Summary

Post-purchase Processes

In this session, you learnt about the second half of the insurance value chain, i.e., post-purchase processes. Insurance companies follow four main steps after the purchase of an insurance product: **billing process and systems, policy issue and servicing, claims management and reinsurance**.

Billing Process and Systems

The pre-purchase process ends with the insurer accepting the application and deciding the premium for that policy. The next step involves the prospective customer paying the premium; you learnt the next step in the insurance value chain, i.e., the **billing process and systems**.

In general insurance, the premium is paid once, but in life insurance policies, the premium is paid regularly; thus, a billing system plays a major role in the operations of life insurance companies.

You learnt about the two types of receipts:

a. **Policy deposit receipt**: It is issued when the customer pays the premium.
b. **Renewal premium receipt**: It is issued when the premium is transferred from a premium suspense account to a premium account.

You also understood the legal requirements that mandated the process of these two receipts; the insurance company cannot use the premium money before the due date.

We also discussed how a policy turns into a **Minor Lapse Policy** if the premium is not paid even during the grace period given by the insurance company. Further, you also learnt that if the insured doesn't pay the premium within the six month period after the grace period, the policy turns into a **Major Lapse Policy**.

We discussed **customer portals**, which help customers to —

a. See their policy details online;
b. View and pay premiums; and
c. Download premium receipts.

We discussed the **agent portals**, which help agents to —

a. Track their clients' premium payment status;
b. Remind them about upcoming payments; and
c. Notify them about new products and schemes.

We also discussed the **benefit insurance companies derive from the use of IT systems**.

a. **Customer satisfaction,** because IT systems help in making the premium payment process convenient and quick.
b. **Agent satisfaction,** as the agents can manage their clients and business with ease.
c. **Reduced cost to serve**, not in the short term but absolutely in the long term.
d. **Analysis and insights from consumer data** help in designing marketing campaigns based on the trends.

Policy Issue and Servicing

When the customer pays the premium, he/she gets the policy contract. This contract is valid for a pre-specified tenure. For general insurance, this tenure is short, but for life insurance this tenure is long. During this tenure there can be several issues and the insured can approach the insurance company to service these requests; you learnt the next step of the insurance value chain, i.e., **policy issue and servicing**.

In addition, there can be certain requests which don't entail a financial impact on the policy. These requests are categorised as **non-financial requests**. These requests are mainly of two types:

a. First, when there is a **change in the personal details of the insured** and those details need to be changed in the policy.
b. Second, when the insured wants to use the insurance contract as collateral for taking a loan from other financial institutions. For this, the insured needs an "**assignment**" from the insurance company.

Some requests entail a financial impact on the policy. These requests are categorised as **financial requests**. These requests can be of various types:

a. **Change in the premium plan**: When the insured wants to change the premium payable cycle.
b. **Change in the term of the policy**
c. Change in the sum assured in the policy
d. **Add or delete riders:** This includes the critical illness rider, accident benefit rider, premium waiver benefit, etc.
e. **Lapse and revival management**: If the insured fails to make the premium payment on time.
f. **Loan on policy**: If the insured wants to take a loan from the insurance company on the insurance contract.

With IT systems such as **FEAP, XO, Guidewire and Duck creek** in place, these services can be addressed rapidly and at an extremely low service cost. Additionally, these systems help insurance companies to resolve the majority of non-financial requests and some financial requests as well, through websites and apps.

Claims Management

An insurance policy has a tenure. If a risk does not occur until the end of this tenure, the policy matures and the insurance contract comes to an end. However, for many insurance policies, risk occurs, and since the insurance company covers that risk, it is legally liable to fulfil the promises in the contract. The claimant will apply for a claim, and that is when the most important step in the insurance value chain comes into play, i.e. **claims management**.

You learnt that every company conducts the claims process based on the claims principles. These principles are:

a. **Verification of covered loss**: The insurer needs to verify the loss for the claim payment, no false claim should be paid and no correct claim should be rejected.
b. **Assist the claimant**: The insurer should assist the claimant during the distress period of loss and should in no way exploit the claimant.
c. **Fair and prompt payment of claims**: The insurer should pay the justified amount as soon as possible.

The claims process is conducted on the basis of these principles. Next, you learnt the **steps in the claims process**. These include:

a. **Intimation of loss**: The claimant informs the insurer about the loss and submits the proof for the same. The claimant can even do this through customer portals for general insurance.
b. **Claim assessment and validation**: The insurer verifies two things:
    - Is the loss covered under the policy?
    - Did the loss actually happen, since there were incidents of soft frauds and hard frauds?
c. **Evaluation and determination of the claim amount**: The insurer determines the claim amount based on the contract, the extent of the loss and on any salvage value, in case of an earthquake, flood, fire and marine insurance. The basic formula used for a claim amount is —
    - **Claim amount = Sum assured + Rider assured + Bonuses - Unpaid premiums - Outstanding loans**
d. **Claim settlement and recovery**: The insurer pays the claim amount and recovers the salvage value (if any). With advanced payment systems this process has also become easier and faster.

Reinsurance

People and organisations have the cover from insurance companies, but insurance companies are also at risk of paying too many claims at once, if any catastrophic loss occurs. Insurance companies also need to transfer their risk. This is where the final step of the insurance value chain comes into play, i.e. **reinsurance**.

You learnt that reinsurance is the insurance for insurance companies. Insurance companies transfer their risk of paying claims and losses to bigger reinsurers.

The **reinsurance process** is similar to the insurance process:

a. First, the primary insurer applies to the reinsurer;
b. Then, the reinsurer conducts a process similar to underwriting; and
c. Finally, if the reinsurer accepts the proposal, the primary insurer pays a fee for this cover.

You further learnt that reinsurance can be of two types:

a. **Treaty reinsurance:** The reinsurer agrees to cover one or multiple lines of business.
b. **Facultative reinsurance**: It is generally for high-value risks, in which the reinsurer evaluates each case and decides whether to cover the risk or not.

And you also learnt that the reinsurance cover can also be of two types:

a. **Proportional basis**: The primary insurer and the reinsurer share the premium and losses equally.
b. **Non-proportional basis**: A retention limit is decided and the primary insurer covers the losses till the retention limit, and then the reinsurer covers the costs over and above the retention limit.