Premium Policy Of Nepalese General Insurance Company (With reference to Prudential Insurance Company)

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In partial fulfillment of the requirements for the degree of

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RECOMMENDATION

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I hope that small effort of mine will be of great value to PIC Ltd & all interested readers.

Birganj, Parsa — Mr. Rishi Raj Satyal
Narayani Zone — Researcher

May 2010.

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CHAPTER -1

Introduction

1.1 Background

Insurance, in law and economics,

is a form of risk management primarily used to hedge against the risk of a contingent loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for a premium, and can be thought of as a guaranteed and known small loss to prevent a large, possibly devastating loss. An **insurer** is a company selling the insurance; an **insured** or **policyholder** is the person or entity buying the insurance. The **insurance rate** is a factor used to determine the amount to be charged for a certain amount of insurance coverage, called the **premium**. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice.

Insurance companies are corporate entities that sell protection policies to their clientele from potential misfortunes. Some insurance companies specialize in one type of insurance; others sell several kinds. Some companies, in fact, specialize exclusively in writing custom insurance policies for unusual insurance requests. No matter what type 2they are, however, all insurance companies operate in a relatively standardized manner.

Insurance companies work by following some relatively simply guidelines. Insurance companies underwrite policies for their clients in which they agree to pay a certain amount of money to their client in the event of a loss. For instance, a car insurance company will underwrite policies that state that it will reimburse its client in the event that the client's car is stolen or destroyed in an accident. In return, the client agrees to pay recurring premiums--a fancy word for payments--to the insurance company on a regular basis, often monthly or yearly. The insurance company collects its premiums from all clients, invests that money in extremely safe investments, such as government bonds, and keeps capital on hand to pay claims made by its clients.

First, insurance companies help to insulate any one individual from a catastrophic loss. By everyone paying into a collective home insurance company, for instance, one person is protected from a freak accident in which his home is destroyed. Insurance is extremely important not only for individuals but also for businesses. Certain industries, such as health care or trucking, just wouldn't be able to function without an insurance company system to help spread liability and cost out evenly across all interested parties

1.1.1 principles of insurance

The six principles of insurance [*citation needed*] are:

- **Indemnity** – Insurance is a contract of indemnity where the insurance company indemnifies the insured against certain risks for a consideration known as premium.
- **Insurable interest** – means the loss of which will directly affect the insured.
- **Utmost good faith** – means that the insured and the insurance company will not willfully hide anything from each other.
- **Mitigation** – means the insured will not behave irresponsibly and will take due care so that the risk of loss or the loss is minimized.
- **Subrogation** – means the insurance company acquires legal rights to act on behalf of the insured i.e. the insurance company steps into the shoes of the insured.
- **Causa Proxima or Proximate Cause** – means the proximate cause of loss to ascertain whether the loss is covered under the policy.

1.1.2 Types of Insurance companies

Various types of insurance have been developed to serve the different needs and preference of policy holders facing the risks.

Insurance is the methods of compensation for financial loss in the case of death, illness, injury, accident, theft, destruction or damage through fire and other hazards, claims for losses, and other eventualities. The method is creation of a fund out of paymennts, or premiums, by those exposed to the risk, out of risk, out of which compensation is paid to those to whom the eventuality actually occurs. Insurance business is divided broadly into two categories like Life Insurance Company and Non-Life Insurance companies covering property and causality insurance companies.

Insurance companies

Insurance companies may be classified into two groups:

- *Life* insurance companies, which sell life insurance, annuities and pensions products.
- *Non-life*, *General*, or *Property/Casualty* insurance companies, which sell other types of insurance.

A. Life insurance

Life insurance provides a monetary benefit to a decedent's family or other designated beneficiary, and may specifically provide for income to an insured person's family, burial, funeral and other final expenses. Life insurance policies often allow the option of having the proceeds paid to the beneficiary either in a lump sum cash payment or an annuity.

B. Non-life insurance

General insurance companies can be further divided into these sub categories.

- Standard Lines
- Excess Lines

- Auto Insurance
- Boat Insurance
- Commercial Insurance
- Medical Insurance
- Mortgage Insurance
- Motorcycle Insurance

- Dental Insurance and Financing Dental Care
- Disability Insurance
- Homeowner Insurance
- Liability Insurance
- Life Insurance
- Long Term Care Insurance
- Pet Insurance
- Renters Insurance
- Title Insurance
- Travel Insurance
- Workers Compensation

1.1.3 Insurance Companies in Nepal

1. Nepal Insurance Com.Ltd.

2. Oriental Insurance Com.Ltd

3. Allince Insurane Com.Ltd.

4. Himalayan Insurance Com.Ltd.

5. Lumbini Insurance Com.Ltd

6. Rastriya Beema Sasthan

7. United Insurance Com.Ltd

8. Siddhartha Insurance Com.Ltd

9. Everest Insurance Com.Ltd

10. Shikhar Insurance Com.Ltd

11. Sagarmatha Insurance Com.Ltd.

12.NLG Insurance Com.Ltd

13.N.B. Insurance com.ltd

14.Prudential Insurance Com.Ltd

15.National Insurance Com. Ltd

16.Premire Insurance Com.Ltd.

17.Necco Insurance Com .Ltd.

A. Introduction of Prudential Insurance Co. Ltd.

Introductions

Prudential Insurance Co. Ltd. (Be Safe Always)

Prudential Insurance Company was incorporated under the Companies Act on November 30, 2000. With the approval of Beema Samiti, it commenced operation on June 20, 2002. The Company is housed in the second floor of Triveni Complex an exquisitely built modern office complex located in the heart of the City.

Formed with an initial capital of Rupees 10 Crores (this includes Public Issue of Rs. 2 Crores). The company can claim to have a strong financial base the first essential ingredient for success in the business of insurance. The strength, reputation and the influence of the groups and their business associates together with the professional management the Company has employed give an assurance of stability and quality service to the Nepalese customers.

The Company's operation is computerized with integrated insurance software that ensures speedy and quality service to its customers in matters of issuing policies and settlement of claims. Emphasis is put on recruitment of quality staff and providing them effective training to ensure a truly professional service. The Company regards that professional management, efficient computerization of its operation and trained staff with a strong customer focus gives it a cutting edge in the competitive environment of the present market.

The Company has a suitable reinsurance protection from a consortium of reinsures of first class security as rated by the internationally accredited rating agencies like A.M. Best. While the General Insurance Corporation of India are the lead reinsures, the other members of the consortium include Mitsui Sumitomo, Arab Reinsurance Group, African Reinsurance Corporation and Kuwait Reinsurance Company among others. Thus the reinsurance arrangement of the Company gives its customers a measure of confidence in the Company's ability to meet its obligations in regard to settlement of claims, particularly the large ones.

About Us

Prudential Insurance Company Limited which had been registered with the Government of Nepal, Registrar of Companies, Kathmandu, Nepal was issued License on Baishakh, 2059 (May 3, 2002) by Beema Samiti, to underwrite non life insurance business. The Company received the Certificate for Commencement of Business on Jestha 21, 2059 (June 4, 2002) and started underwriting insurance business from Aasadh 6, 2059 (June 20, 2002).

Registered Office

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Tel: 531 681 Fax: +977-51 533261

E-mail: prudentialbrj@atcmail.com.np

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Kathmandu – 31, Nepal

G.P.O. Box: 15123, Kathmandu

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E-mail: prudential@wlink.com.np

Branch Office: Birgunj, Biratnagar, Pokhara and Butwal

Share Capital

Authorized: Rs. 200 Million.

