B.B.A (B & I): 306 PRACTICE OF GENERAL INSURANCE

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MEANING AND IMPORTANCE OF NON-LIFE INSURANCE

Non-life insurance refers to the property and liability insurance. Fire insurance covers stationary property. Marine insurance covers mobile property. Bonding is a special coverage that guarantees the performance of the contract by one party to another. Casualty coverage includes accident and health insurance besides the above mentioned categories. Miscellaneous Insurance business means all other general insurance contracts including therein motor insurance.

Fire

A fire insurance policy provides protection strictly against fire. There could be enormous reasons for fire. In practice certain other related perils are also covered by the fire insurance policy. The General Insurance Act (Tariff) recommends the form of the contract in which a fire insurance is to be written.

The policy form contains a preamble and operative clause, general exclusions and general conditions.

Fire Insurance comes under tariff class of business. All India Fire Tariff is the revised fire insurance tariff, which came into force on May1, 2001. Now a single policy was introduced to cover all property risks called standard fire and special peril policy in the place of three standard policies i.e. A, B&C.

Marine

Marine insurance is a contract under which, the insurer undertakes to indemnify the insured in the manner and to the extent thereby agreed, against marine losses, incidental to marine adventures. It may be defined as a form of insurance covering loss or damage to vessels or to cargo during transportation to the high seas.

It follows from the above discussion the marine insurance is a contract between the insured and the insurer. The insured may be a cargo owner or a 152 ship owner or a freight receiver. The insurer is known as the underwriter. The document in which the contract is incorporated is called "Marine policy". The insured pays a particular sum, which is called premium, in exchange for an

undertaking from the insurer to indemnify the insured against loss or damage caused by certain specified perils.

The salient features of a contract of marine insurance are as follows:

1. It is based on utmost good faith. Both the insured and the insurer must disclose everything which is in their knowledge and can affect the contract of insurance.

2. It is a contract of indemnity. The insured is entitled to recover only the actual amount of loss from the insurer.

3. Insurable interest in the subject-matter insured must exist at the time of the loss. It need not exist when the insurance policy is taken. Under marine insurance, the following persons are deemed to have insurable interest:

a) The owner of the ship.

b) The owner of the cargo.

c) A creditor who has advanced money on the security of the ship or cargo.

d) The mortgagor and mortgagee.

e) The master and crew of the ship have insurable interest in respect of their wages.

f) In case of advance freight, the person advancing the freight has an insurable interest if such freight is not repayable in case of loss.

4. It is subject to the doctrine of causa proxima. Where a loss is brought by several causes in succession to one another, the proximate or nearest cause of loss must be taken into account. If the proximate cause is covered by the policy, only then the insurance company will be liable to compensate the
insured.

5. It must contain all the essential requirements of a valid contract, e.g. lawful consideration, free consent, capacity of the parties, etc.

Property insurance

Property insurance provides protection against most risks to property, such as fire, theft and some weather damage. This includes specialized forms of insurance such as fire insurance, flood insurance, earthquake insurance, home insurance, or boiler insurance. Property is insured in two main ways—open perils and named perils.

Open perils cover all the causes of loss not specifically excluded in the policy. Common exclusions on open peril policies include damage resulting from earthquakes, floods, nuclear incidents, acts of terrorism, and war. Named perils require the actual cause of loss to be listed in the policy for insurance to be provided. The more common named perils include such damage-causing events as fire, lightning, explosion, and theft.

Motor insurance

Motor insurance policy is a contract between the insured and the insurer in which the insurer promises to indemnify the financial liability in event of loss to the insured.

Motor Vehicles Act in 1939 was passed to mainly safeguard the interests of pedestrians. According to the Act, a vehicle cannot be used in a public place without insuring the third part liability. According to Section 24 of Motor
Vehicles Act, "No person shall use or allow any other person to use a motor
vehicle in a public place, unless the vehicle is covered by a policy of
insurance."

Classification of Motor Vehicles

As per the Motor Vehicles Act for the purpose of insurance the vehicles are
classified into three broad categories such as.

