Insurance Basics

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Insurance

- Insurance is a Risk Transfer Technique

- A social device enabling people to reduce the impact of financial consequences of the risks to which they are exposed by transferring the burden of such consequences to the insurance community.

- Legal agreement between two parties i.e. the insurance company (insurer) and the individual (insured). The insurance company promises to make good the losses of the insured on happening of the insured contingency.

- Shifts the cost of a risk away from insured who runs it to an external party/insurer in exchange for payment of premium.

- Risk factor determines the Premium. Risk ↑ Premium ↑

Insurance Terms

Insurer

Entity which provides insurance is known as an insurer

Insured

A person or entity who buys insurance is known as an insured or as a policyholder

Policy

The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insurer will compensate the insured

Exclusions

These are things that are not covered under a life insurance policy, and against which if claimed, insurance company wouldn't pay any benefit

Premium

The amount of money charged by the insurer to the policyholder for the coverage set forth in the insurance policy is called the premium

Underwriters

Underwriters evaluate the risk involved in insurance. The process of risk evaluation starts before the issuance of insurance policy, and ends with settlement of the claim.

Sum Assured

Sum Assured' is the term used for an amount that the insurer agrees to pay on death of the insured person or occurrence of any other insured event

Life Assured

Life assured is the one for whom the life insurance plan is purchased to cover the risk of untimely death

Principles of Insurance

1 Utmost Good Faith

- The insurer and the insured must provide clear and concise information regarding the terms and conditions of the contract

2 Insurable Interest

- The subject matter of the contract must provide some financial gain by existing for the insured (or policyholder) and would lead to a financial loss if damaged, destroyed, stolen, or lost

3 Indemnity

- A guarantee to restore the insured to the position he or she was in before the uncertain incident that caused a loss for the insured. The insurer (provider) compensates the insured (policyholder)

4 Contribution

- Contribution allows for the insured to claim indemnity to the extent of actual loss from all the insurance contracts involved in his or her claim

Principles of Insurance

5 Subrogation

- Subrogation is substituting one creditor (the insurance company) for another (another insurance company representing the person responsible for the loss)

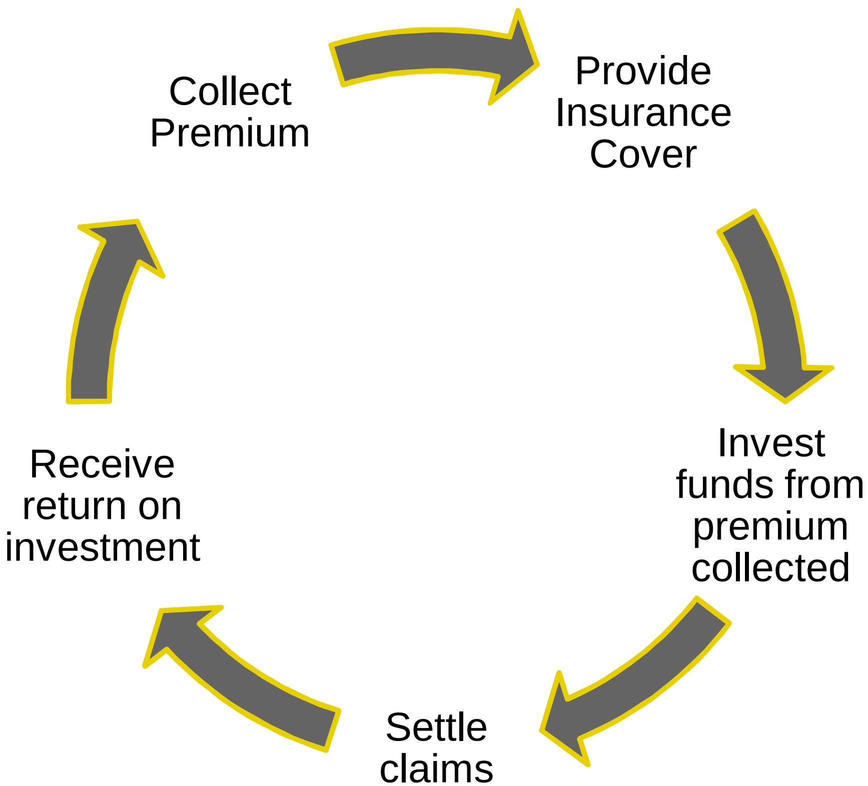
6 Proximate Cause

- The cause having the most significant impact in bringing about the loss under a first-party property insurance policy, when two or more independent perils operate at the same time (i.e., concurrently) to produce a loss

7 Loss minimization

- In an uncertain event, it is the insured's responsibility to take all precautions to minimize the loss on the insured property.

