📘 Chapter 1 – Introduction to Insurance

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1. Key Concepts & Definitions

- **Insurance** → Formal arrangement of sharing losses among many exposed to the same kind of risks.
- **Risk** → Possibility of adverse deviation from an expected outcome resulting in financial loss.
- **Pure Risk** → Only two outcomes → Loss or No Loss (e.g., fire, illness, accident). Insurable.
- **Speculative Risk** → Outcomes → Profit, Loss, or No Profit/No Loss (e.g., stock market, forex). Not insurable.
- **Risk Management** → Identifying, evaluating, and treating risks faced by an individual or enterprise.
- **Indemnity** → Restoring insured to the same financial position as before the loss.
- **Law of Large Numbers** → As the number of similar exposures increases, the gap between expected and actual outcomes reduces. Used by insurers to predict probability of losses.

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2. Important Points (Quick Revision)

- Insurance = **loss sharing mechanism**. Few suffer losses, many contribute premiums.
- **Pure risks only** are covered, not speculative risks.
- Speculative risks are not insured because:
  - Voluntarily undertaken.
  - Cannot predict probability reliably.
  - Would discourage enterprise.
  - Profits are not shareable, only losses.
- **Risk Management** addresses both Pure & Speculative Risks (insurance only Pure Risks).
- Risk Evaluation = **Frequency × Severity**.
- **Risk Treatment options**: Avoidance, Mitigation (Prevention + Reduction), Transfer (insurance/hedging), Retention.

- Insurance works because **not all insured suffer loss at the same time** → premium pool.
- **Law of Large Numbers** is the foundation of insurance pricing.

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3. Processes / Steps

Steps in Risk Management

1. **Identify risks** → prepare risk register.
2. **Evaluate risks** → frequency × severity.
3. **Treat risks**:
   - Avoidance (don't take the risk).
   - Mitigation:
     - Prevention (helmets, seatbelts, housekeeping).
     - Reduction (sprinklers, safety drills).
   - Transfer (insurance, hedging, underwriting).
   - Retention (reserves, capital, credit).

How Insurance Works

1. Insured pays small premium.
2. Insurer pools premiums from many.
3. Few suffer losses → compensated from pool.
4. Premiums calculated using **Law of Large Numbers**.

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4. Examples

- **Pure Risk**: Factory fire, car accident, illness, burglary.
- **Speculative Risk**: Share trading, foreign exchange, change in govt policy, business competition.
- **Risk Avoidance**: Not building factory in earthquake zone.
- **Mitigation – Prevention**: Wearing helmet, seatbelts.
- **Mitigation – Reduction**: Fire extinguishers, sprinklers.
- **Transfer**: Taking motor insurance, hedging forex.

- **Retention**: Company builds reserves for self-funding losses.
- **Law of Large Numbers**: Insurer studies thousands of past accident claims to estimate probability for motor insurance.

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5. Exam Tips

- 🔑 **Definition** of Insurance → "Formal contract where insurer for premium agrees to indemnify insured against loss from an insured peril."
- 🔑 **Insurable Risks** = Pure Risks only. Speculative Risks never insured.
- Know **difference table between Pure vs Speculative Risk** (Loss/No Loss vs Loss/No Loss/Gain).
- **Risk Treatment** → 4 strategies: Avoidance, Mitigation, Transfer, Retention.
- **Law of Large Numbers** → Foundation for premium calculation; expect MCQs.
- Be careful with tricky Qs: *Insurance prevents losses?* ❌ → It only **compensates** (indemnifies).

📑 **Quick Summary Sentence:**
Insurance = **contractual loss-sharing system** covering only **Pure Risks**, managed via **Risk Management strategies**, priced using the **Law of Large Numbers**.

📘 Chapter 2 – Risk, Peril, Hazard, Risk Classification & Rating

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1. Key Concepts & Definitions

- **Risk** → Possibility of deviation from expected outcome → may cause financial loss.
- **Pure Risk** → Only risks that involve *chance of loss only* (no gain). Only some Pure Risks are insurable.
- **Peril** → The cause of loss (e.g., fire, flood, theft).
- **Hazard** → Condition that increases the chance or severity of loss (e.g., wooden building, storage of flammable goods).
- **Risk Classification** → Grouping risks based on hazards for fair rating.
- **Rating** → Deciding premium based on probability of loss and hazard.

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2. Important Points (Quick Revision)

- **Characteristics of Insurable Risks**
    1. Large number of homogeneous exposure units (for pooling & Law of Large Numbers).
    2. Independence among exposure units (losses should not trigger other losses).
    3. Losses must be measurable in money terms.
    4. Loss should be definite (time, place, amount, cause).
    5. Loss must be fortuitous (accidental, unforeseen).
    6. Risk must be economically feasible (affordable premiums, sufficient demand).
    7. Losses must not be catastrophic (war, nuclear perils usually excluded).
- **Peril vs Hazard vs Risk**
    - **Risk** = Possibility of loss
    - **Peril** = Cause of loss
    - **Hazard** = Condition that increases probability/severity of loss
- **Risk Classification Requirements**
    - **Actuarial soundness** → classification must relate to probability of loss
    - **Objectivity** → measurable & consistent standards

- **Fairness** → similar risks = similar premium
- **Simplicity** → easy to apply & understand
- **Dynamic** → adapt to changing environment (technology, law, trends)
- **Regulatory compliance** → follow IRDAI guidelines

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3. Processes / Steps

Steps to Determine Insurable Risk

1. Identify if it is a Pure Risk (not speculative).
2. Check if it meets insurable characteristics (homogeneity, measurable, fortuitous, feasible, non-catastrophic).
3. Identify Perils that may cause loss.
4. Identify Hazards linked to those perils.
5. Classify risks based on hazard (e.g., occupancy, location, construction).
6. Rate risk → determine fair premium.

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4. Examples

- **Homogeneity** → Two cars, one used privately, one as taxi → different risks, cannot be pooled together.
- **Hazard** → Wooden building = higher fire hazard than concrete.
- **Risk–Peril–Hazard**:
  - Risk: Possibility of damage to building.
  - Peril: Fire.
  - Hazard: Wooden construction.

