Ratio analysis of pharma companies assignment

Business

Basics of Insurance Meaning of Insurance Insurance provides financial protection against a loss arising out of happening of an uncertain event. A person can avail this protection by paying premium to an insurance company. A pool is created through contributions made by persons seeking to protect themselves from common risk. Premium is collected by insurance companies which also act as trustee to the pool. Any loss to the insured in case of happening of an uncertain event is paid out of this pool. Insurance works on the basic principle of risk-sharing.

A great advantage of insurance is that it spreads the risk of a few people over a large group of people exposed to risk of similar type. Definition Insurance is a contract between two parties whereby one party agrees to undertake the risk of another in exchange for consideration known as premium and promises to pay a fixed sum of money to the other party on happening of an uncertain event (death) or after the expiry of a certain period in case of life insurance or to indemnify the other party on happening of an uncertain event in case of general insurance.

The party bearing the risk is known as the ‘ insurer’ or ‘ assurer’ and the party whose risk is covered is known as the ‘ insured’ or ‘ assured’. Concept of Insurance / How Insurance Works The concept behind insurance is that a group of people exposed to similar risk come together and make contributions towards formation of a pool of funds. In case a person actually suffers a loss on account of such risk, he is compensated out of the same pool of funds. Contribution to the pool is made by a group of people sharing common risks and collected by the insurance companies in the form of premiums.

Lets take some examples to understand how insurance actually works: | Example 1 | Example 2 | | SUPPOSE | SUPPOSE | | Houses in a village = 1000 | Number of Persons = 5000 | | Value of 1 House = Rs. 0, 000/- | Age and Physical condition = 50 years & Healthy | | Houses burning in a yr = 5 | Number of persons dying in a yr = 50 | | Total annual loss due to fire = Rs. 2, 00, 000/- | Economic value of loss suffered by family of each dying person = | | Contribution of each house owner = Rs. 300/- | Rs. 1, 00, 000/- | | | Total annual loss due to deaths = Rs. 0, 00, 000/- | | | Contribution per person = Rs. 1, 200/- | | UNDERLYING ASSUMPTION | UNDERLYING ASSUMPTION | | All 1000 house owners are exposed to a common risk, i. e. fire | All 5000 persons are exposed to common risk, i. e. death | | PROCEDURE | PROCEDURE | | All owners contribute Rs. 00/- each as premium to the pool of | Everybody contributes Rs. 1200/- each as premium to the pool of | | funds | funds | |[pic] |[pic] | | Total value of the fund = Rs. 3, 00, 000 (i. e. 1000 houses * Rs. | Total value of the fund = Rs. 60, 00, 000 (i. e. 5000 persons * Rs. | 300) | 1, 200) | |[pic] |[pic] | | 5 houses get burnt during the year | 50 persons die in a year on an average | |[pic] |[pic] | | Insurance company pays Rs. 40, 000/- out of the pool to all 5 house| Insurance company pays Rs. , 00, 000/- out of the pool to the | | owners whose house got burnt | family members of all 50 persons dying in a year | | EFFECT OF INSURANCE | EFFECT OF INSURANCE | | Risk of 5 house owners is spread over 1000 house owners in the | Risk of 50 persons is spread over 5000 people, thus reducing the | | village, thus reducing the burden on any one of the owners. | burden on any one person. |

Insurance is a basic form of risk management which provides protection against possible loss to life or physical assets. A person who seeks protection against such loss is termed as insured, and the company that promises to honour the claim, in case such loss is actually incurred by the insured, is termed as Insurer. In order to get the insurance, the insured is required to pay to the insurance company (i. e. the insurer) a certain amount, termed as premium, on a periodical basis (say monthly, quarterly, annually, or even one-time). Life Insurance | Insurance against risk of loss to one's life is covered under Life Insurance.

Life insurance is also known as long term insurance or life assurance. It includes Whole Life Assurance, Endowment Assurance, Assurances for Children, Term Assurance, Money Back Policy etc General Insurance | Products Offered Insurance against risk of loss to assets like car, house, accident etc. is covered under General or Non-life Insurance. General insurance includes fire insurance, marine insurance, motor insurance, theft insurance, health insurance, personal accident insurance etc. Basic Difference between Life Insurance and General Insurance Life insurance includes plans which are directly related with the person's life.

On the other hand, general insurance deals with plans which are not related to the life of the person. General insurance plans seek to provide protection against loss to a person's assets or health and not to his/her life. The functions of Insurance can be bifurcated into two parts: 1. Primary Functions 2. Secondary Functions 3. Other Functions The primary functions of insurance include the following: Provide Protection – The primary function of insurance is to provide protection against future risk, accidents and

uncertainty. Insurance cannot check the happening of the risk, but can certainly provide for the losses of risk.

