

# Management Insurance companies

MODULE 7

# Insurance Market

- ▶ Insurers/insurance carriers – insure
- ▶ Insurance brokers – other in service providers like survey
- ▶ Insurance agencies – sell on insurers, may be exclusive c



# Types of Insurance organisations

- ▶ Can be classified on the basis of
  - ▶ - risk coverage (life, health fire etc)
  - ▶ - agency system (independent, exclusive, etc)
  - ▶ - formation (stock or mutual)

## STOCK INSURERS:

Companies that are owned and controlled by a board of directors and officers. Shareholders and policyholders get bonus. Therefore they balance the interests of both. They raise money by issuing more policies. In case of life insurance they pay dividends and pay interest.

- ▶ **MUTUAL INSURERS:**
- ▶ Mutual companies owned by policy holders may be arranged by an intermediary which owned by policy holders company interests alone. Their only way to make money is by sell insurance. Mutual insurers can give loan and earn interest.
- ▶ A mutual insurer may de-mutualise and become a stock company vice versa.
- ▶ Mutual insurance companies can be motivated to offer certain kinds of policies which a stock company cannot.
- ▶ **LLOYD'S OF LONDON:**
- ▶ Lloyd's is not a single insurer but a leading insurance services and physical facilities for members to develop new insurance products

- ▶ **RECIPROCAL EXCHANGE:**
- ▶ Also called inter insurance an unincorporated organ insurance is exchanged and It is managed by an attorney corporation authorised by new members, pay premiums, invest and perform. It is only a representative and not liable to pay.



# Organisation structure of in companies

- ▶ Owners of shareholders of the company elect a board of directors at the top who elect a board of directors.
- ▶ Board of directors is the primary governing body of the company. It sets goals and policies for the company.
- ▶ Board controls the CEO and other executives of the company who work towards implementing the targets set by the board.

# Functions of Insurers

- ▶ Production/sales
- ▶ Underwriting
- ▶ Rate making
- ▶ Claim settlement
- ▶ Investment and financing
- ▶ Accounting and record keeping

# Underwriting

- ▶ Underwriting is the process by which an insurer takes decision to accept or reject an application to charge a premium. Underwriting is the process by which an insurance company to take a risk and earn money by way of premium.
- ▶ Each company has its own underwriting policy to decide on underwriting and premium rates related to the type of policy.



# Risk categories in underwriting

- ▶ Underwriting involves classification of risk into various groups of insured that involves similar level of risk. The following are the 4 such risk classes:
- ▶ 1. preferred risks: here the anticipated mortality is less than the average. It represents least risk for the insurer with low potential.
- ▶ 2. standard lives: Here the anticipated mortality is in line with the mortality as average. Here the risk is on par with the average at expected levels.
- ▶ 3. sub-standard lives: here the anticipatory mortality is above the average but they are still considered insurable.
- ▶ 4. declined lives: here the expected mortality is too high and the insurer cannot accept the proposals even at high rates. Such proposals are declined by the insurer.

## Principles of underwriting:

- ▶ 1. to accept proposals in company's risk norms:
- ▶ 2. balance rate classes (above and below normal ) to arrive at average
- ▶ 3. to fix equitable rates for each class without cross subsidization

# Factors in underwriting in Life Insurance

- ▶ Age
- ▶ Health condition – cholesterol, blood pressure, etc.
- ▶ Income levels
- ▶ Family history- cancer , heart disease
- ▶ Occupation – hazardous like construction
- ▶ Habits – tobacco, alcohol



# Underwriting process in life

- ▶ Getting information of risk through
  - application containing (part A is general and agent's statement or report, signature of all agent, mode term of payment etc
  - Medical examination for life and health insurance
  - Independent agency providing financial and the party.
  - underwriting in field by the agent/producer
- ▶ Risk assessment
- ▶ Decision: Accept at standard rates/charge conditions/reject risk

# Underwriting in non-life insurance

- ▶ Escalating costs, awards and increasing litigation making business unprofitable. More care is required
- ▶ Source of information is application, local inspection report, prior experience and c
- ▶ Underwriting done by NB dept at branch guidelines set by HO as under:

Types of vehicles:

Type of vehicles underwritten is as per classification under Vehicle Act 1988

Private car: vehicles used for social, domestic, business excluding use of horse, racing,, reliability

Two wheelers: motorised two wheelers ... so

- ▶ Commercial vehicles: motor vehicles  
1 and 2 above like
- ▶ - goods carrying vehicle
- ▶ - trailers
- ▶ - carrying passengers
- ▶ - agricultural and forestry vehicles  
purpose vehicles