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5. Exam Tips

- 🔑 **Key MCQ Areas:**
  - Granularity **is NOT** an insurable characteristic (confusing option).
  - Perils = Fire, Flood, Earthquake; Hazards = Age, Storage type, Usage.

    - Risk Classification → based on **Hazards**.
- **Common trick**:
    - Risk = possibility, Peril = cause, Hazard = condition increasing probability.
    - Catastrophic risks (war, nuclear) are usually **uninsurable**.
- ✅ Memorize **7 characteristics of insurable risks** → frequently tested.
- ✅ Know difference between **Named Peril Policies** (specific causes listed) vs **All Risk Policies** (everything covered except exclusions).

📝 **Quick Summary Sentence:**
Insurance covers only **insurable Pure Risks** → defined by 7 characteristics; losses caused by specific **Perils**; probability affected by **Hazards**; risks grouped via **Risk Classification** for fair premium rating.

📘 **Chapter 3 – Rating and Pricing Insurance Products**

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1. Key Concepts & Definitions

- **Pricing in Insurance** → Unlike normal products (where cost is known upfront), insurance pricing is done **before actual cost (claims) is known**.
- **Elements of Price**:
    1. **Burning Cost (Pure Premium)** → Expected claims cost (after salvage, recoveries, reinsurance, surveyor/legal fees).
    2. **Acquisition Costs** → Commission, brokerage, distribution costs.
    3. **Operating Expenses** → Salaries, rent, IT, admin costs.
    4. **Profit Margin** → Cushion for uncertainty + business viability.
- **Exposure Unit** → The unit exposed to risk (life, vehicle, cargo, house, etc.).
- **Frequency** → Rate of loss occurrence per exposure unit.

$$\text{Frequency} = \frac{\text{No. of Losses}}{\text{Exposure Units}}$$

- **Severity** → Average size of a loss.

$$\text{Severity} = \frac{\text{Total Loss Amount}}{\text{No. of Losses}}$$

- **Burning Cost** → Frequency × Severity = Avg. claim cost per exposure.
- **Volatility (Standard Deviation)** → Measures uncertainty of losses. Higher SD = more volatility = higher premium.
- **Pure Premium** = Burning Cost.
- **Final Premium** =

\text{Premium} = \frac{\text{Burning Cost}}{1 - \text{% Loadings (Acquisition + Expenses + Profit)}}

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2. Important Points (Quick Revision)

- **Reinsurer is not a distributor** (Agent, Broker, Web Aggregator are).

- **Risk Classification → Pricing → Underwriting** are interlinked; mistakes = insurer failure.
- **Burning Cost** = ultimate claim cost after adjustments (survey, legal, salvage, subrogation, reinsurance).
- **Pricing challenge** = must balance **competitiveness** vs **adequacy**.
- **Loss Volatility**: Two products may have same frequency & severity but different SD → higher SD needs higher premium.
- **Factors affecting pricing**: Past trends, court judgments, reinsurance rates, product design, insured behavior, deductibles/copay, macroeconomics.

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3. Processes / Steps

🔹 **Step 1 – Calculate Burning Cost**

- Collect historical claims data.
- Compute **Frequency** & **Severity**.
- Burning Cost = Frequency × Severity.

🔹 **Step 2 – Adjust for Other Costs**

- Add acquisition, operating, profit loadings.
- Use formula:

$$\text{Premium} = \frac{\text{Burning Cost}}{1 - (\%Acquisition + \%Expenses + \%Profit)}$$

🔹 **Step 3 – Final Pricing**

- Ensure **competitive yet adequate** premium.
- Consider external factors + volatility.

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4. Examples

- **Frequency Example**: 5 thefts out of 10,000 cars → Frequency = 0.05%.
- **Severity Example**: Total loss ₹25,00,000 ÷ 5 = ₹5,00,000.
- **Burning Cost**: (0.05% × ₹5,00,000) = ₹250 per car.

- **Premium Example**: Burning Cost = ₹1000, Loading = 45%.
    - Wrong method → 1000 + 45% = ₹1450 (insufficient).
    - Correct method → 1000 ÷ (1 - 0.45) = ₹1818.

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5. Exam Tips

- 🔑 **Elements of Price** = Burning Cost + Acquisition + Expenses + Profit.
- 🔑 **Exposure Unit** = person/vehicle/cargo – **not** group policy.
- 🔑 **Formula to Remember**:
    - Burning Cost = Total Loss ÷ Exposure Units.
    - Premium = Burning Cost ÷ (1 - Loadings).
- 🔑 **Higher Standard Deviation = Higher Premium**.
- 🔑 **Pricing below cost** → more business BUT higher losses (not profit).
- 🔑 **CEO change** → irrelevant for pricing (test trap).

📝 **Quick Summary Sentence:**
Insurance pricing = **Burning Cost (Frequency × Severity)** + **Loadings (Acquisition, Expenses, Profit)**, adjusted for **loss volatility and external factors**, ensuring premiums are **adequate yet competitive**.

📘 Chapter 4 – Principles of Insurance (Part One)

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1. Key Concepts & Definitions

- **Utmost Good Faith (Uberrimae Fidei):**
  Duty of both insurer and insured to disclose all *material facts*, even if not asked.
- **Material Fact:** Any fact that influences an insurer's decision to accept, reject, or rate a risk.
- **Insurable Interest:** A legal/financial relationship where a person benefits from the continued existence of a life/property and suffers financial loss if destroyed.
- **Void Contract:** Invalid from the beginning; unenforceable by both parties.
- **Voidable Contract:** Valid until one party chooses to avoid it due to fraud/misrepresentation.
- **Moratorium Period:** After 8 years in health insurance, policy cannot be contested for misrepresentation/nondisclosure.

