurance provides protection against risks to property such as fire theft or weather damage. This may include specialized forms of insurance such as fire insurance flood insurance earthquake insurance home insurance inland marine insurance or boiler insurance. The term *property insurance* may like casualty insurance be used as a broad category of various subtypes of insurance some of which are listed below Aviation insurance protects aircraft hulls and spares and associated liability risks such as passenger and third party liability. Airports may also appear under this subcategory including air traffic control and refueling operations for international airports through to smaller domestic exposures. Boiler insurance also known as boiler and machinery insurance or equipment breakdown insurance insures against accidental physical damage to boilers equipment or machinery. Builder's risk insurance insures against the risk of physical loss or damage to property during construction. Builder's risk insurance is typically written on an all risk basis covering damage arising from any cause including the negligence of the insured not otherwise expressly excluded. Builder's risk insurance is coverage that protects a person's or organizations insurable interest in materials fixtures or equipment being used in the construction or renovation of a building or structure should those items sustain physical loss or damage from an insured peril. Crop insurance may be purchased by farmers to reduce or manage various risks associated with growing crops. Such risks include crop loss or damage caused by weather hail drought frost damage insects or disease. Index based insurance uses models of how climate extremes affect crop production to define certain climate triggers that if surpassed have high probabilities of causing substantial crop loss. When harvest losses occur associated with exceeding the climate trigger threshold the index-insured farmer is entitled to a compensation payment. Earthquake insurance is a form of property insurance that pays the policyholder in the event of an earthquake that causes damage to the property. Most ordinary home insurance policies do not cover earthquake damage. Earthquake insurance policies generally feature a high deductible. Rates depend on location and hence the likelihood of an earthquake, as well as the construction of the home. Fidelity bond is a form of casualty insurance that covers policyholders for losses incurred as a result of fraudulent acts by specified individuals. It usually insures a business for losses caused by the dishonest acts of its employees. Flood insurance protects against Property loss due to flooding. Many U.S insurers do not provide flood insurance in some parts of the country. In response to this the federal government created the National Flood Insurance Program which serves as the insurer of last resort.