

# [Insurance](https://assignbuster.com/insurance-2/)

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Name: Course: Lecturer: Date: Insurance Question 1 Life insurance and general insurance are the two major fields of insurance. Previously, they were not separated. However, due to circumstances and incidents, the need to separate them arose. The main reason to their splitting is their difference.

Life insurance fund requires time for profits to build up. Within the life insurance fund, life premiums are kept in the life fund. On the other hand, general insurance gets operating profits since it pays the reinsurance charges. The aim was that engaging in both long-term activity such as life insurance, and short-term activity such as insurance for casualties and property would require one of the two to support the other. Therefore, the main reason for separating life insurance from general insurance was to stop one from supporting the other.

This creates a risk that is hard to solve. The rule recommends separation of the fields as well as conducted in different companies. The separation was to stop companies from transferring funds from the life insurance fund to continue their general activities. Question 2 As competition continues to increase in the market, many insurance companies seek to merge with others for various reasons. The main advantages of merger and acquisition in the insurance industry are the creation of greater value, increased market share and increased cost efficiency. After a merger or acquisition, it would be expected that the value for shareholders would be increased to greater than that of the parent company. Merger will also bring about an increase in the market share since the other company will bring its customers to the group. Finally, mergers bring about cost effectiveness through economies of scale that can be realized by virtue of size.

The disadvantages of mergers include the need for time to adjust operations, reduced flexibility and possible failure. After mergers, insurance companies require time in order to merge their operations before they can operate smoothly. This causes delays that affect production. After a merger, two organizations that were small could become key institutions. Thus, decisions that were previously made quickly will take time due to the size of the merged firm. Finally, the merger could fail since its success is not guaranteed. After a merger, the bigger task remains that of merging the cultures and details within the structures of the merging companies.

If the two companies’ cultures and structures such as financial structure do not align, it is possible the merger will not succeed. A good example of a merger is Marsh & McLennan Agency and Ohio’s Brower Insurance Agency. Question 3 Compensation over time by reinsurance companies neutralizes risks by ensuring that the firms do not have to pay large amounts of money at one time. Paying too much money at a go could leave the company with a risk of running without enough money for operations. Reinsurance companies can neutralize their risks by geographic diversification since each geographical area might have different requirements, especially for international reinsurance companies operating in different countries. On the other hand, the reinsurance companies with compensation according to industry diversification reduce risks since each industry is different and this ensures the real value of the compensation.

Additionally, different industries have different risks to compensate. Thus, this reduces the risk of compensating more than what should be compensated.