Insurance is actually a protection against economic loss, by sharing the risk with others. Collective bearing of risk – Insurance is a device to share the financial loss of few among many others. Insurance is a mean by which few losses are shared among larger number of people. All the insured contribute the premiums towards a fund and out of which the persons exposed to a particular risk is paid. Assessment of risk – Insurance determines the probable volume of risk by evaluating various factors that give rise to risk. Risk is the basis for determining the premium rate also

Provide Certainty – Insurance is a device, which helps to change from uncertainty to certainty. Insurance is device whereby the uncertain risks may be made more certain. The secondary functions of insurance include the following: Prevention of Losses – Insurance cautions individuals and businessmen to adopt suitable device to prevent unfortunate consequences of risk by observing safety instructions; installation of automatic sparkler or alarm systems, etc. Prevention of losses cause lesser payment to the assured by the insurer and this will encourage for more savings by way of premium.

Reduced rate of premiums stimulate for more business and better protection to the insured. Small capital to cover larger risks – Insurance relieves the businessmen from security investments, by paying small amount of premium against larger risks and uncertainty. Contributes towards the development of larger industries – Insurance provides development opportunity to those

larger industries having more risks in their setting up. Even the financial institutions may be prepared to give credit to sick industrial units which have insured their assets including plant and machinery. The other functions of insurance include the following:

Means of savings and investment – Insurance serves as savings and investment, insurance is a compulsory way of savings and it restricts the unnecessary expenses by the insured's For the purpose of availing income-tax exemptions also, people invest in insurance. Source of earning foreign exchange – Insurance is an international business. The country can earn foreign exchange by way of issue of marine insurance policies and various other ways. Risk Free trade – Insurance promotes exports insurance, which makes the foreign trade risk free with the help of different types of policies under marine insurance cover.

TYPES OF INSURANCE POLICIES Insurance provides compensation to a person for an anticipated loss to his life, business or an asset. Insurance is broadly classified into two parts covering different types of risks: 1. Long-term (Life Insurance [pic]) 2. General Insurance (Non-life Insurance) Long-term Insurance Long term insurance is so called because it is meant for a long-term period which may stretch to several years or whole life-time of the insured. Long-term insurance covers all life insurance policies. Insurance against risk to one's life is covered under ordinary life assurance.

Ordinary life assurance can be further clasified into following types: | Types of Ordinary Life Assurance | Meaning | | 1. Whole Life Assurance | In whole life assurance, insurance company collects | | | premium from the insured for

whole life or till the time| | | of his retirement and pays claim to the family of the | | | insured only after his death. | | 2.

Endowment Assurance | In case of endowment assurance, the term of policy is | | | defined for a specified period say 15, 20, 25 or 30 | | | years. The insurance company pays the claim to the | | | family of assured in an event of his death within the | | | policy's term or in an event of the assured surviving | | | the policy's term. | | 3.

Assurances for Children | i). Child's Deferred Assurance: Under this policy, claim| | | by insurance company is paid on the option date which is| | | calculated to coincide with the child's eighteenth or | | | twenty first birthday. In case the parent survives till | | | option date, policy may either be continued or payment | | | may be claimed on the same date.

However, if the parent | | | dies before the option date, the policy remains | | | continued until the option date without any need for | | | payment of premiums. If the child dies before the option| | | date, the parent receives back all premiums paid to the | | | insurance company. | | | ii).

School fee policy: School fee policy can be availed| | | by effecting an endowment policy, on the life of the | | | parent with the sum assured, payable in instalments over| | | the schooling period. | | 4. Term Assurance | The basic feature of term assurance plans is that they | | | provide death risk-cover.

Term assurance policies are | | | only for a limited time, claim for which is paid to the | | | family of the assured only when he dies. In case the | | |

assured survives the term of policy, no claim is paid to| | | the assured. | | 5. Annuities | Annuities are just opposite to life insurance.

A person | | | entering into an annuity contract agrees to pay a | | | specified sum of capital (lump sum or by instalments) to| | | the insurer. The insurer in return promises to pay the | | | insured a series of payments untill insured's death. | | | Generally, life annuity is opted by a person having | | | surplus wealth and wants to use this money after his | | | retirement. | | | | | There are two types of annuities, namely: | | | Immediate Annuity: In an immediate annuity, the insured | | | pays a lump sum amount (known as purchase price) and in | | | return the insurer promises to pay him in instalments a | | | specified sum on a monthly/quarterly/half-yearly/yearly | | | basis.

Deferred Annuity: A deferred anuuity can be | | | purchased by paying a single premium or by way of | | | instalments. The insured starts receiving annuity | | | payment after a lapse of a selected period (also known | | | as Deferment period). | | 6.