# Claims settlement

- ▶ Claim refers to demand made by insured to insurer to pay the compensation upon occurrence of an insured event.
- ▶ OBJECTIVES/STEPS:
  - ▶ 1. Verification of covered loss
  - ▶ 2. Fair and prompt payment of claim  
Not more, not less. Unfair claim settlement is refusing to pay claims without proper investigation, attempting to pay in good faith, and the facts become clear. Compelling insured to accept a settlement.
  - ▶ 3. provide personal assistance after claim

# Types of claim adjustors

- ▶ Insurance agent
- ▶ Company adjustor
- ▶ Independent adjustor
- ▶ Adjustment bureau
- ▶ Public adjustor

# Claim settlement in life insurance

- ▶ File a claim and provide necessary documents
- ▶ Adjustor assesses the situation and gives an estimate
- ▶ Claim settlement



# Claim settlement in health insurance

- ▶ Cashless method:

- ▶ Reimbursement method:

# Claims settlement in motor

- ▶ Two types
- ▶ 3P insurance – compulsory, std tariff
- ▶ Own insurance – voluntary, variable tariff
- ▶ Claim settlement involves the following documents
- ▶ Claim form
- ▶ Survey report
- ▶ D/L
- ▶ Registration certificate
- ▶ FC for commercial vehicles
- ▶ Permit for commercial vehicles
- ▶ Police report for TP claims
- ▶ Repair bills

# Claims procedure for repair

- ▶ Verification of claim upon receipt of notice
  - ▶ Entered in claims register and claims form
  - ▶ Insured submits an estimate
  - ▶ Insurer accepts or asks for alternative quotation
  - ▶ Independent surveyor /company person inspects claim and submits report.
  - ▶ Survey report is scrutinised and accepted by repairer. They are advised about money to be paid to the insured
  - ▶ Discharge voucher or receipt is obtained from insured
  - ▶ Claim register and policy records are maintained
- 
- settlement details



## Claim settlement in case of

- ▶ When vehicle is beyond repair in nature surveyor negotiates with insured a total loss settlement. Settlement is on the basis of market value or insured's declared value, whichever is lower.
- ▶ Insured is paid money and the vehicle is sold by the insurer and auctioned to the highest bidder.
- ▶ Insured hands over all documents, keys, etc to the insurer

## Claim settlement in case of

- ▶ Theft case is also settlement similar to
- ▶ FIR copy with SDE no or CR no is required in the application.
- ▶ Police may trace the vehicle or issue a certificate in 1-2 months
- ▶ RC book/duplicate RC book and a form from RTO is also required.
- ▶ Discharge form and indemnity bond

# Insurance pricing



# Insurance cost or premium

## ► MEANING:

- Consideration paid to insurance company for insurance protection for time period is called premium. This is the selling price and cost of insurance to the

# Insurance pricing - Objecti

## ▶ 1. RATE ADEQUACY

- ▶ Rates adequate to fulfil promise of policy

## ▶ 2. RATE EQUITY

- ▶ Charging premiums commensurate with expected costs and losses incurred in insurance business.

## ▶ 3. RATES NOT EXCESSIVE

- ▶ Rates should not be excessive in relation to benefits promised by the policy

# Factors affecting costs/Fair

Expected liability/claim:

- ▶ Claim cost would equal magnitude of claim and the pro

Time value of money:

- ▶ Premium is paid in advance and therefore can be discounted to accommodate for the interest earned during that period taken to calculate premiums

- ▶  $PV = 1/(1+r)^n$

Cost of holding capital:

- ▶ companies hold idle capital to take care of investment pay-outs. Cost of such capital needs to be built-in while

Admin costs:

- ▶ Admin costs like marketing, administration, etc

Riders chosen:

- ▶ Riders like DAB, critical illness etc will increase the premium

FAIR PREMIUM IS THAT PREMIUM WHICH COVERS ALL THESE C



# Profit loading

- ▶ Amount added by the insurer to pure insurance premium and take care of required profits for organisation.
- ▶  $\text{Premium} = \text{cost of claims} + \text{other expenses} + \text{Required profit}$
- ▶ (Use explanations from the previous slide)
- ▶ Usually expressed as a percentage of the cost and other expenses.