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2. Important Points (Quick Revision)

- **6 Principles of Insurance:** Utmost Good Faith, Insurable Interest, Indemnity, Subrogation, Contribution, Proximate Cause.
- **Ordinary Contracts vs Insurance Contracts:**
  - Ordinary: No need to disclose facts unless asked.
  - Insurance: Must disclose *all material facts* voluntarily.
- **Duty of Disclosure:**
  - Applies to both parties but stricter on insured.
  - Section 20, Marine Insurance Act, 1963 mandates disclosure.
- **Facts NOT Required to be Disclosed:**
  - Facts of law (already public).
  - Facts insurer is expected to know.
  - Facts reducing risk.
  - Facts visible in insurer's survey.
  - Facts waived by insurer (e.g., blank answers ignored).

- **Evolution:** Courts now reduce burden on insured; insurers must ask relevant questions.
- **Life Insurance:**
  - Section 45 of Insurance Act, 2015 → No policy questioned after 3 years (fraud/misrepresentation allowed only within 3 years, with burden of proof on insurer).
- **Health Insurance:**
  - Moratorium of 8 years → cannot be contested for misrepresentation after continuous coverage.
- **Insurable Interest:**
  - Required to prevent gambling/speculation on lives or property.
  - Exists in: Ownership, Relationship (family), Bailment, Credit, Tenancy, Employment, Partnership, Contractor–Principal, Insurer.
- **When Must Insurable Interest Exist?**
  - Life Insurance → At inception of policy.
  - General Insurance (non-marine) → At inception **and** at loss.
  - Marine Insurance → At time of loss only.

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3. Processes / Steps

Utmost Good Faith – Duty of Disclosure

1. Insured must disclose all material facts (known + ought to know).
2. Insurer decides acceptance & premium terms.
3. Non-disclosure/misrepresentation → Policy void/voidable depending on policy terms.

Insurable Interest – Arises From:

- Ownership of property.
- Relationship (husband-wife, parent-child).
- Contract (bailment, tenancy, employment, credit).
- Partnership & business interest.
- Insurance company in all insured lives/properties.

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4. Examples

- **Material Fact:** Age in health insurance, nature of goods in fire insurance, packaging in marine insurance.
- **Non-material Fact:** Colour of car for third-party insurance.
- **Insurable Interest Examples:**
  - Tailor (bailee) has insurable interest in customer's cloth.
  - Bank (creditor) has insurable interest in borrower's car purchased on loan.
  - Employer insures skilled employee's life (investment protection).
  - Contractor has interest in property being constructed for principal.

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5. Exam Tips

- 🔑 Marine Insurance Act, 1963 explicitly mentions insurance principles.
- 🔑 *Uberrimae fidei* = Utmost Good Faith.
- 🔑 Life Insurance → Insurable Interest must exist **only at inception**.
- 🔑 General Insurance → Insurable Interest must exist **at inception & at loss**.
- 🔑 Marine Insurance → Insurable Interest required **only at loss**.
- 🔑 Section 45 → Life policy cannot be questioned after 3 years.
- 🔑 Health Insurance → Cannot be questioned after 8 years (moratorium).
- Expect MCQs on **material facts vs non-material facts**.
- Be ready for scenario-based questions on **ownership, bailment, credit, employment, tenancy**.

📝 **Quick Summary Sentence:**
Insurance contracts rest on **Utmost Good Faith** (full disclosure of material facts) and **Insurable Interest** (legal/financial stake in subject matter), without which contracts may be **void or voidable**.

📘 Chapter 5 – Principles of Insurance (Two)

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1. Key Concepts & Definitions

- **Indemnity:** Restoring the insured to the **same financial position** as before the loss (not better, not worse).
- **Market Value:** Value at **time & place of loss**, not original cost.
- **Deductible (Excess):** Portion of loss borne by insured before insurer pays.
- **Co-pay:** Deductible in health insurance; insured shares cost with insurer.
- **Underinsurance (Average Clause):** If property insured < actual value, claim payout is reduced proportionately.
- **Salvage:** Residual value from damaged property, deducted from claim.
- **Sum Insured (Policy Limit):** Maximum payable under the policy, even if actual loss is higher.
- **Benefit-based Contracts:** Insurance contracts that pay fixed sums irrespective of actual loss (e.g., Life Insurance, PA, Critical Illness, Parametric).

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2. Important Points (Quick Revision)

- **Why Indemnity is needed?**
  - Prevents overcompensation.
  - Avoids moral hazard (deliberate losses for profit).
  - Maintains fairness & stability of insurance mechanism.
- **Indemnity in Practice (examples):**
  - **Raw Material:** Market price on date of loss.
  - **Stock in Process:** Value based on stage of production + direct & indirect costs.
  - **Finished Goods:** Cost of production OR selling price – post-production costs/profits.
  - **Machinery:** New price – depreciation (age, use, maintenance).
  - **Buildings:** Reconstruction cost – depreciation.
  - **Motor:** Market value if total loss; repair cost less depreciation on replaced parts.

- **Health:** Cashless (paid to hospital) or reimbursement (paid to insured).
- **Liability:** Compensation as per court ruling (within limits).

- **Limits to Indemnity:** Deductibles, Underinsurance, Salvage, Policy Limits.
- **Contracts NOT of Indemnity:**

1. **Life Insurance** – Fixed Sum Insured payable (death/maturity).
2. **Personal Accident (PA)** – Fixed benefit on death/disability.
3. **Critical Illness** – Lump-sum benefit on diagnosis, no need to prove expenses.
4. **Parametric Insurance** – Payout triggered by measurable event (e.g., earthquake > X Richter).
5. **Marine Valued Policy** – Agreed value paid, not actual loss.