Issued and Paid Up: Rs 100 Million

Prudential Insurance Co. Ltd.

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City	Kathmandu
Country	NEPAL
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Categories	Insurance Companies

Our Products

Fire Insurance
Machinery Breakdown Insurance
Electronic Equipment Insurance
Burglary and House Breaking Insurance
Cash Insurance
Fidelity Guarantee Insurance
Bankers Blanket Insurance
Workmen's Compensation Insurance
Marine Cargo Insurance
Erection All Risk Insurance
Contractor's All Risk Insurance
Vehicle Insurance
Personal Accident Insurance
Medical and Health Insurance
Overseas Medical and Travel Insurance

Other insurances available

- Traders' Comprehensive
- Household's Comprehensive
- Aviation Insurance
- Business Interruption
- Third Party Liability Insurance
- Professional Indemnities
- All Risk Insurance
- Baggage Insurance
- Directors' 7 Officers' Liability Insurance
- Medical & Travel Insurance

1.2 Focus of the study

With this view, the insurance companies are welcomed in Nepal. On-life / general insurance companies are in many numbers to these days. Of course, they have put their contribution in making flow of funds within the country. Only establishing insurance company such country moves on the track of prosperity very soon. Economic development in the country is possible only through the establishment and sound operation of insurance companies. Thus, various insurance companies have been established in our country for the risk management and the economic development. Such insurance company helps in capital formation and its proper utilization. But the developing country like Nepal is suffering from such problem. Insurance company are also not able to operate in full fledge. The development of the country is possible only if such insurance companies are able to invest in productive sector.

Insurance company has not formulated their premium policy in so organized manner. They have limited consideration towards portfolio optimization. They don't have their own clear vision towards premium policy. Public are not aware about insurance. Insurance companies are facing the various kinds of challenges, problems, threats, political unbalance & so on.

1.3 Statement of the Problems

There are various problems in resource mobilization by insurance company in Nepal. The major one is poor investment climate due to heavy regulatory procedure. While making the investment, insurance company has to think about the various risks, associated with it like financial risks, business risk etc. If such risks are ignored then there is high level of chance of losing their principal also. Thus, unsecured and poor re – insurance policies may cause liquidation of those institutions.

This study attempts to fill the gap and will be helpful for the insurance company, other financial institutions, investors, public and researchers to avail their requirement.

Under such circumstances, the present study will try to analysis the premium policies of prudential insurance company. The study attempts to address the following issues:-

- Premium polices adopted by Prudential Insurance company (PIC) and their effectiveness and efficiency.
- What is relationship between premium policy and sell of policy?
- Does the portfolio premium policy affect the total earning of prudential insurance company?
- Effectiveness of marketing strategy of PIC.
- Management of premium of PIC.
- Premium policy and risk coverage.
- Performance of PIC in Nepalese market
- Focus on new risk area and insurance policy to cover the risk.
- Re – insurance policy of PIC and relation with competitors (national and international both).

1.4 Objectives of the study:

The basic objectives of this study are to highlights the marketing strategy on premium policy of PIC. On contribution of premium towards the insurance is to achieve primary objectives. The following objectives are also considered in the study:-

1) To compare the sources and uses of funds.

2) To evaluate the sell of policy made by PIC in different sector.
3) To calculate rate of Return on investment of premium.
4) To evaluate the ratio of investment to total premium.
5) To give new slogan
6) To advertise in remote areas.
7) To cover maximum insurance market.

1.5 Limitation of study:

Every study has its own limitation. It is quite impossible to conduct the study without limitation. Likewise every researcher has work within the boundary line sketched. Hence, he or she has some limitations .some of the limitations faced during the preparation of this reports are listed below:

1. The study based up on the primary and secondary data provided by the PIC, Birgunj Branch and Head office, Kathmandu.

2. Due to secrecy reason, the study has been limited to the information provided by PIC.

3. The study period covers only period of 5 years.

4. The data available in published annual report and into net website is assumed to be correct and true.

5. This study is confined to evaluate only the Premium policies of PIC.

1.6 Significance of study:

Insurance companies try to charge enough money in insurance premiums to cover the amount of money that they will have to pay out to their insureds (the people who buy insurance policies) under all of the insurance policies that they have issued. Insurance companies make an educated guess about how likely they will have to pay out on the insurance policies that they issue. The likelihood of having to pay out under an insurance policy is called the level of "risk."

Insurance companies frequently measure the risk involved in providing insurance coverage with particular risk factors,. As insurance companies determine that a particular risk factor increases or decreases over time, then the value assigned to that risk factor changes, which results in a change in the amount of premiums required to cover the risk.

At present insurance company play important role in the economic development of the country. PIC Ltd. is one of them in Nepal which was established in 2002. Along with this, other insurance company are also playing very important role in the insurance area.

Insurance company is that company that sells its policy and covers the risk as well as supplies the financial needs of modern business by various means... As a matter of facts, insurance company is the backbone of the financial system of the country.

In this context, the role of insurance can't be ignored and under emphasized.

1.7 Organization of the study:

The entire study has been categorized into five chapters. Each chapter covers some facts pertaining to the insurance policies of PIC. The following are the title of the chapter.

Chapter 1 – This chapter deals with the subject matter of the study consisting background of the study profiles of the companies. Focus of the study, Statement of problem, objectives of the study, limitation of the study, significance of the study, and organization of the study.

Chapter 2 – This chapter deals with review of literature. It includes conceptual framework along with review of major books, journals, research works and thesis etc.

Chapter 3 – This chapter deals with Research Methodology. It includes Methodology used to achieve the objectives of the study, sources of data, population and sample, financial and statistical tools used.

Chapter 4 – This chapter deals with analysis and interpretation of data using financial and statistical tools and major findings are described in third chapter.

Chapter 5 – This is the last chapter, which deals with Summary, Major Finding, Conclusion and Recommendation of the study.

The report is organized in this fashion to make this study in line with simple research methodology approaches.

CHAPTER -2

REVIEW OF LITERATURE

2.1 INTRODUCTION

Review of literature is a vital part of all studies. It means reviewing research studies or other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. It is an integral mandatory process in research works.

The main reason for a full review of research in the past is to know the outcomes of those investigations in areas where similar concepts and methodologies had been used successfully. Further, an extensive or even exhaustive process of such review may offer vital links with the various trends & phases in the researches in one's area of specialization, familiarizing with the characteristic percepts, concept & interpretation, with the special terminology, with the rationale for understanding one's proposed investigations. In this connection a review of previous related research projects will help the researcher to formulate a satisfactory structure of the project.

2.2 CONCEPTUAL FRAMEWORK

A. Insurance

Insurance, in law and economics, is a form of risk management primarily used to hedge against the risk of a contingent loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for a premium, and can be thought of as a guaranteed and known small loss to prevent a large, possibly devastating loss. An **insurer** is a company selling the insurance; an **insured** or **policyholder** is the person or entity buying the insurance. The **insurance rate** is a factor used to determine the amount to be charged for a certain amount of insurance coverage, called the **premium**. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice.

Principles of insurance

The six principles of insurance are:

1. **Indemnity** – Insurance is a contract of indemnity where the insurance company indemnifies the insured against certain risks for a consideration known as premium.
2. **Insurable interest** – means the loss of which will directly affect the insured.
3. **Utmost good faith** – means that the insured and the insurance company will not willfully hide anything from each other.
4. **Mitigation** – means the insured will not behave irresponsibly and will take due care so that the risk of loss or the loss is minimized.
5. **Subrogation** – means the insurance company acquires legal rights to act on behalf of the insured i.e. the insurance company steps into the shoes of the insured.
6. **Causa Proxima or Proximate Cause** – means the proximate cause of loss to ascertain whether the loss is covered under the policy.