Business Model Of Insurance Companies



Types of Insurance

- Life insurance:
  - Is a contract between the policy owner and the insurer, where the insurer agrees to reimburse the occurrence of the insured individuals death or other event such as terminal illness or critical illness.
  - Specific exclusions are often written in the contract to limit the liability of the insurer, for example claims related to suicide, fraud, war, riot and civil commotion is not covered.

- Health insurance:
  - A type of insurance coverage that pays for medical and surgical expenses that are incurred by the insured.
  - Health insurance can either reimburse the insured for expenses incurred from illness or injury or pay the care provider directly.
  - Health insurance is often included in employer benefit packages as a means of enticing quality employees.

- General insurance:
  - Insuring anything other than human life is called general insurance.
  - Property like house and belongings against fire and theft or vehicles against accidental damage or theft.
  - Injury due to accident or hospitalisation for illness and surgery can also be insured.
  - Liabilities to others arising out of the law can also be insured and is compulsory in some cases like motor third party insurance

Types of Insurance

- **Life**
  - Term Life
  - Permanent Life
  - Universal Life
  - Whole Life
- **Health**
  - Disability
  - Basic Medical
  - Accident & Death
  - Long Term Care
- **Property &**
  - Personal
  - Auto
  - Home Owners
  - Earth quake
  - Pet Insurance
  - Boiler Insurance
  - Watercraft
- **Casualty**
  - Commercial
  - Farm
  - Business Income
  - Causality
  - Workers Comp.
  - Crime
  - Surety
  - Terrorism

Types of Insurance

- Property insurance
  - Provides protection against risks to property, such as fire, theft or weather damage.
  - Include specialized forms of insurance such as fire insurance, flood insurance, earthquake insurance, home insurance, inland marine insurance, boiler insurance.
- Fire insurance:
  - Insurance that is used to cover damage to a property caused by fire.
  - Covers the cost of replacement, reconstruction or repair beyond what is covered by the property insurance policy.
  - Policies cover damage to the building itself, and may also cover damage to nearby structures, personal property and expenses associated with not being able to live in or use the property if it is damaged.
- Marine Insurance:
  - Marine Insurance covers the loss or damage of ships, cargo, terminals, and any transport or cargo by which property is transferred
- Boiler insurance
  - Insures against accidental physical damage to boilers, equipment or machinery.
- Earthquake insurance
  - A form of property insurance that pays the policyholder in the event of an earthquake that causes damage to the property.

Actors in Insurance

Actuaries

Actuaries use mathematics, statistics, and financial theory to study uncertain future events, especially those of concern to insurance and pension .

Underwriters

One who researches and then accepts, rejects, or limits prospective risks for an insurance company

Producers

Who sells insurance for company. (Brokers, Agents, executives…etc.)

Claim Adjusters

A person who may act either on behalf of the insurance company or the insured in settling a claim. Employee adjusters work for an insurer; independent adjusters