Money Back Policy | Money back policy is a policy opted by people who want | | | periodical payments. A money back policy is generally | | | issued for a particular period, and the sum assured is | | | paid through periodical payments to the insured, spread | | | over this time period.

In case of death of the insured | | | within the term of the policy, full sum assured along | | | with bonus accruing on it is payable by hte insurance | | | company to the nominee of the deceased. | General Insurance Also known as non-life insurance, general insurance is normally meant for a short-term period of twelve months or less.

Recently, longer-term insurance agreements have made an entry into the business of general insurance but their term does not exceed five years. General insurance can be classified as follows: | Fire Insurance | Fire insurance provides protection against damage to | | | property caused by accidents due to fire, lightening or | | | explosion, whereby the explosion is caused by boilers not | | | being used for industrial purposes.

Fire insurance also | | | includes damage caused due to other perils like strom | | | tempest or flood; burst pipes; earthquake; aircraft; riot, | | | civil commotion; malicious damage; explosion; impact. | | Marine Insurance | Marine insurance basically covers three risk areas, namely, | | | hull, cargo and freight.

The risks which these areas are | | | exposed to are collectively known as " Perils of the Sea". | | | These perils include theft, fire, collision etc. | | | Marine Cargo: Marine cargo policy provides protection to the| | | goods loaded on a ship against all perils between the | | | departure and arrival warehouse.

Therefore, marine cargo | | | covers carriage of goods by sea as well as transportation of| | | goods by land. | | | Marine Hull: Marine hull policy provides protection against | | | damage to ship caused due to the perils of the sea. Marine | | | hull policy covers three-fourth of the liability of the hull| | | owner (shipowner) against loss due to collisions at sea.

The| | | remaining 1/4th of the liability is looked after by | | | associations formed by shipowners for the purpose (P and I | | | clubs). | | Miscellaneous | As per the Insurance Act, all types of general insurance | | | other than fire and marine insurance are covered under | | | miscellaneous insurance.

Some of the examples of general | | | insurance are motor insurance | | |[pic] | | |, theft insurance, health insurance, personal accident | | | insurance, money insurance, engineering insurance etc. | WHY SHOULD I BUY INSURANCE ? All assets have some economic value attached to them.

No person can deny that there is also a possibilty that these assets may get damaged/destroyed or become non-operational due to risks like breakdowns, fire, floods, earthquake etc. Different assets are exposed to different types of risks like a car has a risk of theft or meeting an accident, a house is exposed to risk of catching fire, a human is exposed to risk of death/accident. Insurance is needed because of following reasons: Social Security Tool Insurance acts as an important tool providing a sense of security to the society on a whole. It is the right of every human-being to have basic menities like food, clothing, housing, medical care, standard of living necessary for his personal and family's well being, and right to security in case of unemployment, disability, sickness or any other circumstances out of his control. In case the bread earner of a family dies, the family suffers from direct financial loss as family's income ceases. As a result, family's economic condition gets affected unless there are other arrangements to rescue the family from this situation. Life insurance is one alternate arrangement that offers some respite to the family from financial distress.

Otherwise this family would have been pushed into the lower strata of the society, which would be an additional cost to the society. This is because subsidies would have to be given to the family so as to enable it to survive and enjoy the basic rights at par with other people. Moreover, a poor family is generally seen to have a large family size with family members being

illiterate. This on a whole affects the society and is a cost to the society. Therefore, insurance compliments the state in social management efforts. Uncertainty The basic need of insurance arises as risks are uncertain and unpredictable in nature.

Getting insurance for an asset does not mean that the asset is protected against risks or its exposure to risk is reduced, but it actually implies that in case the asset suffers any loss in value due to such risk, the insurance company bears the loss and compensates the insured by making payment to him. Economic Development The premium paid by people to the insurance companies is a part of their savings. Insurance, thus, acts as a useful instrument in promoting savings and investments, particularly within the lower-income and middle-income families. These savings are ultimately used as investments fuelling economic growth.

General Purposes of Insurance Insurance is widely popular and beneficial because of its following general purposes: 1. Protection or safety (Term insurances) : These plans are best suited for people aged upto 35 years as it provides higher protection at low cost. These plans are also beneficial for a person whose income is low and want to secure their family from financial default in case of his death. 2. Marriage or education of the child (Children plans) 3. Speedy growth of money & risk cover (Unit Linked Plans) 4. Saving and Protection (Endowment type plans) 5. Saving, protection & liquidity (Money back plans)

The above purposes apply for life insurance. In case of General insurance the basic purpose is to protect the insured against financial loss suffered by him

or creation of liability, due to the causes covered by the policy. Reinsurance is a means by which an insurance company can protect itself with other insurance companies against the risk of losses. Individuals and corporations obtain insurance policies to provide protection for various risks (hurricanes, earthquakes, lawsuits, collisions, sickness and death, etc.). Reinsurers, in turn, provide insurance to insurance companies. pic][edit] Functions of reinsurance There are many reasons why an insurance company would choose to reinsure as part of its responsibility to manage a portfolio of risks for the benefit of its policyholders and investors. [edit] Risk transfer The main use of any insurer that might practice reinsurance is to allow the company to assume greater individual risks than its size would otherwise allow, and to protect a company against losses. Reinsurance allows an insurance company to offer higher limits of protection to a policyholder than its own assets would allow.