B. Characteristic of Insurance

Commercially insurable risks typically share seven common characteristics.

1. **A large number of homogeneous exposure units**. The vast majority of insurance policies are provided for individual members of very large classes. Automobile insurance, for example, covered about 175 million automobiles in the United States in 2004.[2] The existence of a large number of homogeneous exposure units allows insurers to benefit from the so-called "law of large numbers," which in effect states that as the number of exposure units increases, proportionally the actual results are increasingly likely to become close to expected proportions. There are exceptions to this criterion. Lloyd's of London is famous for insuring the life or health of actors, actresses and sports figures. Satellite Launch insurance covers events that are infrequent. Large commercial property policies may insure exceptional properties for which there are no 'homogeneous' exposure units. Despite failing on this criterion, many exposures like these are generally considered to be insurable.

2. **Definite Loss**. The event that gives rise to the loss that is subject to the insured, at least in principle, take place at a known time, in a known place, and from a known cause. The classic example is death of an insured person on a life insurance policy. Fire, automobile accidents, and worker injuries may all easily meet this criterion. Other types of losses may only be definite in theory. Occupational disease, for instance, may involve prolonged exposure to injurious conditions where no specific time, place or cause is identifiable. Ideally, the time, place and cause of a loss should be clear enough that a reasonable person, with sufficient information, could objectively verify all three elements.
3. **Accidental Loss**. The event that constitutes the trigger of a claim should be fortuitous, or at least outside the control of the beneficiary of the insurance. The loss should be 'pure,' in the sense that it results from an event for which there is only the opportunity for cost. Events that contain speculative elements, such as ordinary business risks, are generally not considered insurable.
4. **Large Loss**. The size of the loss must be meaningful from the perspective of the insured. Insurance premiums need to cover both the expected cost of losses, plus the cost of issuing and administering the policy, adjusting losses, and supplying the capital needed to reasonably assure that the insurer will be able to pay claims. For small losses these latter costs may be several times the size of the expected cost of losses. There is little point in paying such costs unless the protection offered has real value to a buyer.
5. **Affordable Premium**. If the likelihood of an insured event is so high, or the cost of the event so large, that the resulting premium is large relative to the amount of protection offered, it is not likely that anyone will buy insurance, even if on offer. Further, as the accounting profession formally recognizes in financial accounting standards, the premium cannot be so large that there is not a reasonable chance of a significant loss to the insurer. If there is no such chance of loss, the transaction may have the form of insurance, but not the substance. (See the U.S. Financial Accounting Standards Board standard number 113)
6. **Calculable Loss**. There are two elements that must be at least estimable, if not formally calculable: the probability of loss, and the attendant cost. Probability of loss is generally an empirical exercise, while cost has more to do with the

ability of a reasonable person in possession of a copy of the insurance policy and a proof of loss associated with a claim presented under that policy to make a reasonably definite and objective evaluation of the amount of the loss recoverable as a result of the claim.

7. **Limited risk of catastrophically large losses**. The essential risk is often aggregation. If the same event can cause losses to numerous policyholders of the same insurer, the ability of that insurer to issue policies becomes constrained, not by factors surrounding the individual characteristics of a given policyholder, but by the factors surrounding the sum of all policyholders so exposed. Typically, insurers prefer to limit their exposure to a loss from a single event to some small portion of their capital base, on the order of 5 percent. Where the loss can be aggregated, or an individual policy could produce exceptionally large claims, the capital constraint will restrict an insurer's appetite for additional policyholders. The classic example is earthquake insurance, where the ability of an underwriter to issue a new policy depends on the number and size of the policies that it has already underwritten. Wind insurance in hurricane zones, particularly along coast lines, is another example of this phenomenon. In extreme cases, the aggregation can affect the entire industry, since the combined capital of insurers and reinsurers can be small compared to the needs of potential policyholders in areas exposed to aggregation risk. In commercial fire insurance it is possible to find single properties whose total exposed value is well in excess of any individual insurer's capital constraint. Such properties are generally shared among several insurers, or are insured by a single insurer who syndicates the risk into the reinsurance market.

C. Indemnification

Indemnity

To "indemnify" means to make whole again, or to be put in the position that one was in, to the extent possible, prior to the happening of a specified event or peril. Accordingly, life insurance is generally not considered to be indemnity insurance, but rather "contingent" insurance (i.e., a claim arises on the occurrence of a specified event). There are generally two types of insurance contracts that seek to indemnify an insured:

1. an "indemnity" policy and
2. a "pay on behalf" or "on behalf of" policy.

The difference is significant on paper, but rarely material in practice.

An "indemnity" policy will never pay claims until the insured has paid out of pocket to some third party; for example, a visitor to your home slips on a floor that you left wet and sues you for $10,000 and wins. Under an "indemnity" policy the homeowner would have to come up with the $10,000 to pay for the visitor's fall and then would be "indemnified" by the insurance carrier for the out of pocket costs (the $10,000).

Under the same situation, a "pay on behalf" policy, the insurance carrier would pay the claim and the insured (the homeowner) would not be out of pocket for anything. Most modern liability insurance is written on the basis of "pay on behalf" language.

An entity seeking to transfer risk (an individual, corporation, or association of any type, etc.) becomes the 'insured' party once risk is assumed by an 'insurer', the insuring party, by means of a contract, called an insurance 'policy'. Generally, an insurance contract includes, at a minimum, the following elements: the parties (the insurer, the insured, the beneficiaries), the premium, the period of coverage, the particular loss event covered, the amount of coverage (i.e., the amount to be paid to the insured or beneficiary in the event of a loss), and exclusions (events not covered). An insured is thus said to be "indemnified" against the loss covered in the policy.

When insured parties experience a loss for a specified peril, the coverage entitles the policyholder to make a 'claim' against the insurer for the covered amount of loss as specified by the policy. The fee paid by the insured to the insurer for assuming the risk is called the 'premium'. Insurance premiums from many insureds are used to fund accounts reserved for later payment of claims—in theory for a relatively few claimants—and for overhead costs. So long as an insurer maintains adequate funds set aside for anticipated losses (i.e., reserves), the remaining margin is an insurer's profit.

D. Insurers' business model

- Underwriting and investing

The business model can be reduced to a simple equation: Profit = earned premium + investment income - incurred loss - underwriting expenses.

Insurers make money in two ways:

1. Through underwriting, the process by which insurers select the risks to insure and decide how much in premiums to charge for accepting those risks;
2. By investing the premiums they collect from insured parties.

The most complicated aspect of the insurance business is the underwriting of policies. Using a wide assortment of data, insurers predict the likelihood that a claim will be made against their policies and price products accordingly. To this end, insurers use actuarial science to quantify the risks they are willing to assume and the premium they will charge to assume them. Data is analyzed to fairly accurately project the rate of future claims based on a given risk. Actuarial science uses statistics and probability to analyze the risks associated with the range of perils covered, and these scientific principles are used to determine an insurer's overall exposure. Upon termination of a given policy, the amount of premium collected and the investment gains thereon minus the amount paid out in claims is the insurer's underwriting profit on that policy. Of course, from the insurer's perspective, some policies are "winners" (i.e., the insurer pays out less in claims and expenses than it receives in premiums and investment income) and some are "losers" (i.e., the insurer pays out more in claims and expenses than it receives in premiums and investment income); insurance companies essentially use actuarial science to attempt to underwrite enough "winning" policies to pay out on the "losers" while still maintaining profitability.