# Investment income

- ▶ Life Insurance companies sell two types of policies with profits. General insurance involves no profits (but the
- ▶ A without profits policy caters to pure insurance where
- ▶ In a with profits policy investment and returns are inv
- ▶ Fund created for investment in life insurance business
- ▶ Life fund is invested in Government bonds, safe secu
- ▶ Returns are variable and not fixed
- ▶ Returns are distributed to policy holders as bonus, de
- ▶ of sum assured. Its not payable on a premiums paid
- ▶ Bonus is reversionary and is payable at the end upon
- ▶ LIC pays the highest bonus while private insurers gen
- ▶ Investment income from insurers are generally lower
- ▶ forms of fixed investments like PPF, FD etc

# Timing of claim settlement

- ▶ Involves 2 types, viz death claim and maturity claim
- ▶ Death claim settlement is payment of dues to the policy holder upon happening of an event as mentioned in the policy contract. A maturity claim settlement is payment made to the policy holder upon maturity of the policy
- ▶ IRDA Policy holders' interest Regulations 2002, Regulation 10 stipulates that the insurer has to settle claims within 30 days of receiving all document including clarifications to the claim
- ▶ If settlement involves investigation, it has to be completed within 6 months from receiving claim request
- ▶ In money back policies survival benefits are paid in the time frame mentioned in the contract



# Capital Shocks

- ▶ Insurance capital is a matter of demand and supply.
- ▶ Supply gets affected due to catastrophic events. A spurt in claims. Supply curve shifts left indicating an increase in price and reduction in quantity. This is a HARD market.
- ▶ When profits increase with lower claims, the supply curve shifts to the right indicating an increase in supply and reduction in price.
- ▶ Insolvency risk depends upon capital adequacy and varying supply owing to uncertainty

# Underwriting cycle

- ▶ The process of Underwriting undergoes hard and soft stance.
- ▶ When underwriting makes profits many come in
- ▶ Increases supply and reduces premium
- ▶ Profits come down and capital erode
- ▶ Price increases to protect capital and improves, many players start coming in
- ▶ DRAW A CIRCULAR PICTURE AND EXPLAIN STEP WITH DETAILS

# Price Regulation

- ▶ Several regulations governing registration, a solvency, capital standards, rates, claim sett
- ▶ In the US certain states have rate regulation not have
- ▶ Objective is to be fair, not excessive, uniform
- ▶ In India, rates regulation is done by IRDA in the public
- ▶ 3P insurance under motor vehicle insurance regulation. Premium is fixed by the government
- ▶ All other premiums are fixed by the companies



# Distribution channels

## 1. Insurance agents:

- ▶ Agents who represent the company; not
- ▶ Includes individual/companies
- ▶ They represent a single company
- ▶ Categorised as life, general.
- ▶ Requires to pass IRDA exam and obtain a
- ▶ An agent must provide correct information
- ▶ Provides a “confidential Report” to the company on matters affecting underwriting
- ▶ Assists policy related services to the policyholder: premium, nomination, claim settlement etc.

## DISTRIBUTION CHANNELS:

- ▶ Traditionally, the life insurers have depend on the agency distribution.
- ▶ On the contrary the general insurer has depended totally on the dev
- ▶ The scenario has been different for insurers a no agency commission writing business more than 10 lakh brokers.

# TRADITIONAL CHANNEL OF

## AGENTS :



- ▶ Most of the life insurance companies in India follow marketing through agents.
- ▶ In case of private players they are named as Insurers.
- ▶ The agents are trained to be sensitive to the dominant education and marriage of children.



# Insurance Agents

- ▶ A person licenced by a state and by an insurance company to sell insurance in the company's behalf.
- ▶ The agent generally receives a commission for the service.
- ▶ He or she attempts to extract the maximum benefit from the insurance company in all his or her transactions.
- ▶ An insurance agent should not be confused with an insurance broker or insurance underwriter.

Type of insurance includes

- ▶ Property
- ▶ Life
- ▶ Health
- ▶ Disability
- ▶ Long term care



- ▶ Every state (USA) requires insurance agent
- ▶ They are required to obtain separate license insurance or property.
- ▶ In most states, sales agents in order to become complete pre licensing course and pass state





# EVERY INSURANCE AGENT SH

- ▶ Identify himself and the insurance company of who
- ▶ Disclose his license to the prospect on demand.
- ▶ Disclose the scale of commission in respect of the insurance sale, if asked by prospect.
- ▶ Indicate the premium to be charged by the insurer offered for sale.
- ▶ The insurance agent should provide all the information in the proposal.

- ▶ Inform promptly the prospect about the acceptance by the insurer.
- ▶ The insurance agent should provide the information required for the completion of insurance proposal.
- ▶ The insurance agent in the time of settlement of claim policy holder.
- ▶ The agent should provide all the information regarding the change of address.