Private cars

a) Private Cars - vehicles used only for social, domestic and pleasure
purposes

b) Private vehicles - Two wheeled

1. Motorcycle / Scooters

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2. Auto cycles

3. Mechanically assisted pedal cycles

Commercial vehicles

1) Goods carrying vehicles

2) Passengers carrying vehicles

3) Miscellaneous & Special types of vehicles

The risks under motor insurance are of two types:

1) Legal liability due to bodily injury, death or damage caused to the property of others.

2) Loss or damage to one's own vehicle\ injury to or death of self and other occupants of the vehicle.

Aviation insurance

Aviation insurance is insurance coverage geared specifically to the operation of aircraft and the risks involved in aviation. Aviation insurance policies are distinctly different from those for other areas of transportation and tend to incorporate aviation terminology, as well as terminology, limits and clauses specific to aviation insurance.

Aviation insurance is divided into several types of insurance coverage available.[5]

Public liability insurance[edit]

This coverage, often referred to as *third party liability* covers aircraft owners for damage that their aircraft does to third party property, such as houses, cars, crops, airport facilities and other aircraft struck in a collision. It does not provide coverage for damage to the insured aircraft itself or coverage for passengers injured on the insured aircraft. After an accident an insurance company will compensate victims for their losses, but if a settlement can not be reached then the case is usually taken to court to decide liability and the amount of damages. Public liability insurance is mandatory in most countries and is usually purchased in specified total amounts per incident, such as $1,000,000 or $5,000,000.[5]

Passenger liability insurance[edit]

Passenger liability protects passengers riding in the accident aircraft who are injured or killed. In many countries this coverage is mandatory only for commercial or large aircraft. Coverage is often sold on a "per-seat" basis, with a specified limit for each passenger seat.[5]

Combined Single Limit (CSL)[edit]

CSL coverage combines public liability and passenger liability coverage into a single coverage with a single overall limit per accident. This type of coverage provides more flexibility in paying claims for liability, especially if passengers are injured, but little damage is done to third party property on the ground.[5]

Ground risk hull insurance not in motion[edit]

This provides coverage for the insured aircraft against damage when it is on the ground and not in motion. This would provide protection for the aircraft for such events as fire, theft, vandalism, flood, mudslides, animal damage, wind or hailstorms, hangar collapse or for uninsured vehicles or aircraft striking the aircraft. The amount of coverage may be a blue book value or an agreed value that was set when the policy was purchased.[5]

The use of the insurance term "hull" to refer to the insured aircraft betrays the origins of aviation insurance in marine insurance. Most hull insurance includes a deductible to discourage small or nuisance claims.

Ground risk hull insurance in motion (taxiing)[edit]

This coverage is similar to ground risk hull insurance not in motion, but provides coverage while the aircraft is taxiing, but not while taking off or landing. Normally coverage ceases at the start of the take-off roll and is in force only once the aircraft has completed its subsequent landing. Due to disputes between aircraft owners and insurance companies about whether the accident aircraft was in fact taxiing or attempting to take-off this coverage has been discontinued by many insurance companies.[5]

In-flight insurance[edit]

In-flight coverage protects an insured aircraft against damage during all phases of flight and ground operation, including while parked or stored. Naturally it is more expensive than not-in-motion coverage since most aircraft are damaged while in motion

Goods in Transit Insurance (Cargo)

Product Overview

It covers goods (row materials, parts or finished goods) being transported by the insured by ship, truck, railroad, or airplane. The insurance can be bound as an open cover for the total turnover transported annually. This coverage insures against most perils to which the property may be subject.

Construction industry

The **Construction industry of India** is an important indicator of the development as it creates investment opportunities across various related sectors. The construction industry has contributed an estimated ₹670,778 crore to the national GDP in 2011-12 (a share of around 8%).[1] The industry is fragmented, with a handful of major companies involved in the construction activities across all segments; medium sized companies specializing in niche activities activities; and small and medium contractors who work on the subcontractor basis and carry out the work in the field. The sector is labor-intensive and, including indirect jobs, provides employment to more than 35 million people

Future Challenges[edit]

The Indian economy has witnessed considerable progress in the past few decades. Most of the infrastructure development sectors moved forward, but not to the required extent of increasing

growth rate up to the tune of 8 to 10 per cent. The Union Government has underlined the requirements of the construction industry.