For example, if the principal insurance company can write only $10 million in limits on any given policy, it can reinsure (or cede) the amount of the limits in excess of $10 million. Reinsurance's highly refined uses in recent years include applications where reinsurance was used as part of a carefully planned hedge strategy. [edit] Income smoothing Reinsurance can help to make an insurance company's results more predictable by absorbing larger losses and reducing the amount of capital needed to provide coverage. [edit] Surplus relief

An insurance company's writings are limited by its balance sheet (this test is known as the solvency margin). When that limit is reached, an insurer can either stop writing new business, increase its capital or buy " surplus relief"

reinsurance. The latter is usually done on a quota share basis and is an efficient way of not having to turn clients away or raise additional capital. [edit] Arbitrage The insurance company may be motivated by arbitrage in purchasing reinsurance coverage at a lower rate than what they charge the insured for the underlying risk. edit] Reinsurer's Expertise The insurance company may want to avail of the expertise of a reinsurer in regard to a specific (specialised) risk or want to avail of their rating ability in odd risks. [edit] Creating a manageable and profitable portfolio of insured risks By choosing a particular type of reinsurance method, the insurance company may be able to create a more balanced and homogenous portfolio of insured risks. This would lend greater predictability to the portfolio results on net basis ie after reinsurance and would be reflected in income smoothing.

While income smoothing is one of the objectives of reinsurance arrangements, the mechanism is by way of balancing the portfolio. [edit] Managing the cost of capital for an insurance company By getting a suitable reinsurance, the insurance company may be able to substitute " capital needed" as per the requirements of the regulator for premium written. It could happen that the writing of insurance business requires x amount of capital with y% of cost of capital and reinsurance cost is less than x*y%.

Thus more unpredictable or less frequent the likelihood of an insured loss, more profitable it can be for an insurance company to seek reinsurance. [edit] Types of reinsurance [edit] Proportional Proportional reinsurance (the types of which are quota share & surplus reinsurance) involves one or more reinsurers taking a stated percent share of each policy that an insurer produces (" writes"). This means that the reinsurer will receive that stated

percentage of each dollar of premiums and will pay that percentage of each dollar of losses.

In addition, the reinsurer will allow a “ ceding commission” to the insurer to compensate the insurer for the costs of writing and administering the business (agents’ commissions, modeling, paperwork, etc.). The insurer may seek such coverage for several reasons. First, the insurer may not have sufficient capital to prudently retain all of the exposure that it is capable of producing. For example, it may only be able to offer $1 million in coverage, but by purchasing proportional reinsurance it might double or triple that limit.

Premiums and losses are then shared on a pro rata basis. For example, an insurance company might purchase a 50% quota share treaty; in this case they would share half of all premium and losses with the reinsurer. In a 75% quota share, they would share (cede) 3/4 of all premiums and losses. The other form of proportional reinsurance is surplus share or surplus of line treaty. In this case, a retained “ line” is defined as the ceding company’s retention – say $100, 000. In a 9 line surplus treaty the reinsurer would then accept up to $900, 000 (9 lines).

So if the insurance company issues a policy for $100, 000, they would keep all of the premiums and losses from that policy. If they issue a $200, 000 policy, they would give (cede) half of the premiums and losses to the reinsurer (1 line each). The maximum underwriting capacity of the cedant would be $ 1, 000, 000 in this example. Surplus treaties are also known as variable quota shares. [edit] Non-proportional Non-proportional reinsurance

only responds if the loss suffered by the insurer exceeds a certain amount, which is called the “ retention” or “ priority. An example of this form of reinsurance is where the insurer is prepared to accept a loss of $1 million for any loss which may occur and they purchase a layer of reinsurance of $4 million in excess of $1 million. If a loss of $3 million occurs, the insurer pays the $3 million to the insured, and then recovers $2 million from its reinsurer(s). In this example, the reinsured will retain any loss exceeding $5 million unless they have purchased a further excess layer (second layer) of say $10 million excess of $5 million. The main forms of non-proportional reinsurance are excess of loss and stop loss.

Excess of loss reinsurance can have three forms – “ Per Risk XL” (Working XL), “ Per Occurrence or Per Event XL” (Catastrophe or Cat XL), and “ Aggregate XL”. In per risk, the cedant’s insurance policy limits are greater than the reinsurance retention. For example, an insurance company might insure commercial property risks with policy limits up to $10 million, and then buy per risk reinsurance of $5 million in excess of $5 million. In this case a loss of $6 million on that policy will result in the recovery of $1 million from the reinsurer.