# Channels – corporate agents

- ▶ It's a company representing an insurance company as an agent
- ▶ Usually a bank. Bank acting as an agent for insurance products is termed "Bancassurance"
- ▶ Only one life and one general company represented by a bank
- ▶ Bancassurance are generally cheaper than purchasing from an insurance company, especially with health insurance
- ▶ Service experience with Bancassurance is generally better
- ▶ There are other corporate agents who are not banks like financial services companies



# Various Channels in In Corporate Agent

SUBMITTED BY  
SUDARSHAN SHETTY

# Meaning of Corporate age

Corporate Agents are the entities empowered to function as agents for businesses or for government agency

## Every Licenced Corporate Agent shall abide specified below

- ❖ Be responsible for all the act of its corporon specified person.
- ❖ The corporate agents must ensure that the specified person are well trained, skilled, and insurance product they market
- ❖ Ensure that the corporate insurance execu do not make any misrepresentation on the returns available under the policy to his custo
- ❖ Ensure that the customer or prospect are insurance product



- Give adequate advice to the insured before the purchase of the insurance product as well as after they buy the insurance product.
- Extending help as well as cooperation to the insured in completing all the formalities and documentation in the insurance process.
- Give due publicity that the corporate agent does not assume the risk or act as an insurer. He acts as an agent for the insured.
- enter into an agreement with the insurer in which the respective responsibilities of both insurer and corporate agent are mentioned.

**Every corporate agent shall or a corporate insurance ex  
shall also follow code of conduct specified below**

- ❖ Identify himself and insurance company representative
- ❖ Disclose his license/certificate when demanded
- ❖ Give proper information about the insurance insurer and also take care the needs recommending a specified insurance plan
- ❖ He must disclose the scale of commission product offered for sale if asked by the insurer

- ▶ Indicate the premium to be charged by the product offered for sale
- ▶ He must explain the prospect or customer information that has to be given by the customer
- ▶ He must also explain the importance of submitting the purchase of an insurance contract
- ▶ He must inform promptly to the customer of rejection of proposal by the insurer
- ▶ He must obtain the required document proposal with the insurer
- ▶ He must also obtain documents from the customer and the insurer for the completion of proposal



- ❖ He must give assistance to the policy holder settlement of claim by the insurer
- ❖ Provide advice to every individual policy holder in the address or exercise of options as the necessary

## **No corporate agent/corporate insurance executive/ sp**

- ✓ Shall run the business without holding a valid
- ✓ He should not induce the customer to o  
information in the proposal form
- ✓ He should induce (not make) the cus  
information in the proposal form or document  
for acceptance of proposal
- ✓ Behave equally with the customer or pro  
personal benefit
- ✓ He should not interfere with the proposal mo  
person

- ▶ He should not offer different rates, advantages other than those offered by the insurer
- ▶ He must not demand any benefits or share as beneficiary under insurance contract
- ▶ He should not force the policy holder to terminate and buy the new policy within 3 years of termination
- ▶ He must apply for the fresh licence to act once the licence is cancelled earlier
- ▶ He should make sure that the policy holder terminates the stipulated time by giving notice to the policy holder in writing



Source: [www.policyholder.gov.in/corporate\\_agent](http://www.policyholder.gov.in/corporate_agent)  
[www.irda.gov.in](http://www.irda.gov.in)

# Channels of Insurance – Brok

SUBMISSION BY :

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## Brokers :

- ▶ IRDA's Annual Report 2001-02 describes Insurance brokers ,as professionals , fill the void in terms of providing for specific needs of the client ,by assessing the risk on behalf of the client ,advise on the mitigation of the specific risk ,the optimal insurance policy structure ,act as intermediaries between insured and insurers ,carry out work relating to insurance contracts and , where necessary , monitor the administration and performance of insurance contracts in particular when claims arise ”.



- ▶ They are the professionals who assess the insurance needs of the client
- ▶ Then they evaluate the risk and suggest the insurance cover for clients
- ▶ IRDA has issued guidelines for the formation and regulation of affairs to insurance consultants in 2002 .

- ▶ As per the guidelines ,the brokers sre c
- 1. Category - Direct General Insurance
- 2. Category - Direct Life Insurance brok
- 3. Category - Reinsurance broker
- 4. Category - Composite broker
- 5. Category - Insurance Consultant

# Provisions

- ▶ Guidelines provide the qualification functions for various classes
  - ▶ Net worth requirement for broker, direct and reinsurance brokers is 2.00 crores, Insurance Consultant
  - ▶ Brokerage is determined by IRDA 30% of the premium
  - ▶ Solvency margin has to be maintained 10% of the gross brokerage and f
- 
- PY .