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3. Processes / Steps

How Indemnity is Applied

1. Determine **value at time & place of loss** (not purchase cost).
2. Deduct depreciation where applicable (buildings, machinery, cars).
3. Apply **deductible/excess** (insured's share).
4. Apply **underinsurance formula** if sum insured < value at risk:

$$\text{Payable Amount} = \text{Loss Amount} \times \frac{\text{Sum Insured}}{\text{Value at Risk}}$$

5. Deduct **salvage value**.
6. Apply **policy limit (sum insured)** as maximum payout.

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4. Examples

- **Vishal (Cement):** Market value ₹40,000 (not purchase cost ₹36,000).
- **Rekha (Gold):** Paid ₹5,00,000 (not ₹5,20,000), to restore same 100 gms.
- **Building Loss:** 20 yrs old, life = 50 yrs → 40% depreciation on ₹50L = ₹30L payable.
- **Underinsurance (RST Chemicals):**
  - Value at risk = ₹15 Cr, Sum Insured = ₹10 Cr.

- Loss = ₹3 Cr.
- Payout = 3 × 10/15 = ₹2 Cr.

- **Overinsurance Case:** Value = ₹40L, Sum Insured = ₹50L, Loss = ₹10L → Payout still ₹10L (no extra benefit).
- **Marine Valued Policy:** Agreed value paid, irrespective of actual loss.

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5. Exam Tips

- 🔑 **Indemnity = Market Value at time & place of loss**, not cost price.
- 🔑 **Contracts not of indemnity:** Life, PA, CI, Parametric, Marine Valued Policies.
- 🔑 **Formula for Underinsurance:**

$$\text{Payable Amount} = \text{Loss Amount} \times \frac{\text{Sum Insured}}{\text{Value at Risk}}$$

- 🔑 Deductibles (general), Co-pay (health).
- 🔑 Salvage value always deducted from claim.
- 🔑 Zero Depreciation clause = no deduction on spare parts/buildings.
- MCQs often test **scenarios** (cement/gold, building depreciation, underinsurance vs overinsurance).

📄 **Quick Summary Sentence:**
Indemnity ensures insured is **restored, not enriched**. It applies differently across property, stock, machinery, liability, etc., but has limits (deductibles, underinsurance, salvage, policy caps). Certain contracts (Life, PA, CI, Parametric, Marine Valued) are **not indemnity-based**.

📘 Chapter 6 – Principles of Insurance (Three)

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1. Key Concepts & Definitions

- **Subrogation:** Transfer of insured's legal right to claim against a third party (who caused the loss) to the insurer after claim settlement.
- **Contribution:** When more than one indemnity policy covers the same subject matter, insurers share the loss proportionately.
- **Proximate Cause:** The **dominant, effective cause** of loss that sets in motion a chain of events without interruption from a new independent cause.

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2. Important Points (Quick Revision)

🔹 **Subrogation**

- Prevents insured from making double recovery (from insurer + third party).
- Insurer "steps into the shoes" of the insured.
- Arises from:
    1. **Tort** (negligence).
    2. **Contract** (e.g., tenancy clause making tenant liable).
    3. **Statute** (e.g., Carriage of Goods by Road Act).
    4. **Subject Matter** (e.g., recovery of stolen property after claim settlement).
- Arises **only in indemnity contracts** (not life, PA, CI).
- **Waiver of Subrogation:**
    - **Knock-for-Knock Agreement** (motor insurers don't sue each other).
    - **Principal–Contractor Agreement** (clause waives insurer's right).

🔹 **Contribution**

- Applies when multiple indemnity policies cover **same interest, subject matter, and peril**.
- Formula (when underinsurance exists):

$$\text{Insurer's Liability} = \text{Loss} \times \frac{\text{Sum Insured with that Insurer}}{\text{Total Value at Risk}}$$

- Requirements:
    1. Two+ indemnity policies.
    2. Common interest.
    3. Common subject matter.
    4. Common peril.
    5. Policies liable for the loss.
- **Marine & Health Policies = Exceptions**
    - **Marine:** Insured can choose order of claiming.
    - **Health:** Insured can claim full amount from one insurer (up to SI).
- **Not applicable to benefit policies** (Life/PA/CI).

🔹 **Proximate Cause**

- **Definition (Pawsey v. Scottish Union, 1907):**
  "The active, efficient cause that sets in motion a chain of events which brings about the result without intervention of any new independent force."
- **Named Peril Policy:** Only listed perils covered. Others = excluded/uninsured.
- **All-Risk Policy:** All perils covered **except exclusions**.
- **Proximate Cause ≠ Immediate Cause.**
    - Example: Fire causes wall to collapse and destroy stock → Proximate cause = Fire (covered).
- **Concurrent Causes:** If one covered peril and one excluded peril operate together, insurer checks which is dominant.

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3. Processes / Steps

Subrogation Process:

1. Loss caused by third party negligence.
2. Insurer settles claim to insured.
3. Insured's right against third party is transferred to insurer.
4. Insurer recovers amount from third party.

Contribution Process:

1. Identify if multiple policies apply.
2. Check for common interest, subject matter, peril.
3. Apply **pro-rata sharing formula** (adjust for underinsurance if needed).

Proximate Cause Process:

1. Identify sequence of events.
2. Determine the **dominant, efficient cause**.
3. Check if that cause is an **insured peril**.
4. If yes → claim payable; if no → claim rejected.

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4. Examples

- **Subrogation (Rekha's Car):** Murphy Insurance pays Rekha for damage; later recovers amount from Rocky (negligent driver).
- **Contribution Example (Stock Fire):**
  - Value at risk ₹5L.
  - Policy A = ₹3L, Policy B = ₹2L.
  - Loss = ₹1L → A pays ₹60K, B pays ₹40K.
- **Contribution with Underinsurance (Jo Jo Traders):**
  - Value at risk = ₹5L. Policies total = ₹4L.
  - Loss = ₹2L.
  - Vishal (₹3L policy) pays ₹1.2L; Vaishali (₹1L policy) pays ₹40K.
- **Proximate Cause:**
  - Fire → wall collapse → damage → covered (cause = fire).
  - Earthquake (excluded) → fire → damage → not payable.

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5. Exam Tips

- 🔑 Subrogation applies **only in indemnity contracts**, never in life/PA/CI.
- 🔑 Contribution requires **common interest + subject matter + peril**.
- 🔑 Formula for contribution & underinsurance is **commonly tested**.