In catastrophe excess of loss, the cedant’s per risk retention is usually less than the cat reinsurance retention (this is not important as these contracts usually contain a 2 risk warranty i. e. they are designed to protect the reinsured against catastrophic events that involve more than 1 policy). For example, an insurance company issues homeowner’s policies with limits of up to $500, 000 and then buys catastrophe reinsurance of $22, 000, 000 in excess of $3, 000, 000. In that case, the insurance company would only

recover from reinsurers in the event of multiple policy losses in one event (i. . , hurricane, earthquake, flood, etc.). Aggregate XL affords a frequency protection to the reinsured. For instance if the company retains $1 million net any one vessel, the cover $10 million in the aggregate excess $5 million in the aggregate would equate to 10 total losses in excess of 5 total losses (or more partial losses). Aggregate covers can also be linked to the cedant's gross premium income during a 12 month period, with limit and deductible expressed as percentages and amounts. Such covers are then known as " Stop Loss" or annual aggregate XL. [edit] Risk-attaching Basis

A basis under which reinsurance is provided for claims arising from policies commencing during the period to which the reinsurance relates. The insurer knows there is coverage for the whole policy period when written. All claims from cedant underlying policies incepting during the period of the reinsurance contract are covered even if they occur after the expiration date of the reinsurance contract. Any claims from cedant underlying policies incepting outside the period of the reinsurance contract are not covered even if they occur during the period of the reinsurance contract. edit] Loss-occurring Basis A Reinsurance treaty from under which all claims occurring during the period of the contract, irrespective of when the underlying policies incepted, are covered. Any claims occurring after the contract expiration date are not covered. As opposed to claims-made policy. Insurance coverage is provided for losses occurring in the defined period. This is the usual basis of cover for most policies. [edit] Claims-made Basis A policy which covers all claims reported to an insurer within the policy period irrespective of when they occurred. edit] Contracts Most of the above examples concern

reinsurance contracts that cover more than one policy (treaty). Reinsurance can also be purchased on a per policy basis, in which case it is known as facultative reinsurance. Facultative reinsurance can be written on either a quota share or excess of loss basis. Facultative reinsurance is commonly used for large or unusual risks that do not fit within standard reinsurance treaties due to their exclusions. The term of a facultative agreement coincides with the term of the policy.

Facultative reinsurance is usually purchased by the insurance underwriter who underwrote the original insurance policy, whereas treaty reinsurance is typically purchased by a senior executive at the insurance company. Reinsurance treaties can either be written on a " continuous" or " term" basis. A continuous contract continues indefinitely, but generally has a " notice" period whereby either party can give its intent to cancel or amend the treaty within 90 days. A term agreement has a built-in expiration date. It is common for insurers and reinsurers to have long term relationships that span many years. edit] Markets Most reinsurance placements are not placed with a single reinsurer but are shared between a number of reinsurers. For example a $30, 000, 000 excess of $20, 000, 000 layer may be shared by 30 or more reinsurers. The reinsurer who sets the terms (premium and contract conditions) for the reinsurance contract is called the lead reinsurer; the other companies subscribing to the contract are called following reinsurers. About half of all reinsurance is handled by reinsurance brokers who then place business with reinsurance companies.

The other half is with " direct writing" reinsurers who have their own production staff and thus reinsure insurance companies directly. In Europe

reinsurers write both direct and brokered accounts. Using game-theoretic modeling, Professors Michael R. Powers (Temple University) and Martin Shubik (Yale University) have argued that the number of active reinsurers in a given national market should be approximately equal to the square-root of the number of primary insurers active in the same market. [1] Econometric analysis has provided empirical support for the Powers-Shubik rule. 2] Insurers (that is to say, reinsureds) tend to choose their reinsurers with great care as they are exchanging insurance risk for credit risk. Risk managers monitor reinsurers' financial ratings (S&P, A. M. Best, etc.) and aggregated exposures regularly. [edit] Retrocession Reinsurance companies themselves also purchase reinsurance and this is known as a retrocession. They purchase this reinsurance from other reinsurance companies. The reinsurance company who sells the reinsurance in this scenario are known as " retrocessionaires. The reinsurance company that purchases the reinsurance is known as the " retrocedent. " It is not unusual for a reinsurer to buy reinsurance protection from other reinsurers. For example, a reinsurer that provides proportional, or pro rata, reinsurance capacity to insurance companies may wish to protect its own exposure to catastrophes by buying excess of loss protection. Another situation would be that a reinsurer which provides excess of loss reinsurance protection may wish to protect itself against an accumulation of losses in different branches of business which may all become affected by the same catastrophe.