An insurer's underwriting performance is measured in its *combined ratio.* which is the ratio of losses and expenses to premiums. A combined ratio of less than 100 percent indicates underwriting profitability, while anything over 100 indicates an underwriting loss. A company with a combined ratio over 100% may nevertheless remain profitable due to investment earnings.

Insurance companies earn investment profits on “float”. “Float” or available reserve is the amount of money, at hand at any given moment, that an insurer has collected in insurance premiums but has not paid out in claims. Insurers start investing insurance premiums as soon as they are collected and continue to earn interest or other income on them until claims are paid out. The *Association of British Insurers* (gathering 400 insurance companies and 94% of UK insurance services) has almost 20% of the investments in the London Stock Exchange.

In the United States, the underwriting loss of property and casualty insurance companies was $142.3 billion in the five years ending 2003. But overall profit for the same period was $68.4 billion, as the result of float. Some insurance industry insiders, most notably Hank Greenberg, do not believe that it is forever possible to sustain a profit from float without an underwriting profit as well, but this opinion is not universally held.

Naturally, the “float” method is difficult to carry out in an economically depressed period. Bear markets do cause insurers to shift away from investments and to toughen up their underwriting standards. So a poor economy generally means high insurance premiums. This tendency to swing between profitable and unprofitable periods over time is commonly known as the "underwriting" or insurance cycle.

Property and casualty insurers currently make the most money from their auto insurance line of business. Generally better statistics are available on auto losses and underwriting on this line of business has benefited greatly from advances in computing. Additionally, property losses in the United States, due to unpredictable natural catastrophes, have exacerbated this trend.

E. Claims

Claims and loss handling is the materialized utility of insurance; it is the actual "product" paid for, though one hopes it will never need to be used. Claims may be filed by insureds directly with the insurer or through brokers or agents. The insurer may require that the claim be filed on its own proprietary forms, or may accept claims on a standard industry form such as those produced by ACORD.

Insurance company claims departments employ a large number of claims adjusters supported by a staff of records management and data entry clerks. Incoming claims are classified based on severity and are assigned to adjusters whose settlement authority varies with their knowledge and experience. The adjuster undertakes a thorough investigation of each claim, usually in close cooperation with the insured, determines if coverage is available under the terms of the insurance contract, and if so, the reasonable monetary value of the claim, and authorizes payment. Adjusting liability insurance claims is particularly difficult because there is a third party involved, the plaintiff, who is under no contractual obligation to cooperate with the insurer and may in fact regard the insurer as a deep pocket. The adjuster must obtain legal counsel for the insured (either inside "house" counsel or outside "panel" counsel), monitor litigation that may take years to complete, and appear in person or over the telephone with settlement authority at a mandatory settlement conference when requested by the judge.

If a claims adjuster suspects underinsurance, the condition of average may come into play to limit the insurance company's exposure.

In managing the claims handling function, insurers seek to balance the elements of customer satisfaction, administrative handling expenses, and claims overpayment leakages. As part of this balancing act, fraudulent insurance practices are a major business risk that must be managed and overcome. Disputes between insurers and insureds over the validity of claims or claims handling practices occasionally escalate into litigation; see insurance bad faith.

2.3 History of insurance

In some sense we can say that insurance appears simultaneously with the appearance of human society. We know of two types of economies in human societies: money economies (with markets, money, financial instruments and so on) and non-money or natural economies (without money, markets, financial instruments and so on). The second type is a more ancient form than the first. In such an economy and community, we can see insurance in the form of people helping each other. For example, if a house burns down, the members of the community help build a new one. Should the same thing happen to one's neighbour, the other neighbours must help. Otherwise, neighbours will not receive help in the future. This type of insurance has survived to the present day in some countries where modern money economy with its financial instruments is not widespread.

Turning to insurance in the modern sense (i.e., insurance in a modern money economy, in which insurance is part of the financial sphere), early methods of transferring or distributing risk were practised by Chinese and Babylonian traders as long ago as the 3rd and 2nd millennia BC, respectively.[9] Chinese merchants travelling treacherous river rapids would redistribute their wares across many vessels to limit the loss due to any single vessel's capsizing. The Babylonians developed a system which was recorded in the famous Code of Hammurabi, c. 1750 BC, and practised by early Mediterranean sailing merchants. If a merchant received a loan to fund his shipment, he would pay the lender an additional sum in exchange for the lender's guarantee to cancel the loan should the shipment be stolen or lost at sea.

Achaemenian monarchs of Ancient Persia were the first to insure their people and made it official by registering the insuring process in governmental notary offices. The insurance tradition was performed each year in Norouz (beginning of the Iranian New Year); the heads of different ethnic groups as well as others willing to take part, presented gifts to the monarch. The most important gift was presented during a special ceremony. When a gift was worth more than 10,000 Derrik (Achaemenian gold coin) the issue was registered in a special office. This was advantageous to those who presented such special gifts. For others, the presents were fairly assessed by the confidants of the court. Then the assessment was registered in special offices.

The purpose of registering was that whenever the person who presented the gift registered by the court was in trouble, the monarch and the court would help him. Jahez, a historian and writer, writes in one of his books on ancient Iran: "[W]henever the owner of the present is in trouble or wants to construct a building, set up a feast, have his children married, etc. the one in charge of this in the court would check the registration. If the registered amount exceeded 10,000 Derrik, he or she would receive an amount of twice as much."

A thousand years later, the inhabitants of Rhodes invented the concept of the 'general average'. Merchants whose goods were being shipped together would pay a proportionally divided premium which would be used to reimburse any merchant whose goods were jettisoned during storm or sinkage.

The Greeks and Romans introduced the origins of health and life insurance c. 600 AD when they organized guilds called "benevolent societies" which cared for the families and paid funeral expenses of members upon death. Guilds in the Middle Ages served a similar purpose. The Talmud deals with several aspects of insuring goods. Before insurance was established in the late 17th century, "friendly societies" existed in England, in which people donated amounts of money to a general sum that could be used for emergencies.

Separate insurance contracts (i.e., insurance policies not bundled with loans or other kinds of contracts) were invented in Genoa in the 14th century, as were insurance pools backed by pledges of landed estates. These new insurance contracts allowed insurance to be separated from investment, a separation of roles that first proved useful in marine insurance. Insurance became far more sophisticated in post-Renaissance Europe, and specialized varieties developed.

Some forms of insurance had developed in London by the early decades of the seventeenth century. For example, the will of the English colonist Robert Hayman mentions two "policies of insurance" taken out with the diocesan Chancellor of London, Arthur Duck. Of the value of £100 each, one relates to the safe arrival of Hayman's ship in Guyana and the other is in regard to "one hundred pounds assured by the said Doctor Arthur Ducke on my life". Hayman's will was signed and sealed on 17 November 1628 but not proved until 1633.[10] Toward the end of the seventeenth century, London's growing importance as a centre for trade increased demand for marine insurance. In the late 1680s, Edward Lloyd opened a coffee house that became a popular haunt of ship owners, merchants, and ships’ captains, and thereby a reliable source of the latest shipping news. It became the meeting place for parties wishing to insure cargoes and ships, and those willing to underwrite such ventures. Today, Lloyd's of London remains the leading market (note that it is not an insurance company) for marine and other specialist types of insurance, but it works rather differently than the more familiar kinds of insurance.