With the present emphasis on creating physical infrastructure, massive investment is planned in this sector. The Planning Commission has estimated that investment requirement in infrastructure to the tune of about ₹14,50,000 crore or US$320 billion during the 11th Five Year Plan period.

This is a requirement of an immense magnitude. Budgetary sources cannot raise this much resources. Public Private Partnerships (PPP) approach is best suited for finding the resources. Better construction management is required for optimising resources and maximising productivity and efficiency.

Composite Insurance,

A contract of insurance providing cover to different insured persons in respect of their different interests in the subject matter of the contract; for example, a contract of insurance covering both the owner of a motor vehicle and the credit provider for their respective interests

Rural Marketing

Rural Marketing is defined as any marketing activity in which the one dominant participant is from a rural area. This implies that rural marketing consists of marketing of inputs (products or services) to the rural as well as marketing of outputs from the rural markets to other geographical areas.

Marketing is the process used to determine what products or services may be of interest to customers, and the strategy to use in sales, communications and business development. It generates the strategy that underlies sales techniques, business communication, and business developments. It is an integrated process through which companies build strong customer relationships and create value for their customers and for themselves. It is a function which manages all the activities involved in assessing, stimulating and converting the purchasing power to effective demand for a specific product and service. This moves them to the rural areas to create satisfaction and uplift the standard of living.

Currency risk

Currency risk is a form of risk that originates from changes in the relative valuation of currencies. These changes can result in unpredictable gains and losses when the profits or dividends from an investment are converted from the foreign currency into U.S. dollars. Investors can reduce currency risk by using hedges and other techniques designed to offset any currency-related gains or losses.

Construction

In large construction projects, such as this skyscraper in Melbourne, cranes are essential.

In the fields of architecture and civil engineering, **construction** is a process that consists of the building or assembling of infrastructure. Far from being a single activity, large scale construction is a feat of human multitasking. Normally, the job is managed by a project manager, and supervised by a construction manager, design engineer, construction engineer or project architect.

Types of construction projects[edit]

1. Residential Building construction
2. Industrial construction
3. Commercial Building construction
4. Heavy Civil construction

Each type of construction project requires a unique team to plan, design, construct and maintain the project.

Unit 2

FORMS USED IN GENERAL INSURANCE

PROPOSAL FORMS

Offer and acceptance are essential ingredients in an insurance contract. An offer or a proposer is an application for cover or for quotation of premium and this may be made verbally or in writing or by completion of a printed proposal form supplied by the insurer.

POLICY FORMS

Policy provides evidence of the contract of insurance. Policy document is required to be stamped in accordance with the provisions of the Indian Stamps Act, 1899. In case of fire and miscellaneous insurance, this form has all the details relating to a particular insurance.

Cover Note

This is the very important document. It is issued when the negotiations are on or a big risk is being pre-surveyed by either company's office or the surveyor to afford temporary insurance protection to the insured. Once the insurer's accept the proposal with the advance premium, either a letter is issued to the insured confirming acceptance of the risk or a cover note is issued.

Certificate of Insurance

Another document that is used in non-life insurance policies is certificate of Insurance. It is used in motor insurance, being made compulsory under Motor Vehicles Act, 1939 and last amended in 1988. The Motor Vehicles Act says that the Motor Policy shall have no effect until or unless certificate of insurance is issued in a prescribed format. Instead of insurance policy, certificate of insurance is the Motor Policy shall have no effect until or unless certificate of insurance is issued in a prescribed format.

Warranties

In addition to the implied and express conditions discussed earlier, there are also express warranties incorporated in the policy. These warranties may be either printed on the policy itself or contained in a separate form shape which are attached to the policy. to ensure that the risk remains the same throughout the currency of the policy as accepted by the insurers on certain rates and terms and conditions, warranties are inserted in the policy. warranties protect the insurers against the introduction of any feature that may increase the risk during the currency of the policy.