This may happen when a windstorm causes damage to property, automobiles, boats, aircraft and loss of life, for example. This process can sometimes continue until the original reinsurance company unknowingly

gets some of its own business (and therefore its own liabilities) back. This is known as a “ spiral” and was common in some specialty lines of business such as marine and aviation. Sophisticated reinsurance companies are aware of this danger and through careful underwriting attempt to avoid it.

In the 1980s, the London market was badly affected by the creation of reinsurance spirals. This resulted in the same loss going around the market thereby artificially inflating market loss figures of big claims (such as the Piper Alpha oil rig). The LMX spiral (as it was called) has been stopped by excluding retrocessional business from reinsurance covers protecting direct insurance accounts. It is important to note that the insurance company is obliged to indemnify its policyholder for the loss under the insurance policy whether or not the reinsurer reimburses the insurer.

Many insurance companies have experienced difficulties by purchasing reinsurance from companies that did not or could not pay their share of the loss (these unpaid claims are known as uncollectibles). This is particularly important on long-tail lines of business where the claims may arise many years after the premium is paid. The India Insurance Market despite having a highly elaborate history spanning almost two centuries, has come of age only in the last 50 years after the formation of the Life Insurance Corporation (LIC) of India in 1956 and the entry of private companies into the market in 2000.

Traditionally the Indian Insurance Market had centered around the life insurance until recently, a host of other insurance policies covering a diverse range of issues and objects like medical insurance, accident insurance, fire

insurance, automobile insurance and other policies which fall under the category of general insurance are being provided by various private insurance companies. Performance of the Indian Insurance Market ??? A Report The following points will provide you an insight into the insurance market of India and its fast expanding prospects .

The report is well supported by data based on detailed analysis that would help investors, financial service providers and global banking players to venture into the Indian insurance market . Taking into account the changing socio-economic demographies, rate of GDP growth, behavior of consumers, and occurrences of natural calamities at regular intervals the market of Life Insurance in India is expected grow to the value of around US $ 41. 44 billion by the year 2009. The Market is expected to grow at a compounded annual growth rate (CAGR) of more than 200 % year over year (YOY) from year 2006 onwards. 65 % of the general insurance market is controlled by private houses that already exist in the market. ??? However in automobile insurance , public sector covers a substantial 68 % of the total market value. ??? Among individual companies that are worthy of mentioning, ICICI Lombard enjoys a whopping 53 % market share in Accident Insurance while the remaining 47 % is shared by New India Assurance and United India Insurance , both belonging to the public sector . The other key players of the market include: In Public Sector:

Life Insurance Corporation (LIC) of India, National Insurance Company Limited, Oriental Insurance Limited, New India Assurance Company Limited and United India Insurance Company Limited. In Private Sector: Bajaj Allianz, ING Vysya, SBI Life, Tata AIG Life, HDFC Standard, ICICI Prudential Life

Insurance, Birla Sunlife, Aviva Life Insurance, Kotak Mahindra Old Mutual, Max New York Life and Met Life. Thus, the ever increasing population of the country will ensure constant boom in the India Insurance Market in the distant future. History Of Insurance Sector | | | | | |[pic][pic][pic] | | | | The insurance sector in India has come a full circle from being an open competitive market to nationalization and back to a| | liberalized market again. | | | Tracing the developments in the Indian insurance sector reveals the 360-degree turn witnessed over a period of almost 190 | | years. | | | | The business of life insurance in India in its existing form started in India in the year 1818 with the establishment of | | the Oriental Life Insurance Company in Calcutta. | | | Some of the important milestones in the life insurance business in India are: | | | | 1912 – The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business. | | | | 1928 – The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both | | life and non-life insurance businesses. | | | 1938 – Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests | | of the insuring public. | | | | 1956 – 245 Indian and foreign insurers and provident societies taken over by the central government and nationalized. LIC | | formed by an Act of Parliament, viz.

LIC Act, 1956, with a capital contribution of Rs. 5 crore from the Government of | | India. | | | | The General insurance business in India, on the other hand, can trace its roots to the Triton Insurance Company Ltd. , the | | first general insurance company established in the year 1850 in Calcutta by the British. | | | Some of the important milestones in the general insurance business in India

are: | | | | 1907 – The Indian Mercantile Insurance Ltd. set up, the first company to transact all classes of general insurance | | business. | | | 1957 – General Insurance Council, a wing of the Insurance Association of India, frames a code of conduct for ensuring fair | | conduct and sound business practices. | | | | 1968 – The Insurance Act amended to regulate investments and set minimum solvency margins and the Tariff Advisory Committee| | set up. | | | | 1972 – The General Insurance Business (Nationalization) Act, 1972 nationalized the general insurance business in India with| | effect from 1st January 1973. | | | 107 insurers amalgamated and grouped into four companies viz. the National Insurance Company Ltd. , the New India Assurance | | Company Ltd. , the Oriental Insurance Company Ltd. and the United India Insurance Company Ltd. GIC incorporated as a | | company. | | | How Your Insurance Premiums are Calculated