- 🔑 Proximate cause ≠ nearest cause in time; it is the **dominant cause**.
- 🔑 Marine & Health = exceptions to contribution.
- 🔑 MCQs often ask about **Knock-for-Knock agreement** and **Waiver of Subrogation**.
- 🔑 Expect case-study questions (e.g., Jo Jo Traders, Rekha's car, wall collapse after fire).

📝 **Quick Summary Sentence:**
Subrogation prevents double recovery, Contribution ensures equitable sharing among insurers, and Proximate Cause identifies the **dominant insured peril** responsible for loss.

📘 Chapter 7 – Legal Aspects of Insurance

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1. Key Concepts & Definitions

- **Contract** → A legally enforceable agreement between two parties.
- **Insurance Contract** → Agreement between Insurer & Insured, enforceable under law.
- **Consensus Ad Idem** → Meeting of minds; parties must agree on subject matter in the same sense.
- **Consideration** → Benefit derived by both parties (Premium ↔ Promise to pay claims).
- **Capacity** → Only persons competent to contract (not minors/unsound mind).
- **Free Consent** → No coercion, undue influence, fraud, or misrepresentation.
- **Lawful Object** → Purpose must be legal.
- **Possibility of Performance** → Agreement must be practically possible.
- **Common Law** → Body of principles developed by past judicial decisions.
- **Contra Proferentem Rule** → Ambiguity in contract wording is interpreted against the party drafting it (usually the insurer).
- **Burden of Proof** → Insured must prove loss due to insured peril (or accidental loss in All-Risk policy). If insurer disputes, burden shifts to insurer.

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2. Important Points (Quick Revision)

- **7 Essential Elements of a Valid Contract:**
    1. Offer & Acceptance
    2. Consensus Ad Idem
    3. Consideration
    4. Capacity
    5. Free Consent
    6. Lawful Object
    7. Possibility of Performance
- **Insurance = Special Contract**

- Duty of **Utmost Good Faith**.
- Governed by **Principles of Insurance** + **Indian Contract Act, 1872**.
- Rights under contract subject to **Limitation Act, 1963** → usually 3 years.

- **Insurance Act, 1938**
  - No one can transact insurance business without IRDAI authorization.
  - Regulates insurers, agents, brokers, surveyors, TPAs.
  - Covers: Registration, Capital, Foreign Investment, Accounts, Investments, Licensing, Management Control.
- **IRDAI Act, 1999**
  - Established **IRDAI** as the regulator.
  - Defines powers, duties, composition.
- **Other Important Statutes Relevant to Insurance**
  - Indian Contract Act, 1872.
  - Marine Insurance Act, 1963 (specific to Marine).
  - Motor Vehicles Act, 1989 (mandatory motor insurance).
  - Employees Compensation Act, 1923.
  - Carriage by Road/Sea/Air Acts, Railways Act, Multimodal Transport Act.
  - Public Liability Insurance Act, 1991.
  - Consumer Protection Act, 2019 (grievance redressal system: District, State, National Commissions).
  - Companies Act, 2013 (Directors' liabilities).
  - Real Estate Regulation Act, 2015 (mandatory insurance for real estate projects).
  - Mental Healthcare Act, 2017 (mental illness coverage mandatory).
  - Arbitration & Conciliation Act, 1996 (dispute resolution in insurance contracts).

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3. Processes / Steps

Burden of Proof

1. Insured proves loss caused by named peril (Named Peril Policy).
2. In All-Risk → Insured only proves accidental loss.
3. If insurer disagrees → burden shifts to insurer (prove excluded peril).

Arbitration Process in Insurance

1. Dispute arises.
2. Insured invokes arbitration clause.
3. One arbitrator chosen.
    - If both agree → sole arbitrator.
    - If not → each appoints one; together they appoint a third (tribunal).
4. Tribunal passes award → binding on both parties.

Interpretation of Contracts

1. Intent of parties = primary rule.
2. Ambiguity → interpreted against insurer (Contra Proferentem).
3. Contract should meet **reasonable expectations** of insured.

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4. Examples

- **Contract Example:** Rekha sells house to Reshma for ₹2 Cr → Valid Contract.
- **Invalid Contracts:**
    - Ram agrees to kill Vishal for ₹10L → Illegal object.
    - Renjit agrees to accompany Roshan for picnic → Not enforceable.
- **Marine Insurance Act, 1963:** Governs marine only (fire/health not under specific act).
- **Motor Vehicles Act, 1989:** Makes third-party insurance compulsory.
- **Arbitration Example:** If insurer rejects liability → no arbitration. Arbitration applies only after liability is admitted.
- **WTC Case (per occurrence):** Example of contract interpretation dispute.

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5. Exam Tips

- 🔑 **7 essential elements** → must memorize. (Competence ❌ is not listed in insurance book; instead “Capacity”).
- 🔑 Insurance contracts = special contracts → Utmost Good Faith + Principles of Insurance.
- 🔑 Marine Insurance = only line governed by a separate act (Marine Insurance Act, 1963).
- 🔑 Arbitration Award = **binding on both insurer & insured**.
- 🔑 Contra Proferentem → Favour insured in case of ambiguity.
- 🔑 Consumer Protection Act: Jurisdictions →
  - District: up to ₹1 Cr.
  - State: ₹1–10 Cr.
  - National: above ₹10 Cr.
- 🔑 Burden of Proof: Insured proves in first step; if insurer disagrees → burden shifts.

📝 **Quick Summary Sentence:**
Insurance is a **special contract** governed by the Indian Contract Act, 1872 + Principles of Insurance, regulated by **Insurance Act, 1938 & IRDAI Act, 1999**, with multiple other statutes influencing operations. Valid contracts require **7 essentials**, disputes may go to **arbitration**, and interpretation follows the **Contra Proferentem rule** in favour of insured.