Policies Construction

Every insurance policy is a legal document, thus a great care is taken to draft it by the insurer. but sometimes dispute arises about the interpretation of the policy. the basic purpose of the policy construction is to find out the intention of the parties and record them into the contract, because it is the contract in which the original suggestions of the parties have been clearly mentioned. The main task of the law is to know the intentions of the parties which must prevail.

Risk appraisal

Risk appraisal is a simple concept used by life insurance companies to assess a fair premium cost for people who purchase their products.

Life insurance is based on a rather uncomplicated premise. It is easier for a group of people to share the cost of an unexpected death than for a single individual to bear the inevitable burden.

The intent of risk appraisal is to fairly evaluate each individual so that all persons in similar situations fall in the same category and as a result pay the same premiums for life insurance. Had insurance companies not done this everyone would pay the same and that would be unfair.

Insurance companies therefore create criteria which would organize their policy owners in groups based on the results, after obtaining information regarding each applicant.

Policy owners with similar evaluation results are placed in the same category and equally in the risks and rewards of that group.

The intent here is to avoid having one group of policy owners subsidize a group that would be a greater risk. The insurance company, through the process of risk appraisal therefore determines how to best issue a policy(under what terms) and at what price.

The insurance company determines what group an individual should be placed in based on medical history as well as physical condition at the time of application for the policy, personal attributes such as whether or not you smoke, drink excessively, use drugs not prescribed by a physician, driving record or involvement in any hazardous activity.

Risk appraisal helps the life insurance company determine whether the amount of insurance applied for is justified by the applicants financial situation. They want to know your annual income, personal and business. If large amounts of insurance are requested they may want to see a personal balance sheet(assets and liabilities) or a financial statement.

An inspection report may be conducted, only with your approval, and you may be asked for references if the policy applied for is very large or if there is anything is uncovered which indicates that the company needs additional information. All these seemingly unimportant things help the insurance companies actuaries arrive at a fair premium for the client. Any information acquired by the insurance company is deemed confidential and is treated as such.

Through risk appraisal all these things are taken into consideration and an applicant is put into a group based on these criteria, and if a policy can be issued and an appropriate premium is then determined. The lower the risk the lower the premium charged, the higher the risk the higher the premium charged.

Experience rating is a method used by insurers to determine pricing of premiums for different groups or individuals based on the group or individual's history of claims. The experience rating approach uses an individual's or group's historic data as a proxy for future risk, and insurers adjust and set insurance premiums and plans accordingly

Unemployment insurance is experience rated in the United States; companies that have more claims resulting from past workers face higher unemployment insurance rates.[2] The logic of this approach is that these are the companies that are more likely to cause someone to be unemployed, so they should pay more into the pool from which unemployment compensation is

paid.[3] Unemployment insurance is financed by a payroll tax paid by employers. Experience rating in unemployment insurance is described as imperfect, due in large part to the fact that there are statutory maximum and minimum rates that an employer can receive without regard to its history of lay-off. [4] If a worker is laid off, generally the increased costs to the employer due to the higher value of unemployment insurance tax rates are less than the UI benefits received by the worker

UNIT 3 Moral hazard

In economic theory, a **moral hazard** is a situation where a party will have a tendency to take risks because the costs that could incur will not be felt by the party taking the risk. In other words, it is a tendency to be more willing to take a risk, knowing that the potential costs or burdens of taking such risk will be borne, in whole or in part, by others. A moral hazard may occur where the actions of one party may change to the detriment of another after a financial transaction has taken place.

Moral hazard arises because an individual or institution does not take the full consequences and responsibilities of its actions, and therefore has a tendency to act less carefully than it otherwise would, leaving another party to hold some responsibility for the consequences of those actions.