Most people are aware that life insurance companies rely on an individual’s age, health and lifestyle choices when making a decision whether or not to offer coverage. They evaluate the applicant’s information and classify the applicant based upon their insurance tables. The premium that the applicant pays is directly related to this classification. But how do the insurance companies formulate these tables? How do they arrive at their premium prices? In this article we will attempt to give you a basic understanding of how insurance premiums are calculated. In insurance, risk refers to the possibility of loss.

When a person buys insurance, this risk is transferred form the insured person to the insurer. In order to make a successful business of accepting the transfer of risk, the insurer must determine to some degree how many

losses will actually occur. The insurer can't predict the losses that are expected for any given individual. Using the law of large numbers, however, insurance companies can predict with accuracy how many losses will occur within a group. The basic principle of the law of large numbers is as follows: the larger the group, the more predictable the future losses in the group will be for a given period of time.

The insurance company cannot predict which individual people will die, but with a large enough group being studied, statistics can accurately predict the number of people that will pass away. An exposure unit is the person or item of property that is insured. In order for the law of large numbers to be effective, a large number of similar, or homogeneous, exposure units must be combined. For life and health insurance purposes, the exposure unit is equivalent to the economic value of the insured person's life.

In other types of insurance it's the number of homes, cars, or whatever that's being insured. The degree of error in predicting losses decreases as the number of individual exposure units increases. In other words, the larger the group, the more closely the predicted losses will approach the actual losses experienced. Insurers only deal with averages; by centering on the average risk, the high and low extremes in loss experience cancel each other out. Insurance companies employ mathematicians, called actuaries, who study and compile statistical data about exposure units and risks.

This data is the basis for the mortality (death) and morbidity (sickness) tables that are used to predict probable future losses due to sickness and death. Of course, these tables take into account many different variables

which raise or lower the risk of loss. The insured person is classified, and premiums are set, based upon where his or her profile falls with regard to these tables. Finally, insurance companies collect premiums to cover expenses, profits, and the cost of predicted losses. These expected losses are based on the past experience of the average risk.

The fact that some people live well beyond normal life expectancy (and thus pay premiums for a much longer period of time) is irrelevant, since it can be counted on that others (who have paid very few premiums) will die prematurely. The two extremes cancel each other out, leaving the average risk as the insurance company’s basis for calculating expected losses. Characteristics of Insurance Contracts Though all contracts share fundamental concepts and basic elements, insurance contracts typically possess a number of characteristics not widely found in other types of contractual agreements.

The most common of these features are listed here: Aleatory If one party to a contract might receive considerably more in value than he or she gives up under the terms of the agreement, the contract is said to be aleatory. Insurance contracts are of this type because, depending upon chance or any number of uncertain outcomes, the insured (or his or her beneficiaries) may receive substantially more in claim proceeds than was paid to the insurance company in premium dollars. On the other hand, the insurer could ultimately receive significantly more dollars than the insured party if a claim is never filed.

Adhesion In a contract of adhesion, one party draws up the contract in its entirety and presents it to the other party on a ‘ take it or leave it’ basis; the receiving party does not have the option of negotiating, revising, or deleting any part or provision of the document. Insurance contracts are of this type, because the insurer writes the contract and the insured either ‘ adheres’ to it or is denied coverage. In a court of law, when legal determinations must be made because of ambiguity in a contract of adhesion, the court will render its interpretation against the party that wrote the contract.

Typically, the court will grant any reasonable expectation on the part of the insured (or his or her beneficiaries) arising from an insurer-prepared contract. Utmost Good Faith Although all contracts ideally should be executed in good faith, insurance contracts are held to an even higher standard, requiring the utmost of this quality between the parties. Due to the nature of an insurance agreement, each party needs ??? and is legally entitled ??? to rely upon the representations and declarations of the other.

Each party must have a reasonable expectation that the other party is not attempting to defraud, mislead, or conceal information and is indeed conducting themselves in good faith. In a contract of utmost good faith, each party has a duty to reveal all material information (that is, information that would likely influence a party’s decision to either enter into or decline the contract), and if any such data is not disclosed, the other party will usually have the right to void the agreement. Executory

An executory contract is one in which the covenants of one or more parties to the contract remain partially or completely unfulfilled. Insurance contracts

necessarily fall under this strict definition; of course, it’s stated in the insurance and agreement that the insurer will only perform its obligation after certain events take place (in other words, losses occur). Unilateral A contract may either be bilateral or unilateral. In a bilateral contract, each party exchanges a promise for a promise.