📘 Chapter 8 – Underwriting

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1. Key Concepts & Definitions

- **Underwriting** → Process of evaluating, selecting, and assuming risks for insurance.
- **Significance** → Prevents insurer from taking more liability than expected; ensures profitability.
- **Evaluation** → Collecting info on risk (Proposal Form, inspections, research).
- **Selection** → Deciding which risks to accept/reject (often automated via algorithms).
- **Acceptance** → Final binding decision to take on risk, with terms documented.
- **Law of Large Numbers** → Insurer must write a large volume of homogeneous risks for accurate predictions.
- **Adverse Selection** → Higher-risk applicants disproportionately accepted → bad pool.
- **Convergence** → Over-concentration in one line, region, or client group.
- **Accumulation** → Many risks in same geography/event (flood, earthquake, cyberattack).
- **Complex Risks** → Require detailed scrutiny + reinsurance.
- **Underwriting Framework** → System/architecture guiding underwriting decisions (hazard study, classification, guides, manuals).
- **Acceptance Limits** → Max risk limit insurer can accept (based on capital & reinsurance).
- **Section 45 (Insurance Act, 1938)** → Life insurer cannot void a policy after 3 years even for fraud → underwriting must be careful.

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2. Important Points (Quick Revision)

- Proper underwriting → better **loss prediction** & market share.
- **3 Stages of Underwriting:**
  1. Evaluation (collect & study info).
  2. Selection (choose/avoid risks).
  3. Acceptance (document & bind cover).
- **Two Golden Rules of Risk Selection:**

1. Write large volume of homogeneous risks; avoid bad ones.
2. Respond to market forces but don't compromise profitability.

- **Special Features in Life Insurance:**
  - Section 45 → no cancellation after 3 years.
  - Rigorous checks: Proposal scrutiny, financial viability, medical exam, risk classification.
- **Challenges in Underwriting (Landmines):**
  - Adverse Selection (bad risks outnumber good ones).
  - Convergence (concentration in one area/line).
  - Accumulation (catastrophe risk).
  - Complex Risks (need simulations & reinsurance).
  - Underpricing (competition-driven losses).
- **Framework Components:** Hazard Study, Risk Classification, Rating, Guides, Manuals, Audit, Regulations.
- **Regulatory Compliance:**
  - Board-approved underwriting policy.
  - File & Use regulations (product design must be fair, actuarially sound).
  - Reinsurance & Policyholder Protection regulations.

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3. Processes / Steps

Underwriting Process

1. **Evaluation** → Collect info (proposal form, inspection, research).
2. **Selection** → Use rules & algorithms; balance volume vs quality.
3. **Acceptance** → Final decision, document terms (Sum Insured, limits, warranties, deductibles).

Life Insurance Rigour

- Scrutinize proposal forms.
- Monitor channel quality (avoid moral hazard).
- Financial + medical checks for high sum insured.

- Classify risks (standard, substandard, declined).

Underwriting Framework

- Risk → Peril → Hazard → Classification → Rating.
- Guides & Manuals for agents/underwriters.
- Acceptance limits = Capital + Reinsurance.
- Regular audits + updating with environment changes.

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4. Examples

- **Adverse Selection:** Taxis insured at private car rates.
- **Convergence:** Writing mostly coastal property risks.
- **Accumulation:** One cyclone damaging thousands of insured cars.
- **Complex Risk:** Oil refinery – needs simulation & reinsurance.
- **Life Proposal Example:** If proposer skips a question & insurer doesn't follow-up → insurer cannot later claim non-disclosure.

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5. Exam Tips

- 🔑 **Stages of Underwriting** = Evaluation → Selection → Acceptance.
- 🔑 **Drafting policy terms** = part of *Acceptance*, not Evaluation/Selection.
- 🔑 **Adverse Selection** example = wrong classification (Taxis = Private cars).
- 🔑 **Acceptance Limits** = depend on **Capital & Reinsurance**, not competition/market share.
- 🔑 **Life Insurance Special Rule** → Section 45: No voiding after 3 years.
- 🔑 **Underwriting = Art + Science** (not just Yes/No decision).

📝 **Quick Summary Sentence:**
Underwriting = **systematic evaluation, selection, and assumption of risks**, guided by a framework, avoiding pitfalls like **adverse selection, accumulation, underpricing**, with special diligence in **life insurance (Section 45)**, ensuring profitability through **capital, reinsurance, and regulatory compliance**.

📘 Chapter 9 – Claims

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1. Key Concepts & Definitions

- **Claim** → A demand by the insured for compensation when an insured event occurs.
- **Insured Event** → Operation of an insured peril causing financial loss. (E.g., fire, theft, death, cyberattack).
- **Indemnity** → Compensation to restore insured to financial position before the loss (nothing more, nothing less).
- **Surveyor / Loss Assessor** → IRDAI-licensed professional who assesses cause, nature, and quantum of loss.
- **Admissibility** → Check whether claim is payable under policy (coverage, peril, conditions, warranties).
- **Deductible** → Amount borne by insured before claim is payable.
- **Underinsurance** → Penalty if sum insured < actual value at risk.
- **Reserve** → Provision in insurer's accounts for outstanding or unreported claims.
- **IBNR (Incurred But Not Reported)** → Reserve for losses that happened but not yet reported.

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2. Important Points (Quick Revision)

- **Purpose of claims settlement** → Builds insurer's credibility, fulfils insurance promise.
- **Types of insured events:** Death, fire, burglary, earthquake, cyberattack, product liability, etc.
- **Stages of Claim Process:**
    1. **Intimation** → Immediate notice to insurer.
    2. **Surveyor Appointment** → Within 72 hrs; mandatory above ₹1 lakh (₹50k for motor).
    3. **Loss Assessment** → Surveyor investigates and submits report in 30 days.
    4. **Insurer's Decision** → On admissibility & quantum of claim.
- **Admissibility Criteria:**

    - Coverage (date of loss, subject matter, insurable interest, location/jurisdiction).
    - Operating peril (named vs all-risk policies).
    - Compliance with conditions/warranties (reasonable care, timely intimation).
- **Reasons for reduced payout:**
    - Depreciation (not in reinstatement/zero dep policies).
    - Underinsurance (applies mainly to property).
    - Deductibles (absolute/percentage).
    - Salvage recovery.
    - Other expenses considered (firefighting, debris removal).
- **Reserving:**
    - **Outstanding Claim Reserve** → Liability created when loss is reported.
    - **IBNR Reserve** → For losses incurred but not reported.
    - Managed by **Actuaries**.
- **Post Loss Action:**
    - Subrogation (recover from third party).
    - Recovery from co-insurers & reinsurers.
    - Analyse loss data → improve underwriting/product design.