Loss Prevention

Loss Prevention India(LPI) provides integrated Loss Prevention solutions & services to help retailers protect & build their profits by identifying shrinkage; establish strategies, policies, procedure and processes. LPI biggest strength is its core team of retail experts with proven track record in organized retail across India, U.A.E, Russia and United States. Our team works closely with you to determine the right solution customized to your needs. Our expert consultants assist our clients by creating results through:

- Business strategy based on Analytics
- Process driven operational strategy
- Practical and implementable cost effective solutions
- Best Practices that result in increased profits
- Implementation and execution of Loss Prevention procedures and policies

Loss survey

Qualified Safety Management Group safety advisors perform standardized or custom loss-control surveys for insurance agents, brokers and carriers. These surveys are used to assist customers exhibiting upward loss trends or to aid insurers wishing to prescreen potential customers. Companies seeking insurance coverage may also benefit from the same surveys by using them to promote their safety successes.

Because we have extensive experience in loss control and working with insurance carriers, we understand what your company needs to do to satisfy insurance companies and lower your costs. Our custom loss-control surveys provide a detailed examination of your loss trends, and audits of both safety programs and facilities allow us to call attention to deficiencies, make recommendations for improvement, and identify opportunities for effective safety training.

Loss Control Surveys vary in design and scope. Some are very detailed while others may be brief recaps of the opinions of the creator of the report. Loss Control Surveys have been traditionally prepared by Loss Control representatives of insurance companies (or their representatives). Often, the costs associated with the preparation of these surveys are included in a company's workers' compensation premiums.

A Loss Control Survey is defined as a report containing analysis of a company's operations with a focus on occupational injury and illness exposures. The survey taker utilizes a combination of loss data, injury statistics and site visits to accumulate information for the Loss Control Survey. If warranted, the survey will contain recommendations designed to help the company reduce workers' compensation losses.

Claim settlements

(1) To delineate certain minimum standards for the settlement of claims which, when violated knowingly on a single occasion or performed with such frequency as to indicate a general business practice shall constitute an unfair claims settlement practice within the meaning of Insurance Code Section 790.03(h);

(2) To promote the good faith, prompt, efficient and equitable settlement of claims on a cost effective basis;

(3) To discourage and monitor the presentation to insurers of false or fraudulent claims; and,

(4) To encourage the prompt and thorough investigation of suspected fraudulent claims and ensure the prompt and comprehensive reporting of suspected fraudulent claims as required by Insurance Code Section 1872.4.

(b) These regulations are not meant to provide the exclusive definition of all unfair claims settlement practices. Other methods, act(s), or practices not specifically delineated in this set of regulations may also be unfair claims settlement practices and subject to California Insurance Code Section 790.03(h) and/or California Insurance Code Section 790.06. These regulations are applicable to the handling or settlement of all claims subject to Article 6.5 of Division 1, Part 2, Chapter 1 of the California Insurance Code, commencing with Section 790, except as specifically provided below

No claim bonus

No Claim Bonus retention add-on cover - Private car only

No Claim Bonus (NCB) is a Discount allowed in Section I (Own Damage Portion) of the Car Insurance premium for not having made a claim in the previous year(s).

This discount can be accumulated on a yearly basis starting from **20%** at first claim free renewal, **25%** in the second, **35%** in the third, **45%** in the fourth and **50%**in the fifth and continued for subsequent claim free years).

Car Insurance - No Claim Bonus

It has been earned by YOU over a period of several years of careful driving and has placed YOU in the league of "Valuable Customers"

Accidents occur, whether due to your fault or someone else's, but even a single claim on your policy can snatch away the hard earned No Claim Bonus from you, making you start all over again, from Zero, literally.

Now you have a solution:

By opting for the unique, **No Claim Bonus retention add-on cover** with **private car insurance** helps you to retain your valuable **No Claim Bonus** at a small additional premium.

No Claim Bonus retention cover is now launched as an Add-on cover along with the Basic Package (Comprehensive) Policy.

This Add-on cover ensures that in the unfortunate event of a Single claim upto an amount, not exceeding 25% of the IDV, No Claim Bonus earned by you remains protected for the future, at the current eligible percentage, on renewal of your policy with us, instead of becoming 0% under normal policy.