Regulators

Provides a framework for the operations of insurance business

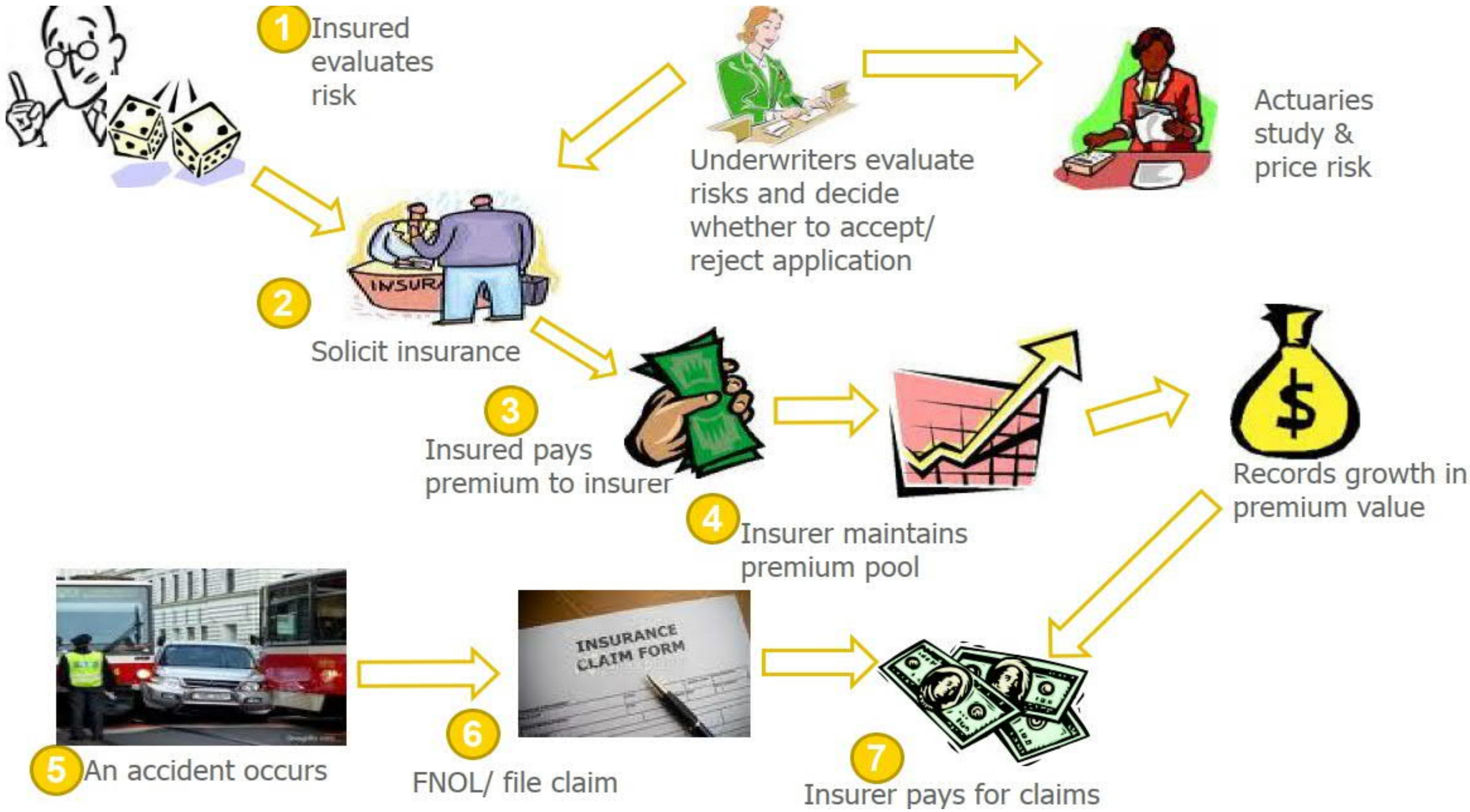
Claim Accessor

Hired by the insured to present and negotiate claim

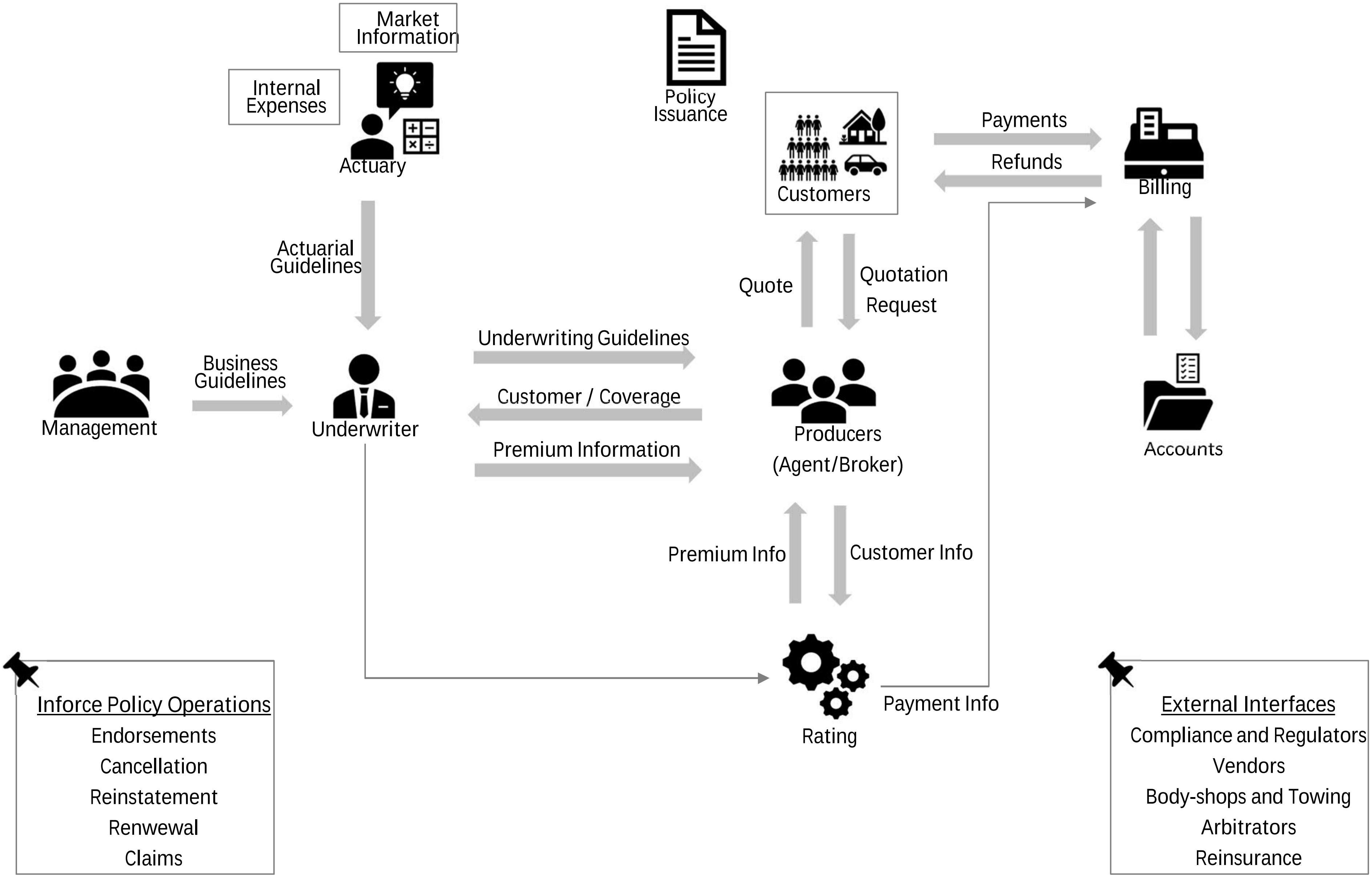
Underwriting

- Underwriting involves measuring risk exposure and determining the premium that needs to be charged to insure that risk.
  - Insurance underwriters evaluate the risk and exposures of potential clients. They decide how much coverage the client should receive, how much they should pay for it, or whether even to accept the risk and insure them.
  - The function of the underwriter is to protect the company's book of business from risks that they feel will make a loss and issue insurance policies at a premium that is commensurate with the exposure presented by a risk.

Insurance Lifecycle



Policy Flow



Market Information
Internal Expenses
Actuary
Policy Issuance
Customers
Payments
Refunds
Billing
Actuarial Guidelines
Quote
Quotation Request
Underwriting Guidelines
Business Guidelines
Management
Underwriter
Customer / Coverage
Premium Information
Producers (Agent/Broker)
Accounts
Premium Info
Customer Info
Rating
Payment Info
Inforce Policy Operations
Endorsements
Cancellation
Reinstatement
Renwewal
Claims
External Interfaces
Compliance and Regulators
Vendors
Body-shops and Towing
Arbitrators
Reinsurance

Insurance Benefits

Paying for Losses

- When an insured is at risk insurance company will be paying the loss occurred to insured person.
- Losses and allocated loss adjustment expenses paid to claimants during a financial reporting period.