Insurance as we know it today can be traced to the Great Fire of London, which in 1666 devoured more than 13,000 houses. The devastating effects of the fire converted the development of insurance "from a matter of convenience into one of urgency, a change of opinion reflected in Sir Christopher Wren's inclusion of a site for 'the Insurance Office' in his new plan for London in 1667." A number of attempted fire insurance schemes came to nothing, but in 1681 Nicholas Barbon, and eleven associates, established England's first fire insurance company, the 'Insurance Office for Houses', at the back of the Royal Exchange. Initially, 5,000 homes were insured by Barbon's Insurance Office.

The first insurance company in the United States underwrote fire insurance and was formed in Charles Town (modern-day Charleston), South Carolina, in 1732. Benjamin Franklin helped to popularize and make standard the practice of insurance, particularly against fire in the form of perpetual insurance. In 1752, he founded the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire. Franklin's company was the first to make contributions toward fire prevention. Not only did his company warn against certain fire hazards, it refused to insure certain buildings where the risk of fire was too great, such as all wooden houses. In the United States, regulation of the insurance industry is highly Balkanized, with primary responsibility assumed by individual state insurance departments. Whereas insurance markets have become centralized nationally and internationally, state insurance commissioners operate individually, though at times in concert through a national insurance commissioners' organization. In recent years, some have called for a dual state and federal regulatory system (commonly referred to as the Optional federal charter (OFC)) for insurance similar to that which oversees state banks and national banks.

2.3.1 Types of insurance

Any risk that can be quantified can potentially be insured. Specific kinds of risk that may give rise to claims are known as "perils". An insurance policy will set out in detail which perils are covered by the policy and which are not. Below are (non-exhaustive) lists of the many different types of insurance that exist. A single policy may cover risks in one or more of the categories set out below. For example, auto insurance would typically cover both property risk (covering the risk of theft or damage to the car) and liability risk (covering legal claims from causing an accident). A homeowner's insurance policy in the U.S. typically includes property insurance covering damage to the home and the owner's belongings, liability insurance covering certain legal claims against the owner, and even a small amount of coverage for medical expenses of guests who are injured on the owner's property.

Business insurance can be any kind of insurance that protects businesses against risks. Some principal subtypes of business insurance are (a) the various kinds of *professional liability insurance*, also called *professional indemnity insurance*, which are discussed below under that name; and (b) the business owner's policy (BOP), which bundles into one policy many of the kinds of coverage that a business owner needs, in a way analogous to how homeowners insurance bundles the coverages that a homeowner needs.

A. Auto insurance

Vehicle insurance

A wrecked vehicle

Auto insurance protects you against financial loss if you have an accident. It is a contract between you and the insurance company. You agree to pay the premium and the insurance company agrees to pay your losses as defined in your policy. Auto insurance provides property, liability and medical coverage:

1. Property coverage pays for damage to or theft of your car.
2. Liability coverage pays for your legal responsibility to others for bodily injury or property damage.
3. Medical coverage pays for the cost of treating injuries, rehabilitation and sometimes lost wages and funeral expenses.

An auto insurance policy comprises six kinds of coverage. Most countries require you to buy some, but not all, of these coverages. If you're financing a car, your lender may also have requirements. Most auto policies are for six months to a year.

In the United States, your insurance company should notify you by mail when it's time to renew the policy and to pay your premium. [14]

B. Home insurance

Home insurance provides compensation for damage or destruction of a home from disasters. In some geographical areas, the standard insurances exclude certain types of disasters, such as flood and earthquakes, that require additional coverage. Maintenance-related problems are the homeowners' responsibility. The policy may include inventory, or this can be bought as a separate policy, especially for people who rent housing. In some countries, insurers offer a package which may include liability and legal responsibility for injuries and property damage caused by members of the household, including pets.[15]

C. Health Insurance

Health insurance and Dental insurance

NHS Facility

Health insurance policies by the National Health Service in the United Kingdom (NHS) or other publicly-funded health programs will cover the cost of medical treatments. Dental insurance, like medical insurance, is coverage for individuals to protect them against dental costs. In the U.S., dental insurance is often part of an employer's benefits package, along with health insurance.

D. Accident, Sickness and Unemployment Insurance

- Disability insurance policies provide financial support in the event the policyholder is unable to work because of disabling illness or injury. It provides monthly support to help pay such obligations as mortgages and credit cards.
- Disability overhead insurance allows business owners to cover the overhead expenses of their business while they are unable to work.
- Total permanent disability insurance provides benefits when a person is permanently disabled and can no longer work in their profession, often taken as an adjunct to life insurance.
- Workers' compensation insurance replaces all or part of a worker's wages lost and accompanying medical expenses incurred because of a job-related injury.

E. Casualty

Casualty insurance insures against accidents, not necessarily tied to any specific property.

Casualty insurance

- Crime insurance is a form of casualty insurance that covers the policyholder against losses arising from the criminal acts of third parties. For example, a company can obtain crime insurance to cover losses arising from theft or embezzlement.
- Political risk insurance is a form of casualty insurance that can be taken out by businesses with operations in countries in which there is a risk that revolution or other political conditions will result in a loss.

F. Life

Life insurance provides a monetary benefit to a decedent's family or other designated beneficiary, and may specifically provide for income to an insured person's family, burial, funeral and other final expenses. Life insurance policies often allow the option of having the proceeds paid to the beneficiary either in a lump sum cash payment or an annuity.

Annuities provide a stream of payments and are generally classified as insurance because they are issued by insurance companies and regulated as insurance and require the same kinds of actuarial and investment management expertise that life insurance requires. Annuities and pensions that pay a benefit for life are sometimes regarded as insurance against the possibility that a retiree will outlive his or her financial resources. In that sense, they are the complement of life insurance and, from an underwriting perspective, are the mirror image of life insurance.

Certain life insurance contracts accumulate cash values, which may be taken by the insured if the policy is surrendered or which may be borrowed against. Some policies, such as annuities and endowment policies, are financial instruments to accumulate or liquidate wealth when it is needed.

In many countries, such as the U.S. and the UK, the tax law provides that the interest on this cash value is not taxable under certain circumstances. This leads to widespread use of life insurance as a tax-efficient method of saving as well as protection in the event of early death.

In U.S., the tax on interest income on life insurance policies and annuities is generally deferred. However, in some cases the benefit derived from tax deferral may be offset by a low return. This depends upon the insuring company, the type of policy and other variables (mortality, market return, etc.). Moreover, other income tax saving vehicles (e.g., IRAs, 401(k) plans, Roth IRAs) may be better alternatives for value accumulation.

G. Property

Property insurance

This tornado damage to an Illinois home would be considered an "Act of God" for insurance purposes

Property insurance provides protection against risks to property, such as fire, theft or weather damage. This includes specialized forms of insurance such as fire insurance, flood insurance, earthquake insurance, home insurance, inland marine insurance or boiler insurance.