However, in a unilateral contract, the promise of one party is exchanged for a specific act of the other party. Insurance contracts are unilateral; the insured performs the act of paying the policy premium, and the insurer promises to reimburse the insured for any covered losses that may occur. It must be noted that once the insured has paid the policy premium, nothing else is required on his or her part; no other promises of performance were made. Only the insurer has covenanted any further action, and only the insurer can be held liable for breach of contract.

Conditional A condition is a provision of a contract which limits the rights provided by the contract. In addition to being executory, aleatory, adhesive, and of the utmost good faith, insurance contracts are also conditional. Even when a loss is suffered, certain conditions must be met before the contract can be legally enforced. For example, the insured individual or beneficiary must satisfy the condition of submitting to the insurance company sufficient proof of loss, or prove that he or she has an insurable interest in the person insured.

There are two basic types of conditions: conditions precedent and conditions subsequent. A condition precedent is any event or act that must take place or be performed before the contractual right will be granted. For instance,

before an insured individual can collect medical benefits, he or she must become sick or injured. Further, before a beneficiary will be paid a death benefit, the insured must actually become deceased. A condition subsequent is an event or act that serves to cancel a contractual right.

A suicide clause is an example of such a condition. Typical suicide clauses cancel the right of payment of the death benefit if the insured individual takes his or her own life within two years of a life insurance policy’s effective date. Personal contract Insurance contracts are usually personal agreements between the insurance company and the insured individual, and are not transferable to another person without the insurer’s consent. (Life insurance and some maritime insurance policies are notable exceptions to this standard. As an illustration, if the owner of a car sells the vehicle and no provision is made for the buyer to continue the existing car insurance (which, in actuality, would simply be the writing of the new policy), then coverage will cease with the transfer of title to the new owner. Warranties and Representations A warranty is a statement that is considered guaranteed to be true and, once declared, becomes an actual part of the contract. Typically, a breach of warranty provides sufficient grounds for the contract to be voided.

Conversely, a representation is a statement that is believed to be true to the best of the other party’s knowledge. In order to void a contract based on a misrepresentation, a party must prove that the information misrepresented is indeed material to the agreement. According to the laws of most states and in most circumstances, the responses that a person gives on an insurance application are considered to be a representations, and not

warranties. As an example, consider an individual seeking life insurance coverage.

He or she would routinely be required to complete an application, on which the applicant’s sex and age would be requested. The accuracy of this information is necessary for the insurer to correctly ascertain its risk and determine the policy premium. If the applicant gives these responses incorrectly, they would likely be deemed (in the absence of outright fraud) as misrepresentations, and could possibly be used by the insurance company as grounds for voiding the policy.

There is, however, a difference between the representation (or misrepresentation) of a fact and the expression of an opinion. Take, for instance, a common insurance application question such as, “ To the best of your knowledge, do you now believe yourself to be in good health? ” An applicant answering ‘ yes’ while knowing that he or she suffers from a particular condition would be guilty of misrepresenting an actual fact.

However, if the applicant had no symptoms of any kind that would be recognizable to an average person and no doctor’s opinion to the contrary, he or she would simply be stating an opinion and not making a misrepresentation. Misrepresentations and Concealments A misrepresentation is a statement, whether written or oral, that is false. Generally speaking, in order for an insurance company to void a contract because of misrepresented information, the information in question must be material to the decision to extend coverage.

Concealment, on the other hand, is the failure to disclose information that one clearly knows about. To void a contract on the grounds of concealment, the insurer typically must prove that the applicant willfully and intentionally concealed information that was of a material nature. Fraud Fraud is the intentional attempt to persuade, deceive, or trick someone in an effort to gain something of value. Although misrepresentations or concealments may be used to perpetrate fraud, by no means are all misrepresentations and concealments acts of fraud.

For instance, if an insurance applicant intentionally lies in order to obtain coverage or make a false claim, it could very well be grounds for the charge of fraud. However, if an applicant misrepresents some piece of information with no intent for gain (such as, for example, failing to disclose a medical treatment that the applicant is personally embarrassed to discuss), then no fraud has occurred. Impersonation (False pretenses) When one person assumes the identity of another for the purpose of committing a fraud, that person is guilty of the offense of impersonation (also known as false pretenses).

For instance, an individual that would likely be turned down for insurance coverage due to questionable health might request a friend to stand in for him (or her) in order to complete a physical examination. Parol (or Oral) evidence rule This principle limits the effects that oral statements made before a contract’s execution can have on the contract. The assumption here is that any oral agreements made before the contract was written were automatically incorporated into the drafting of the contract. Once the

contract is executed, any prior oral statements will therefore not be allowed in a court of law to alter or counter the contract.