Manage Cash Flow Uncertainty

- Insurance provides the insured with some degree of Financial Security and Stability by meeting the Risk Financing Goal of Managing Cash Flow Uncertainty.
- The insured can be confident that as long as loss is covered, the financial effect on the insured's cash flow is reduced to any deductible payments.

Promote Risk Control Activity

- Insurance often provides the insured with the incentive to undertake cost-effective risk control measures.
- Insurers provide this incentive through risk-sharing mechanisms such as deductible, premium credit incentives and contractual requirements.
- Risk Control measures can save not only financial resources but also the lives of individuals or employees.

Comply with Legal Requirements

- Insurance is often used or required to satisfy both statutory requirements and contractual requirements that arise from Business Relationships.
- Example, Workers Compensation Insurance

Insurance Benefits

Efficient Use of Insured's Resources

- People and Businesses that face an uncertain future often set aside funds to pay for future losses.
- Insurance makes it unnecessary to set aside a large amount of money to pay for the financial consequences of loss exposures that can be insured for a relatively small premiums.

Support for Insured's Credit

- Insurance facilitates loans to individuals and organizations by guaranteeing that the lender will be paid if the collateral for the loan is destroyed or damaged by an insured event, there by reducing the Lender's Uncertainty.

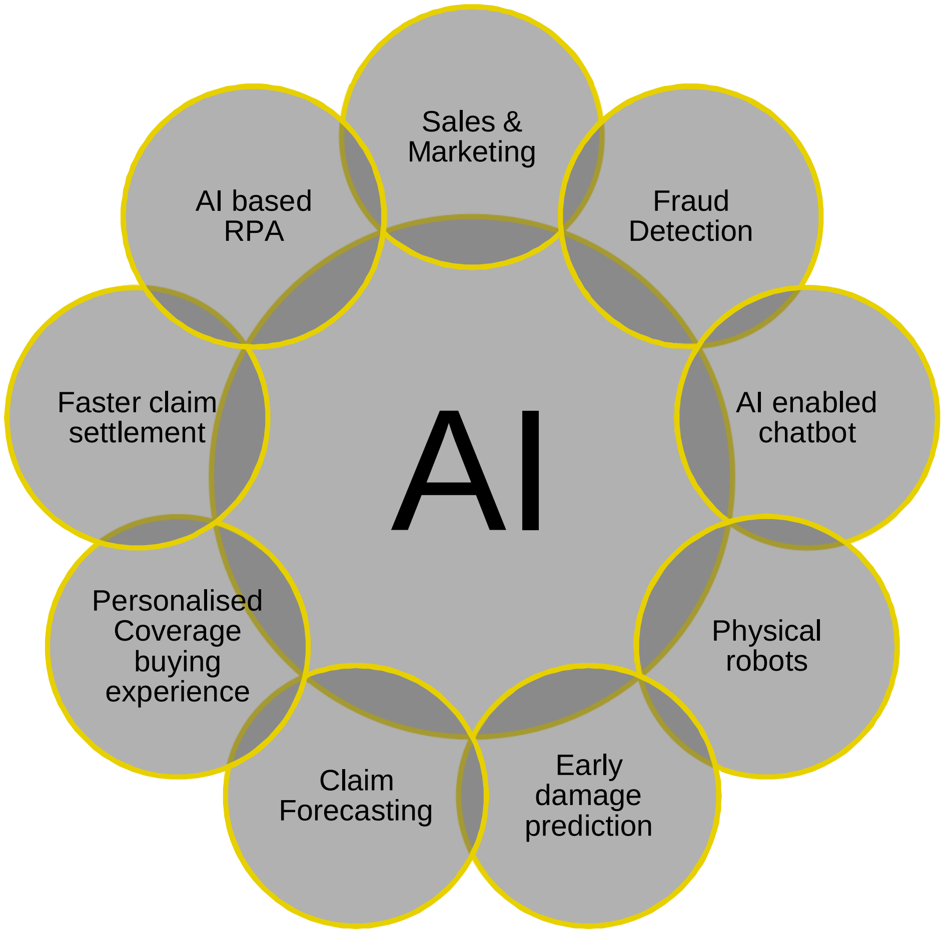
Source of Investment Funds

- Insurance provides source of investment funds for both insured and insurers.
- Insureds are not required to set aside large retention funds to pay for losses that are covered by Insurance
- Premiums Collected by Insurers are invested until needed to pay Claims. Such investments can provide money for projects such as new construction, research and technology advancements.