RENEWAL OF POLICY

Renewal of policy refers to the continuance of insurance in force by the payment of a new premium. Generally, renewal is done under a provision for renewal contained in the contract of insurance, by payment of a new premium. Where there is no provision in the policy for its renewal, it is done by a new contract on the same terms as the old, but where the renewal is in pursuance of a provision to that effect, it is not a new contract but an extension of the. An insurance renewal is the standard length of time an insurance policy is in effect without the insurance company adjusting your rate. Of course there are exceptions to every rule, and it is possible for your rate to change shortly after purchasing a new policy if you do not meet underwriting guidelines. But, once you are through the initial policy period your insurance rate should stay the same through each policy renewal unless you make a change. You will receive a declaration page along with other information explaining your policy. New proofs of insurance are usually enclosed with the renewal information.

The renewal date of your insurance policy is based upon the date your policy took effect. So it could actually take place on any day of the year depending on when you originally started the policy. The other factor in determining your renewal date is the length of your policy period. Policies usually renew annually or semi-annually.

- Annual Policies
  Some auto policies are locked in for a full year. Home owner's policies are always one year and motorcycle, boat, and RV policies are often renewed annually.

- Semi-Annual Policies
  It is very common to have an auto policy renew every six months. Some motorcycle, boat, and RV policies also renew semi-annually.

Renewal information is usually mailed or emailed to you 45 to 30 days in advance of your renewal. You will receive a declaration page along with other information explaining your policy.

UNIT 4

UNEXPIRED RISK

unexpired risk reserve

unexpended balance
unexplained variation

Definition

A reserve account opened at the discretion of the insurer if it believes the amount of funds kept in the unearned premium reserve account is not sufficient to cover the amount of risk perceived. While unearned premium reserve minimums are set by law, an unexpired risk reserve is voluntary.

Read more: http://www.businessdictionary.com/definition/unexpired-risk-reserve.html#ixzz2YFRKIv00

Unexpired risk reserve (URR) is a prospective assessment of the amount that needs to be set aside in order to provide for claims and costs that will result out of unexpired future periods of cover. This could be greater than the corresponding amount of premiums charged (UPR).

Unearned premium reserves (UPR) are premiums which have been set aside because the corresponding period of insurance cover has not yet elapsed. E.g. Premiums received in 2007 in respect of insurance cover in 2008 will not add to the 'earned premium' of the insurer in 2007, but will be set aside in a reserve (UPR).

AURR is the amount by which the URR exceeds the UPR (if any). If AURR > 0, it suggests that premium rates were originally set too low (at loss making levels).

ASSESMENT OF LIBILITIES

Financial History and Assessment Liability Information

Data and information set forth on this Web site has been provided by or derived from data and information provided by third parties. Although we believe that the data and information is generally correct, and care has been taken in the creation and maintenance of this data, we have not made any effort to independently verify such data, and we therefore do not assume any responsibility whatsoever for its accuracy. It is important to understand that in some cases, estimates developed by either NCIGF or third parties have been used. While we believe our estimates are reasonable, and we have no reason to believe that estimates of others are not reasonable, we disclaim any responsibility for the accuracy of such estimates.

Assessment Liability Report

The Assessment Liability Report includes - by statutory account of each state guaranty fund - the maximum assessment (capacity), net assessable premium, actual and projected assessment/refund information, lines of business, recoupment provisions, assessment type and procedures. The NCIGF publishes the Assessment Liability Report - which is compatible with the new assessment reporting guideline SSAP 35R – prior to each quarter-end to assist insurers in estimating their P&C guaranty fund assessment liabilities. Also included is a "5 year History of Assessments."

SSAP 35 (Guaranty Fund and Other Assessments):
In October the NAIC's Statutory Accounting and Principles Working Group approved SSAP 35R - Guaranty Fund and Other Assessments - which adopts the GAAP guidance (with some statutory modifications) for reporting assessment liabilities and coincides with how the majority of guaranty funds make assessments. Effective January 1, 2011 SSAP 35R fixes the problems expressed over the past nine years by P&C companies attempting to record their assessment liabilities to "ultimate loss expected from the insolvency." Under SSAP 35R the liability to be recorded - for prospective-based assessments authorized by the majority of guaranty funds - is what can be reasonably estimated and relates to premium writings for the year preceding the year of assessments.