- Automobile insurance, known in the UK as *motor insurance*, is probably the most common form of insurance and may cover both legal liability claims against the driver and loss of or damage to the insured's vehicle itself. Throughout the United States an auto insurance policy is required to legally operate a motor vehicle on public roads. In some jurisdictions, bodily injury compensation for automobile accident victims has been changed to a no-fault system, which reduces or eliminates the ability to sue for compensation but provides automatic eligibility for benefits. Credit card companies insure against damage on rented cars.
    - Driving School Insurance provides cover for any authorized driver whilst undergoing tuition, cover also unlike other motor policies provides cover for instructor liability where both the pupil and driving instructor are equally liable in the event of a claim.
- Aviation insurance insures against hull, spares, deductibles, hull wear and liability risks.
- Boiler insurance (also known as boiler and machinery insurance or equipment breakdown insurance) insures against accidental physical damage to equipment or machinery.
- Builder's risk insurance insures against the risk of physical loss or damage to property during construction. Builder's risk insurance is typically written on an "all risk" basis covering damage due to any cause (including the negligence of the insured) not otherwise expressly excluded. Builder's risk insurance is coverage that protects a person's or organization's insurable interest in materials, fixtures and/or equipment being used in the construction or renovation of a building or structure should those items sustain physical loss or damage from a covered cause.[16]

- Crop insurance "Farmers use crop insurance to reduce or manage various risks associated with growing crops. Such risks include crop loss or damage caused by weather, hail, drought, frost damage, insects, or disease, for instance."[17]
- Earthquake insurance is a form of property insurance that pays the policyholder in the event of an earthquake that causes damage to the property. Most ordinary homeowners insurance policies do not cover earthquake damage. Most earthquake insurance policies feature a high deductible. Rates depend on location and the probability of an earthquake, as well as the construction of the home.
- A fidelity bond is a form of casualty insurance that covers policyholders for losses that they incur as a result of fraudulent acts by specified individuals. It usually insures a business for losses caused by the dishonest acts of its employees.
- Flood insurance protects against property loss due to flooding. Many insurers in the U.S. do not provide flood insurance in some portions of the country. In response to this, the federal government created the National Flood Insurance Program which serves as the insurer of last resort.
- Home insurance or homeowners' insurance: See "Property insurance".
- Landlord insurance is specifically designed for people who own properties which they rent out. Most house insurance cover in the UK will not be valid if the property is rented out therefore landlords must take out this specialist form of home insurance.
- Marine insurance and marine cargo insurance cover the loss or damage of ships at sea or on inland waterways, and of the cargo that may be on them. When the owner of the cargo and the carrier are separate corporations, marine cargo insurance typically compensates the owner of cargo for losses sustained from fire, shipwreck, etc., but excludes losses that can be recovered from the carrier or the carrier's insurance. Many marine insurance underwriters will include "time element" coverage in such policies, which extends the indemnity to cover loss of profit and other business expenses attributable to the delay caused by a covered loss.
- Surety bond insurance is a three party insurance guaranteeing the performance of the principal.

- Terrorism insurance provides protection against any loss or damage caused by terrorist activities.
- Volcano insurance is an insurance that covers volcano damage in Hawaii.
- Windstorm insurance is an insurance covering the damage that can be caused by hurricanes and tropical cyclones.

H. Liability

Liability insurance is a very broad superset that covers legal claims against the insured. Many types of insurance include an aspect of liability coverage. For example, a homeowner's insurance policy will normally include liability coverage which protects the insured in the event of a claim brought by someone who slips and falls on the property; automobile insurance also includes an aspect of liability insurance that indemnifies against the harm that a crashing car can cause to others' lives, health, or property. The protection offered by a liability insurance policy is twofold: a legal defense in the event of a lawsuit commenced against the policyholder and indemnification (payment on behalf of the insured) with respect to a settlement or court verdict. Liability policies typically cover only the negligence of the insured, and will not apply to results of wilful or intentional acts by the insured.

- Public liability insurance covers a business against claims should its operations injure a member of the public or damage their property in some way.
- Directors and officers liability insurance protects an organization (usually a corporation) from costs associated with litigation resulting from mistakes made by directors and officers for which they are liable. In the industry, it is usually called "D&O" for short.
- Environmental liability insurance protects the insured from bodily injury, property damage and cleanup costs as a result of the dispersal, release or escape of pollutants.
- Errors and omissions insurance: See "Professional liability insurance" under "Liability insurance".
- Prize indemnity insurance protects the insured from giving away a large prize at a specific event. Examples would include offering prizes to contestants who

can make a half-court shot at a basketball game, or a hole-in-one at a golf tournament.

- Professional liability insurance, also called *professional indemnity insurance*, protects insured professionals such as architectural corporation and medical practice against potential negligence claims made by their patients/clients. Professional liability insurance may take on different names depending on the profession. For example, professional liability insurance in reference to the medical profession may be called *malpractice insurance.* Notaries public may take out *errors and omissions insurance (E&O).* Other potential E&O policyholders include, for example, real estate brokers, Insurance agents, home inspectors, appraisers, and website developers.

I. Credit

Credit insurance repays some or all of a loan when certain things happen to the borrower such as unemployment, disability, or death.

- Mortgage insurance insures the lender against default by the borrower. Mortgage insurance is a form of credit insurance, although the name *credit insurance* more often is used to refer to policies that cover other kinds of debt.
- Many credit cards offer payment protection plans which are a form of credit insurance.

J. Other types

- Collateral protection insurance or CPI, insures property (primarily vehicles) held as collateral for loans made by lending institutions.
- Defense Base Act Workers' compensation or DBA Insurance provides coverage for civilian workers hired by the government to perform contracts outside the U.S. and Canada. DBA is required for all U.S. citizens, U.S. residents, U.S. Green Card holders, and all employees or subcontractors hired on overseas government contracts. Depending on the country, Foreign Nationals must also be covered under DBA. This coverage typically includes expenses related to medical treatment and loss of wages, as well as disability and death benefits.

- Expatriate insurance provides individuals and organizations operating outside of their home country with protection for automobiles, property, health, liability and business pursuits.
- Financial loss insurance or Business Interruption Insurance protects individuals and companies against various financial risks. For example, a business might purchase coverage to protect it from loss of sales if a fire in a factory prevented it from carrying out its business for a time. Insurance might also cover the failure of a creditor to pay money it owes to the insured. This type of insurance is frequently referred to as "business interruption insurance." Fidelity bonds and surety bonds are included in this category, although these products provide a benefit to a third party (the "obligee") in the event the insured party (usually referred to as the "obligor") fails to perform its obligations under a contract with the obligee.
- Kidnap and ransom insurance
- Legal Expenses Insurance covers policyholders against the potential costs of legal action against an institution or an individual.
- Locked funds insurance is a little-known hybrid insurance policy jointly issued by governments and banks. It is used to protect public funds from tamper by unauthorized parties. In special cases, a government may authorize its use in protecting semi-private funds which are liable to tamper. The terms of this type of insurance are usually very strict. Therefore it is used only in extreme cases where maximum security of funds is required.
- Media Insurance is designed to cover professionals that engage in film, video and TV production.
- Nuclear incident insurance covers damages resulting from an incident involving radioactive materials and is generally arranged at the national level. See the Nuclear exclusion clause and for the United States the Price-Anderson Nuclear Industries Indemnity Act)
- Pet insurance insures pets against accidents and illnesses - some companies cover routine/wellness care and burial, as well.
- Pollution Insurance which consists of first-party coverage for contamination of insured property either by external or on-site sources. Coverage for liability to third parties arising from contamination of air, water, or land due to the sudden and accidental release of hazardous materials from the insured site.

The policy usually covers the costs of cleanup and may include coverage for releases from underground storage tanks. Intentional acts are specifically excluded.