Reduce Social Burden

- Mandatory Auto Insurance is one example that explains that Insurance reduces Social Burden.

AI and RPA in Insurance



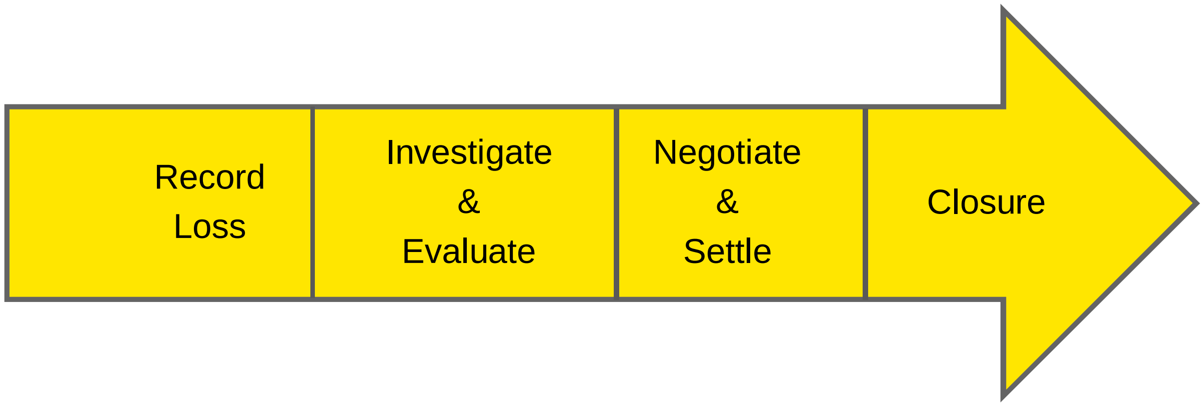
Claims

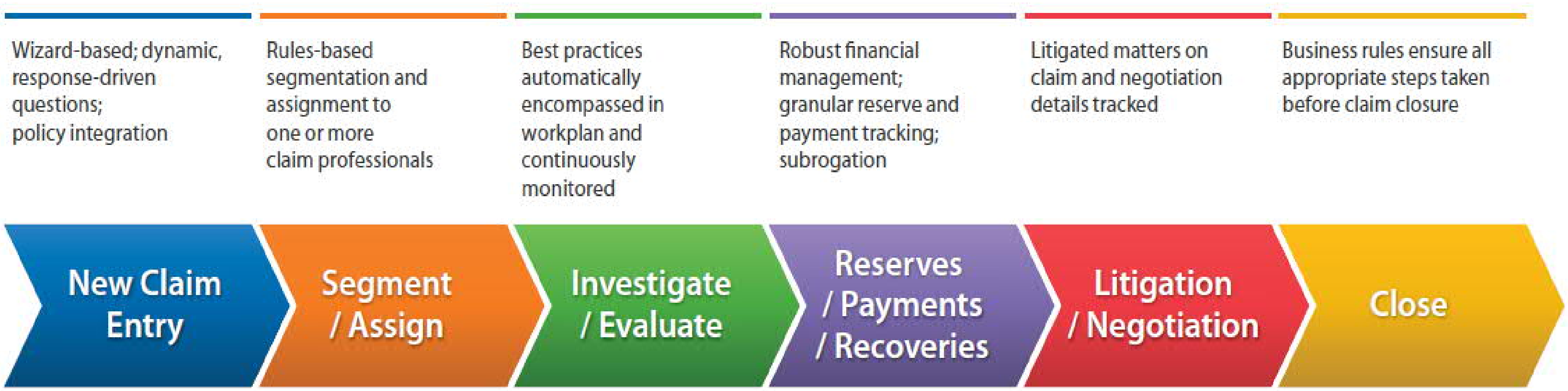
Insurance Claim

- Insurance claim is a formal request to an insurance company asking for a payment based on the terms of the insurance policy.

- Reviewed by the company for their validity and then paid out to the insured or requesting party (on behalf of the insured) once approved.