Periodic Valuation

To be able to perform periodic valuation, you need to assign a valuation strategy to the point of valuation **02** (**Actual periodic valuation**). You do this in Customizing. There you can also find more information on this topic.

You need to maintain valuation using a product cost estimate for the point of valuation **02**. If you want to see exactly which values were found using periodic valuation, you need to assign the components of the cost component split used to separate value fields for periodic valuation in Profitability Analysis.

You can find the function for performing periodic valuation in the *Actual postings* menu in the CO-PA application. The system takes you through the following screens:

- On the **initial screen**, you can enter the record type and the time range of the line items you want to valuate.
- On the *Periodic Valuation: Characteristics* screen, you can specify characteristic values to limit the selection further. An asterisk (*) for a characteristic means that the system selects all the values of that characteristic.
- On the *Periodic Valuation: Value Fields* screen, you can explicitly select the value fields you want to valuate.

If you need to process a large amount of data, execute periodic valuation in a series of successive partial runs (by valuating each period separately, for example).

To keep the system workload down, you should execute periodic valuation in the background.

When you perform periodic valuation, make sure that the valuation strategy that is assigned to the point of valuation **01** (**Realtime valuation of actual data**) remains available. This is the only way to ensure that the correct differences to the original values are found.

A **with-profits policy** (Commonwealth) or **participating policy** (U.S.) is an insurance contract that participates in the profits of a life insurance company. The company is often a mutual life insurance company, or had been one when it began its with-profits product line. Similar arrangements are found in other countries such as those in continental Europe.

With-profits policies evolved over many years. Originally they developed as a means of distributing unplanned surplus, arising e.g. from lower than anticipated death rates. More recently they have been used to provide flexibility to pursue a more adventurous investment policy to aim to achieve long-term capital growth. They have been accepted as a form of long-term collective investment whereby the investor chooses the insurance company based on factors such as financial strength, historic returns and the terms of the contracts offered.

The premiums paid by with-profits and non-profit policyholders are pooled within the insurance company's **life fund** (Commonwealth) or **general account** (USA). The company uses the pooled assets to pay out claims. A large part of the life fund is invested in equities, bonds, property to aim to achieve a high overall return.

The insurance company aims to distribute part of its profit to the with-profits policy holders in the form of a **bonus** (Commonwealth) or **dividend** (USA) attached to their policy (see the bonus section). The bonus rate is decided after considering a variety of factors such as the return on the underlying assets, the level of bonuses declared in previous years and other actuarial assumptions (especially future liabilities and anticipated investment returns), as well as marketing considerations.

Reinsurance

This article **needs additional citations for verification**. Please help improve this article by adding citations to reliable sources. Unsourced material may be challenged and removed. *(November 2010)*

This article includes a list of references, related reading or external links, but **its sources remain unclear because it lacks inline citations**. Please improve this article by introducing more precise citations. *(November 2010)*

Reinsurance is insurance that is purchased by an insurance company (the "ceding company" or "cedant" or "cedent" under the arrangement) from one or more other insurance companies (the "reinsurer") as a means of risk management, sometimes in practice including tax mitigation and other reasons described below. The ceding company and the reinsurer enter into a **reinsurance agreement** which details the conditions upon which the *reinsurer* would pay a share of the claims incurred by the ceding company. The reinsurer is paid a "reinsurance premium" by the ceding company, which issues insurance policies to its own policyholders.

The reinsurer may be either a specialist reinsurance company, which only undertakes reinsurance business, or another insurance company.

For example, assume an *insurer* sells 1000 policies, each with a $1 million policy limit. Theoretically, the *insurer* could lose $1 million on each policy – totaling up to $1 billion. It may be better to pass some risk to a reinsurer as this will reduce the ceding company's exposure to risk.