- Purchase insurance is aimed at providing protection on the products people purchase. Purchase insurance can cover individual purchase protection, warranties, guarantees, care plans and even mobile phone insurance. Such insurance is normally very limited in the scope of problems that are covered by the policy.
- Title insurance provides a guarantee that title to real property is vested in the purchaser and/or mortgagee, free and clear of liens or encumbrances. It is usually issued in conjunction with a search of the public records performed at the time of a real estate transaction.
- Travel insurance is an insurance cover taken by those who travel abroad, which covers certain losses such as medical expenses, loss of personal belongings, travel delay, personal liabilities, etc.

2.3.2 Insurance financing vehicles

- Fraternal insurance is provided on a cooperative basis by fraternal benefit societies or other social organizations.[18]
- No-fault insurance is a type of insurance policy (typically automobile insurance) where insureds are indemnified by their own insurer regardless of fault in the incident.
- Protected Self-Insurance is an alternative risk financing mechanism in which an organization retains the mathematically calculated cost of risk within the organization and transfers the catastrophic risk with specific and aggregate limits to an insurer so the maximum total cost of the program is known. A properly designed and underwritten Protected Self-Insurance Program reduces and stabilizes the cost of insurance and provides valuable risk management information.
- Retrospectively Rated Insurance is a method of establishing a premium on large commercial accounts. The final premium is based on the insured's actual loss experience during the policy term, sometimes subject to a minimum and maximum premium, with the final premium determined by a formula. Under

this plan, the current year's premium is based partially (or wholly) on the current year's losses, although the premium adjustments may take months or years beyond the current year's expiration date. The rating formula is guaranteed in the insurance contract. Formula: retrospective premium = converted loss + basic premium × tax multiplier. Numerous variations of this formula have been developed and are in use.

- Formal self insurance is the deliberate decision to pay for otherwise insurable losses out of one's own money. This can be done on a formal basis by establishing a separate fund into which funds are deposited on a periodic basis, or by simply forgoing the purchase of available insurance and paying out-of-pocket. Self insurance is usually used to pay for high-frequency, low-severity losses. Such losses, if covered by conventional insurance, mean having to pay a premium that includes loadings for the company's general expenses, cost of putting the policy on the books, acquisition expenses, premium taxes, and contingencies. While this is true for all insurance, for small, frequent losses the transaction costs may exceed the benefit of volatility reduction that insurance otherwise affords.
- Reinsurance is a type of insurance purchased by insurance companies or self-insured employers to protect against unexpected losses. Financial reinsurance is a form of reinsurance that is primarily used for capital management rather than to transfer insurance risk.
- Social insurance can be many things to many people in many countries. But a summary of its essence is that it is a collection of insurance coverages (including components of life insurance, disability income insurance, unemployment insurance, health insurance, and others), plus retirement savings, that requires participation by all citizens. By forcing everyone in society to be a policyholder and pay premiums, it ensures that everyone can become a claimant when or if he/she needs to. Along the way this inevitably becomes related to other concepts such as the justice system and the welfare state. This is a large, complicated topic that engenders tremendous debate, which can be further studied in the following articles (and others):
    - National Insurance
    - Social safety net
    - Social security

  - Social Security debate (United States)
  - Social Security (United States)
  - Social welfare provision
- Stop-loss insurance provides protection against catastrophic or unpredictable losses. It is purchased by organizations who do not want to assume 100% of the liability for losses arising from the plans. Under a stop-loss policy, the insurance company becomes liable for losses that exceed certain limits called deductibles.

2.3.3 Closed community self-insurance

Some communities prefer to create virtual insurance amongst themselves by other means than contractual risk transfer, which assigns explicit numerical values to risk. A number of religious groups, including the Amish and some Muslim groups, depend on support provided by their communities when disasters strike. The risk presented by any given person is assumed collectively by the community who all bear the cost of rebuilding lost property and supporting people whose needs are suddenly greater after a loss of some kind. In supportive communities where others can be trusted to follow community leaders, this tacit form of insurance can work. In this manner the community can even out the extreme differences in insurability that exist among its members. Some further justification is also provided by invoking the moral hazard of explicit insurance contracts.

In the United Kingdom, The Crown (which, for practical purposes, meant the Civil service) did not insure property such as government buildings. If a government building was damaged, the cost of repair would be met from public funds because, in the long run, this was cheaper than paying insurance premiums. Since many UK government buildings have been sold to property companies, and rented back, this arrangement is now less common and may have disappeared altogether.

Insurance companies

Insurance companies may be classified into two groups:

- *Life* insurance companies, which sell life insurance, annuities and pensions products.
- *Non-life*, *General*, or *Property/Casualty* insurance companies, which sell other types of insurance.

General insurance companies can be further divided into these sub categories.

- Standard Lines
- Excess Lines

In most countries, life and non-life insurers are subject to different regulatory regimes and different tax and accounting rules. The main reason for the distinction between the two types of company is that life, annuity, and pension business is very long-term in nature — coverage for life assurance or a pension can cover risks over many decades. By contrast, non-life insurance cover usually covers a shorter period, such as one year.

In the United States, standard line insurance companies are "mainstream" insurers. These are the companies that typically insure autos, homes or businesses. They use pattern or "cookie-cutter" policies without variation from one person to the next. They usually have lower premiums than excess lines and can sell directly to individuals. They are regulated by state laws that can restrict the amount they can charge for insurance policies.

Excess line insurance companies (also known as Excess and Surplus) typically insure risks not covered by the standard lines market. They are broadly referred as being all insurance placed with non-admitted insurers. Non-admitted insurers are not licensed in the states where the risks are located. These companies have more flexibility and can react faster than standard insurance companies because they are not required to file rates and forms as the "admitted" carriers do. However, they still have substantial regulatory requirements placed upon them. State laws generally require insurance placed with surplus line agents and brokers not to be available through standard licensed insurers.

Insurance companies are generally classified as either *mutual* or *stock* companies. Mutual companies are owned by the policyholders, while stockholders (who may or may not own policies) own stock insurance companies. Demutualization of mutual insurers to form stock companies, as well as the formation of a hybrid known as a mutual holding company, became common in some countries, such as the United States, in the late 20th century.

Other possible forms for an insurance company include *reciprocals*, in which policyholders 'reciprocate' in sharing risks, and Lloyd's organizations.

Insurance companies are rated by various agencies such as A. M. Best. The ratings include the company's financial strength, which measures its ability to pay claims. It also rates financial instruments issued by the insurance company, such as bonds, notes, and securitization products.

Reinsurance companies are insurance companies that sell policies to other insurance companies, allowing them to reduce their risks and protect themselves from very large losses. The reinsurance market is dominated by a few very large companies, with huge reserves. A reinsurer may also be a direct writer of insurance risks as well.

Captive insurance companies may be defined as limited-purpose insurance companies established with the specific objective of financing risks emanating from their parent group or groups. This definition can sometimes be extended to include some of the risks of the parent company's customers. In short, it is an in-house self-insurance vehicle. Captives may take the form of a "pure" entity (which is a 100% subsidiary of the self-insured parent company); of a "mutual" captive (which insures the collective risks of members of an industry); and of an "association" captive (which self-insures individual risks of the members of a professional, commercial or industrial association). Captives represent commercial, economic and tax advantages to their sponsors because of the reductions in costs they help create and for the ease of insurance risk management and the flexibility for cash flows they generate.

Additionally, they may provide coverage of risks which is neither available nor offered in the traditional insurance market at reasonable prices.

The types of risk that a captive can underwrite for their parents include property damage, public and product liability, professional indemnity, employee benefits, employers' liability, motor and medical aid expenses. The captive's exposure to such risks may be limited by the use of reinsurance.