- ▶ Books of accounts has to be maintained by brokers , has to submit audit statement and report within 60 days of the year end of accounting.
- ▶ The records should be kept atleast 5 years

## Benefits :

- ▶ Improvement in customer service
- ▶ Transfer of technology and managerial know-how
- ▶ Benefits to insurance Companies
- ▶ Foreign exchange considerations

# Channels of Insurance



## Other channels

An increasing number of insurers use multiple distribution channels to continue to balance the need to reach different groups of customers with the cost of distributing their products and services. When it comes to insurance distribution channels, one size does not necessarily fit all.

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The other distribution channels of insurance are:

**Banks:**

- ▶ Banks in India are all pervasive, especially the public sector banks. Many insurance companies are selling the products through these banks. Companies which are bank owned, they are selling the products through their parent bank.
- ▶ The public sector bank with their vast branch network is selling the products of the insurance companies. This channel of selling is known as bank assurance.

### Internet marketing:

- ▶ In this technological world internet is also a channel for insurance. This can be as a direct marketing. Insurance companies use internet to provide general information of financial products and planning involving the use of these products, provide information about the company and its products, provide administrative support to its policy holders and to provide prospecting and communication tool for its agents.



- ▶ Internet helps to collect information for consumer process. The consumers first use the internet to compare product or services. They, then return to the agent for purchase. This behavior highlights the current role of technology in providing support to the agent led channel.
- ▶ Now a days, the advantage of technology allows insurers to increase their reach in to the market. All insurers have websites through which they provide information about the products.

### Work site marketing:

It is the distribution method providing the voluntary insurance to employees at their work place with the sponsorship of employer, which is done on a deduction from their pay. The premium for insurance is directly made with employee rather than employer.

- ▶ In this channel life insurers send team to a target group to sell the products either individual or group products. The target group may be employees of a particular company or an educational institute.
- ▶ One possible reason for insufficient development of life insurance in India is that employers generally expect some kind of facilities to be provided by the life insurers for making arrangements for deduction of premium.



### **Invisible insurer:**

In this model, the insurance company or its representative entity marketing the products. The insurance cover is provided by an automobile/ credit card company as an add on product under the brand of the retailer. This risk is carried by the insurer which underwrites it.

Product like creditor insurance, automobile insurance and other related insurance could be distributed using this channel. This can be adopted in all market segments for the lines mentioned. It is already prevalent in some areas like life insurance and crop insurance for agricultural loans.

Source:

[www.general  
insuranceassociation.org.sg](http://www.generalinsuranceassociation.org.sg)

## **Critical success factors for Insurance players**

### **Change in the attitude of population**

- ▶ Usually think as Tax benefit
- ▶ Lustre should wipe out once they implement
- ▶ Need to educate people

### **Open and Transparent Environment created under the**

- ▶ Objective should be clearly communicate w
- ▶ Customer should feel safe
- ▶ Otherwise there will be an air of uncertainty



### Trained professionals to Build and sell the product

- ▶ Insurance agents are trained
- ▶ Excellent sales team is required to compete

### Rationale Approach to the Investment criteria

- ▶ IRDA provides guidelines for investment
- ▶ For the interest of public

### ➤ Stringent Accounting practice to prevent Failure of Insurers

- ▶ Insurers deal with masses hard-earned money
- ▶ Prevent from going burst

## Well established Distribution network

- ▶ Distribution is the key area
- ▶ Public sector banks are one of the le

## Level playing field at all stages of De sector for all the players

- ▶ Providing an unbiased environment
- ▶ Responsibility of government

## Financial literacy

# STRATEGIC TECHNIQUE

PRESENTING BY:



Marketing strategy serves as the foundation of  
Marketing plan contains a list of specific actions  
successfully implement a specific marketing strategy

# Marketing strategy techniques

- ▶ Segmentation
- ▶ Positioning
- ▶ targeting

# Segmentation:

Market segmentation is the process of marketing of grouping a market (into smaller sub-groups. It is not an imposed on society but it is derived from recognition that the total market is made up of sub-markets is called as segmentation.



Market segmentation consists two m

- ▶ Identification of broad, large mar
- ▶ Segmentation of these markets in  
select the most appropriate target  
and develop marketing mixes ac

# Positioning:

Positioning is how the target market defines the insurer in relation to competitors. A good position is

- ▶ What makes you unique?
- ▶ This is considered a benefit by the market

# Targeting:

- ▶ Targeting means breaking the market then concentrating your marketing efforts on key segments.
- ▶ Target marketing can be the key to a success.
- ▶ Target market makes the promotion, purchase of products and services easier & more effective.
- ▶ Target marketing provides a focus to a business.