There are two basic methods of reinsurance:

1. **Facultative Reinsurance**, which is negotiated separately for each insurance contract that is reinsured. Facultative reinsurance is normally purchased by ceding companies for individual risks not covered, or insufficiently covered, by their reinsurance treaties, for amounts in excess of the monetary limits of their reinsurance treaties and for unusual risks. Underwriting expenses, and in particular personnel costs, are higher for such business because each risk is individually underwritten and administered. However as they can separately evaluate each risk reinsured, the reinsurer's underwriter can price the contract to more accurately reflect the risks involved.
2. **Treaty Reinsurance** means that the ceding company and the reinsurer negotiate and execute a **reinsurance contract**. The reinsurer then covers the specified share of all the insurance policies issued by the ceding company which come within the scope of that contract. The reinsurance contract may oblige the reinsurer to accept reinsurance of all contracts within the scope (known as "obligatory" reinsurance), or it may require the insurer to give the reinsurer the option to reinsure each such contract (known as "facultative-obligatory" or "fac oblig" reinsurance).

There are two main types of treaty reinsurance, proportional and non-proportional, which are detailed below. Under proportional reinsurance, the reinsurer's share of the risk is defined for each separate policy, while under non-proportional reinsurance the reinsurer's liability is based on the aggregate claims incurred by the ceding office. In the past 30 years there has been a major shift from proportional to non-proportional reinsurance in the property and casualty fields.

PERIODIC VALUATION

PERIODIC VALUATION allows for the determination on future dates the value of assets, portfolios, etc. with the idea of setting a new standard cost or value to those assets. Such revaluations, up or down, are then posted as the new standard cost or value. See REVALUATION.

Performing Periodic Valuation

To be able to perform periodic valuation, you need to assign a valuation strategy to the point of valuation **02** (**Actual periodic valuation**). You do this in Customizing. There you can also find more information on this topic.

You need to maintain valuation using a product cost estimate for the point of valuation **02**. If you want to see exactly which values were found using periodic valuation, you need to assign the components of the cost component split used to separate value fields for periodic valuation in Profitability Analysis.

You can find the function for performing periodic valuation in the *Actual postings* menu in the CO-PA application. The system takes you through the following screens:

- On the **initial screen**, you can enter the record type and the time range of the line items you want to valuate.
- On the *Periodic Valuation: Characteristics* screen, you can specify characteristic values to limit the selection further. An asterisk (*) for a characteristic means that the system selects all the values of that characteristic.
- On the *Periodic Valuation: Value Fields* screen, you can explicitly select the value fields you want to valuate.

Declaration of Profit

- A **with-profits policy** (Commonwealth) or **participating policy** (U.S.) is an insurance contract that participates in the profits of a life insurance company. The company is often a mutual life insurance company, or had been one when it began its with-profits product line. Similar arrangements are found in other countries such as those in continental Europe.
- With-profits policies evolved over many years. Originally they developed as a means of distributing unplanned surplus, arising e.g. from lower than anticipated death rates. More recently they have been used to provide flexibility to pursue a more adventurous investment policy to aim to achieve long-term capital growth. They have been accepted as a form of long-term collective investment whereby the investor chooses the insurance company based on factors such as financial strength, historic returns and the terms of the contracts offered.
- The premiums paid by with-profits and non-profit policyholders are pooled within the insurance company's **life fund** (Commonwealth) or **general account** (USA). The company uses the pooled assets to pay out claims. A large part of the life fund is invested in equities, bonds, property to aim to achieve a high overall return.
- The insurance company aims to distribute part of its profit to the with-profits policy holders in the form of a **bonus** (Commonwealth) or **dividend** (USA) attached to their policy (see the bonus section). The bonus rate is decided after considering a variety of factors such as the return on the underlying assets, the level of bonuses declared in previous years and other actuarial assumptions (especially future liabilities and anticipated investment returns), as well as marketing considerations.

Reference

1. Mishra M.N.; "Principles and Practices of Insurance"; S. Chand and Co. 2004

2. Gupta P.K.; "Insurance and Risk Management"; Himlaya Publishing House; 2004

Website

a. www.wikipedia.org

b. www.nyu.edu

c. www.springer.com

d. www.emathzone.com

e. www.socialresearchmethods.net