ClaimCenter Processes





Claims Management

Investigation

Fraudulent claims are a continuing problem for all who handle them, and identifying suspicious claims is difficult.

ClaimCenter, recognizing the importance of uncovering fraudulent claims, provides a mechanism to help determine when to further investigate a claim.

Evaluation

Evaluation tracks the expected claim liabilities and helps adjuster evaluate a claim’s possible, expected and worst-case cost scenarios.

It helps the adjuster to track both actual claim costs and possible punitive damage costs.

Knowing the potential financial exposure will help adjuster in both negotiating a settlement and planning response to any litigation

Negotiation

Negotiation helps adjuster to plan how he/she will discuss the claim when negotiating a settlement with the claimant or representatives of the claimant.

Claims Management

Subrogation

Insurer sometimes settles a claim, knowing that another party may be liable for the costs, and then attempts to recover those costs from the other party in behalf of their insured.

The fine print of most insurance policies cedes the insured's recovery rights to their carriers

Salvage

If a claimant receives payment for a completely destroyed vehicle, the carrier may get back some of its cost by selling the vehicle for scrap

Litigation

For claims that involve legal action, the Legal Matters page shows the legal matters that are pertinent to the claim.

A matter is the set of data organized around a single lawsuit or potential lawsuit.

A matter includes information on the attorneys involved, the trial details, and the lawsuit details.

FNOL

- First Notice of Loss
  - Information to create a new claim by capturing the loss details.
  - It captures high-level details, such as the reporter, relevant parties, loss details, and so on, in an organized way.
  - It uses incidents to organize Loss Details data by vehicle, property and injury.
  - For example, an auto accident claim would typically have an exposure for the owner of each vehicle damaged, for each person injured, and for each owner of damaged personal property.

FNOL

- Segmentation
  - Segmentation allows insurers to categorize incoming claims and their exposures into both segments and strategies based on business criteria, like:
    - segments that describe the type and severity of losses (multi-car, single car, injuries, glass only)
    - segments that describe the loss location (close to field office
    - strategies based on policyholder type (normal, preferred, sensitive or questionable)
  - These pair of categories - together called segmentation - help assignment rules make good choices when deciding how to handle the loss.
  - For example, if the segment was “theft” and the strategy was “preferred”, then assign the claim to the closest office for “fast track” processing.

FNOL

- Assignment
  - Assignment determines the baseline strategy to be applied to the claim, and defines the preliminary handling guidance.
  - Assignment is done based on claim attributes and adjuster profiles, including adjuster skills, current workload, or any other available information.

FNOL

- Workplan
  - The claim’s workplan is its collection of all activities.
  - In creating a new claim, ClaimCenter uses business rules to create an initial set of activities for processing each new claim.
  - The workplan’s list of activities show what tasks have been accomplished, what remains to be done, and what is overdue or escalated.
  - The claim owner or supervisor may add or reassign activities.

Exposure

- Exposure
  - One of the liability items of a claim, associating a claimant with a particular policy coverage.
  - Each claim's exposure relates one coverage to one claimant;
  - Different exposures on a claim always have a different combination of a claimant and coverage.
  - For example, an auto accident claim would typically have an exposure for the owner of each vehicle damaged, for each person injured, and for each owner of damaged personal property.

Financials

- Reserves
  - Estimates of how much might be needed to satisfy future claim liabilities and associated costs.
- Payments:
  - Records of all claim-related disbursements made to satisfy the claim (in part or whole).
- Recoveries:
  - The receipt of claim costs from others, including salvage and subrogation.
- Offset: Void/Stop
  - When a check is submitted to an external check writing application to be issued, its payment(s) are also submitted. They can no longer be edited or deleted, so ClaimCenter provides both a void and a stop mechanism.
  - Claim Center generates offset transactions for all voids/stops and their payments.
  - The primary distinction is that adjuster typically stop payment on a check if the check itself is no longer in insurer’s physical possession; otherwise adjuster would void it.

Closure

- Claim Closure
  - When all the reserves of an exposure are zero, the exposure closes, and when all the exposures close, the claim closes.
  - Prior to closing the claim all the activities in the workplan should be either completed or skipped and Litigation should also be closed.

Thanks