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3. Processes / Steps

Claims Process Flow

1. Insured Event occurs.
2. Intimation to insurer.
3. Appointment of surveyor (if applicable).
4. Loss assessment report within 30 days.
5. Insurer checks admissibility:
    - Coverage (date, subject, interest, location).
    - Cause of loss (insured peril or excluded peril).

- Compliance with policy terms.

6. Decision: Accept / Reject.
7. Settlement: Apply deductions (depreciation, deductibles, salvage, underinsurance).
8. Reserve creation + Post-loss recovery.

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4. Examples

- **Not an insured event:** Change in fashion (speculative risk).
- **Adverse Surveyor Example:** Motor loss ₹2,50,000 assessed; insurer may pay more/less with reasons.
- **Underinsurance Example:** Property worth ₹1 Cr insured for ₹50L → Claim ₹20L → Insurer pays only ₹10L (pro-rata).
- **Pay & Recover Example:** Motor third-party claims (court directs insurer to pay first, recover later).
- **Depreciation Example:** Old car accident – deduction applied unless zero-dep add-on purchased.

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5. Exam Tips

- 🔑 **Stages of Claim** = Intimation → Survey → Assessment → Insurer's Decision → Settlement.
- 🔑 **Surveyor Appointment Rule** = >₹1 lakh (general), >₹50k (motor).
- 🔑 **Burden of Proof** = Insured proves loss due to insured peril; BUT if insurer rejects citing excluded peril → insurer must prove.
- 🔑 **Depreciation applicable** = Fire policy without reinstatement, old vehicles. Not in life, liability, or zero-dep motor.
- 🔑 **IBNR** = *Incurred But Not Reported*.
- 🔑 **Pay & Recover** = Motor TP claims.
- 🔑 **Admissibility** ≠ Sum Insured check (sum insured matters only at settlement stage).

📝 **Quick Summary Sentence:**

A **claim** arises from an insured peril → processed through **intimation, survey, assessment, insurer's decision, and settlement**, with payout reduced for **depreciation, underinsurance, deductibles, salvage**, while **reserving (outstanding + IBNR)** ensures financial stability and post-loss recoveries protect insurer's interest.

📘 Chapter 10 – Reinsurance

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1. Key Concepts & Definitions

- **Reinsurance** → Insurance for insurers. Insurer transfers part of its risk to a reinsurer.
- **Reinsurer** → Company that accepts risks from insurers.
- **Reinsurance Contract** → Between insurer & reinsurer (not customer).
- **Cut Through Clause** → Special clause allowing insured to claim directly from reinsurer.
- **Facultative Reinsurance** → Case-by-case arrangement; optional for both insurer & reinsurer.
- **Treaty Reinsurance** → Permanent agreement; reinsurer must accept all specified risks.
- **Proportional Reinsurance** → Premiums & claims shared in agreed ratio (Quota Share, Surplus).
- **Non-Proportional Reinsurance** → Reinsurer pays only losses above a defined limit (Excess of Loss, Stop Loss).
- **Retention (Line)** → Portion of risk insurer keeps before passing rest to reinsurer.
- **Surplus** → Portion of risk above retention, ceded to reinsurer.
- **Deductible** → Initial loss borne by insurer before reinsurer pays (used in Non-Proportional).
- **Cover Limit** → Maximum reinsurer liability in Non-Proportional treaties.

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2. Important Points (Quick Revision)

- **Need for Reinsurance**: Protection (large losses), Stability (reduce volatility), Capital (increase capacity), Rating (better solvency/rating), Expertise (guidance), Diversification (new markets).
- **Contract**: Customer → Insurer → Reinsurer. Customer not party, except with **Cut Through Clause**.
- **Arrangements**:
    - Facultative → Flexible but time-consuming.
    - Treaty → Long-term, efficient but may lead to subsidising bad risks.

- **Proportional Methods**:
  - **Quota Share** → Fixed % of all risks, premium & claims shared equally.
  - **Surplus** → Insurer retains up to retention limit; excess ceded. % share varies risk to risk.
- **Non-Proportional Methods**:
  - **Excess of Loss (Risk XL / Cat XL)** → Reinsurer pays above deductible up to cover limit.
  - **Stop Loss** → Reinsurer pays once insurer's overall loss ratio exceeds a threshold.

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3. Processes / Steps

🔹 **Facultative vs Treaty**

- Facultative: Decide individually, reinsurer can accept/reject.
- Treaty: Applies automatically to all risks in agreement.

🔹 **Proportional Reinsurance**

1. Decide share (Quota Share) or Retention Limit (Surplus).
2. Premium & losses shared in same proportion.
3. Commission paid by reinsurer to insurer (to cover distribution/admin costs).

🔹 **Non-Proportional Reinsurance**

1. Insurer chooses **Deductible** (self-retention).
2. Reinsurer pays losses **above deductible** up to **Cover Limit**.
3. Variants:
   - **Risk XL** → Protection per individual risk.
   - **Cat XL** → Protection for catastrophic events (earthquake, cyclone).
   - **Stop Loss** → Kicks in if total annual loss ratio > agreed %.

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4. Examples

- **Quota Share Example**: 20% Quota Share → Insurer keeps 80%, reinsurer takes 20% of premium & claims for each risk.

- **Surplus Example**: Retention ₹50 Cr, 10-line surplus → Reinsurer covers up to ₹500 Cr above retention.
- **Excess of Loss Example**: Deductible ₹100 Cr, Cover Limit ₹50 Cr.
    - Loss ₹110 Cr → Insurer 100, Reinsurer 10.
    - Loss ₹170 Cr → Insurer 120, Reinsurer 50 (max limit).
- **Stop Loss Example**: If loss ratio exceeds 75%, reinsurer pays the excess % of claims.

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5. Exam Tips

- 🔑 **Reinsurance transfers risk from Insurer → Reinsurer (not from customer directly).**
- 🔑 Facultative = Optional, case-by-case; Treaty = Binding, long-term.
- 🔑 Quota Share = Fixed %; Surplus = Varies with retention.
- 🔑 Non-Proportional = No sharing of premium/claims, only losses above deductible.
- 🔑 Risk XL = Per risk protection; Cat XL = Catastrophic event protection.
- 🔑 Stop Loss = Based on annual aggregate loss ratio.
- 🔑 If asked: "Which is not true?" → Stop Loss is NOT proportional.
- 🔑 Treaty Capacity Formula = Retention × (Lines + 1).

📄 **Quick Summary Sentence:**
Reinsurance = insurer's insurance, arranged via **Facultative or Treaty**, using **Proportional (Quota Share, Surplus)** or **Non-Proportional (Excess of Loss, Stop Loss)** methods, providing **protection, stability, capacity, expertise & diversification**.

📘 Chapter 11 – Insurance Accounts

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1. Key Concepts & Definitions

- **Accounting** → Systematic recording & reporting of financial transactions to measure performance & financial health.
- **Profit** → Ultimate measure of performance; difference between **income (premium + investment)** and **outgo (claims, commission, expenses)**.
- **Double Entry System** → Every transaction has 2 sides: debit & credit.
- **Accounting Standards** → Guidelines for consistency, recognition & reporting.
- **Key Regulatory Framework** → Insurance Act 1938, IRDAI Regulations, Companies Act, SEBI Guidelines.

Important Accounting Concepts:

1. **Realisation Concept** → Book profit only when realised; book losses as soon as they are foreseen.
2. **Periodicity Concept** → Transactions grouped into fixed periods (usually 12 months).
3. **Accrual Concept** → Record income & expenses in the period they occur (not when paid/received).
4. **Consistency Concept** → Follow the same accounting policies year to year for comparability.

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2. Important Points (Quick Revision)

- Investors care about profit → because profit ensures **capital protection & return**.
- Premium must be adjusted → only **earned premium** counts as income.
- Claims accounting → include **claims paid + reserves for outstanding + IBNR**.
- Commissions →
  - Paid for **Direct Business** & **Reinsurance Accepted** (expense).
  - Received on **Reinsurance Ceded** (income).
- Investment Income → Key revenue source (since premium is collected upfront & invested).

- Final Accounts → **Net Earned Premium + Investment Income – (Net Incurred Claims + Net Commission + Operating Expenses) = Profit**.

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3. Processes / Steps

🔹 **Premium Accounting**

1. Start with **Gross Direct Premium**.
2. Adjust for **Reinsurance Accepted (+)** & **Reinsurance Ceded (–)** → **Net Premium**.
3. Deduct **Reserve for Unexpired Risks (CURR Year)**.
4. Add **Reserve for Unexpired Risks (PREV Year)**.
   ➡ Result = **Net Earned Premium**.

🔹 **Claims Accounting**

- **Year 1** → Incurred Claims = Claims Paid + Reserve for Outstanding.
- **Subsequent Years** →

$$\text{Incurred Claims} = \text{Claims Paid} + \text{Current Reserves} - \text{Previous Reserves}$$

🔹 **Commission**

$$\text{Net Commission} = \text{Direct Business Paid} + \text{Reinsurance Accepted Paid} - \text{Reinsurance Ceded Received}$$

🔹 **Profit Calculation**

Profit=(Net Earned Premium + Investment Income)−(Net Incurred Claims + Net Commission + Operating Expenses)\text{Profit} = (\text{Net Earned Premium + Investment Income}) - (\text{Net Incurred Claims + Net Commission + Operating Expenses})Profit=(Net Earned Premium + Investment Income)−(Net Incurred Claims + Net Commission + Operating Expenses)

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4. Examples

- **Earned Premium** Example:
  - Policy for ₹365 (1 year). If active only 90 days in FY → Earned Premium = ₹90.
  - Formula:

$$\text{Earned Premium} = \text{Net Premium} - \text{Unexpired Risk Reserve (Curr Yr)} + \text{Unexpired Risk Reserve (Prev Yr)}$$

- **Claims Example**:
  - 2023-24: Claims Paid = ₹1800 Cr, Current Reserve = ₹2200 Cr, Previous Reserve = ₹1200 Cr.
  - Incurred Claims = 1800 + 2200 – 1200 = ₹2800 Cr.
- **Profit Example**:
  - Net Earned Premium = 8000, Investment Income = 900 → Total A = 8900.
  - Claims = 6600, Commission = 200, Expenses = 1900 → Total B = 8700.
  - Profit = 8900 – 8700 = ₹200 Cr.

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5. Exam Tips

- 🔑 **Balance Sheet** = Statement of Assets & Liabilities at year-end.
- 🔑 **Accrual Concept** → Match expenses/income to the year incurred (likely MCQ).
- 🔑 **Earned Premium vs Gross Premium** → Only portion of risk run counts.
- 🔑 **Hull Business** → 100% Premium taken to Reserve (special rule).
- 🔑 **Incurred But Not Reported (IBNR)** → Claims not yet reported still need reserve.
- 🔑 Net Profit Formula is often directly tested.
- 🔑 Trick MCQs → Commission on reinsurance ceded is **income**, not expense.

📝 **Quick Summary Sentence:**
Insurance accounting = Application of **concepts (realisation, accrual, periodicity, consistency)** to derive **Net Earned Premium, Incurred Claims, Net Commission, Operating Expenses**, and calculate **Profit = Income – Outgo**, governed by IRDAI & Accounting Standards.