Captives are becoming an increasingly important component of the risk management and risk financing strategy of their parent. This can be understood against the following background:

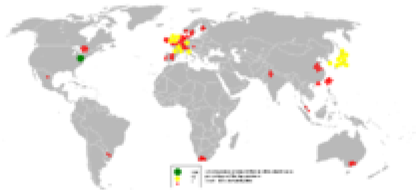
- heavy and increasing premium costs in almost every line of coverage;
- difficulties in insuring certain types of fortuitous risk;
- differential coverage standards in various parts of the world;
- rating structures which reflect market trends rather than individual loss experience;
- insufficient credit for deductibles and/or loss control efforts.

There are also companies known as 'insurance consultants'. Like a mortgage broker, these companies are paid a fee by the customer to shop around for the best insurance policy amongst many companies. Similar to an insurance consultant, an 'insurance broker' also shops around for the best insurance policy amongst many companies. However, with insurance brokers, the fee is usually paid in the form of commission from the insurer that is selected rather than directly from the client.

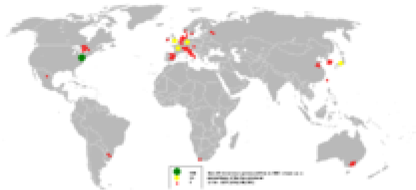
Neither insurance consultants nor insurance brokers are insurance companies and no risks are transferred to them in insurance transactions. Third party administrators are companies that perform underwriting and sometimes claims handling services for insurance companies. These companies often have special expertise that the insurance companies do not have.

The financial stability and strength of an insurance company should be a major consideration when buying an insurance contract. An insurance premium paid currently provides coverage for losses that might arise many years in the future. For that reason, the viability of the insurance carrier is very important. In recent years, a number of insurance companies have become insolvent, leaving their policyholders with no coverage (or coverage only from a government-backed insurance pool or other arrangement with less attractive payouts for losses). A number of independent rating agencies provide information and rate the financial viability of insurance companies.

Global insurance industry



Life insurance premia written in 2005



Non-life insurance premia written in 2005

Global insurance premiums grew by 3.4% in 2008 to reach $4.3 trillion. For the first time in the past three decades, premium income declined in inflation-adjusted terms, with non-life premiums falling by 0.8% and life premiums falling by 3.5%. The insurance industry is exposed to the global economic downturn on the assets side by the decline in returns on investments and on the liabilities side by a rise in claims. So far the extent of losses on both sides has been limited although investment returns fell sharply following the bankruptcy of Lehman Brothers and bailout of AIG in September 2008. The financial crisis has shown that the insurance sector is sufficiently capitalised. The vast majority of insurance companies had enough capital to absorb losses and only a small number turned to government for support.

Advanced economies account for the bulk of global insurance. With premium income of $1,753bn, Europe was the most important region in 2008, followed by North

America $1,346bn and Asia $933bn. The top four countries generated more than a half of premiums. The US and Japan alone accounted for 40% of world insurance, much higher than their 7% share of the global population. Emerging markets accounted for over 85% of the world's population but generated only around 10% of premiums. Their markets are however growing at a quicker pace. [19]

A. Controversies

- Religious concerns

Muslim scholars have varying opinions about insurance. Insurance policies that earn interest are generally considered to be a form of *riba*[20] (usury) and some consider even policies that do not earn interest to be a form of *gharar* (speculation). Some argue that *gharar* is not present due to the actuarial science behind the underwriting.[21]

Jewish rabbinical scholars also have expressed reservations regarding insurance as an avoidance of God's will but most find it acceptable in moderation.[22]

Some Christians believe insurance represents a lack of faith[23] and there is a long history of resistance to commercial insurance in Anabaptist communities (Mennonites, Amish, Hutterites, Brethren in Christ) but many participate in community-based self-insurance programs that spread risk within their communities.[24][25][26]

- Insurance insulates too much

By creating a "security blanket" for its insureds, an insurance company may inadvertently find that its insureds may not be as risk-averse as they might otherwise be (since, by definition, the insured has transferred the risk to the insurer), a concept known as moral hazard. To reduce their own financial exposure, insurance companies have contractual clauses that mitigate their obligation to provide coverage if the insured engages in behavior that grossly magnifies their risk of loss or liability.[*citation needed*]

For example, life insurance companies may require higher premiums or deny coverage altogether to people who work in hazardous occupations or engage in dangerous sports. Liability insurance providers do not provide coverage for liability arising from intentional torts committed by or at the direction of the insured. Even if a provider were so irrational as to want to provide such coverage, it is against the public policy of most countries to allow such insurance to exist, and thus it is usually illegal.[citation needed]

- Complexity of insurance policy contracts

Insurance policies can be complex and some policyholders may not understand all the fees and coverages included in a policy. As a result, people may buy policies on unfavorable terms. In response to these issues, many countries have enacted detailed statutory and regulatory regimes governing every aspect of the insurance business, including minimum standards for policies and the ways in which they may be advertised and sold.

For example, most insurance policies in the English language today have been carefully drafted in plain English; the industry learned the hard way that many courts will not enforce policies against insureds when the judges themselves cannot understand what the policies are saying.

Many institutional insurance purchasers buy insurance through an insurance broker. While on the surface it appears the broker represents the buyer (not the insurance company), and typically counsels the buyer on appropriate coverage and policy limitations, it should be noted that in the vast majority of cases a broker's compensation comes in the form of a commission as a percentage of the insurance premium, creating a conflict of interest in that the broker's financial interest is tilted towards encouraging an insured to purchase more insurance than might be necessary at a higher price. A broker generally holds contracts with many insurers, thereby allowing the broker to "shop" the market for the best rates and coverage possible.

Insurance may also be purchased through an agent. Unlike a broker, who represents the policyholder, an agent represents the insurance company from whom the policyholder buys. An agent can represent more than one company.

An independent insurance consultant advises insureds on a fee-for-service retainer, similar to an attorney, and thus offers completely independent advice, free of the financial conflict of interest of brokers and/or agents. However, such a consultant must still work through brokers and/or agents in order to secure coverage for their clients.

- Redlining

Redlining is the practice of denying insurance coverage in specific geographic areas, supposedly because of a high likelihood of loss, while the alleged motivation is unlawful discrimination. Racial profiling or redlining has a long history in the property insurance industry in the United States. From a review of industry underwriting and marketing materials, court documents, and research by government agencies, industry and community groups, and academics, it is clear that race has long affected and continues to affect the policies and practices of the insurance industry.[27]

In July, 2007, The Federal Trade Commission released a report presenting the results of a study concerning credit-based insurance scores and automobile insurance. The study found that these scores are effective predictors of the claims that consumers will file. [2]

All states have provisions in their rate regulation laws or in their fair trade practice acts that prohibit unfair discrimination, often called redlining, in setting rates and making insurance available.[28]

In determining premiums and premium rate structures, insurers consider quantifiable factors, including location, credit scores, gender, occupation, marital status, and education level. However, the use of such factors is often considered to be unfair or unlawfully discriminatory, and the reaction against this practice has in some instances led to political disputes about the ways in which insurers determine premiums and regulatory intervention to limit the factors used.

An insurance underwriter's job is to evaluate a given risk as to the likelihood that a loss will occur. Any factor that causes a greater likelihood of loss should theoretically be charged a higher rate. This basic principle of insurance must be followed if insurance companies are to remain solvent.[citation needed] Thus, "discrimination" against (i.e., negative differential treatment of) potential insureds in the risk evaluation and premium-setting process is a necessary by-product of the fundamentals of insurance underwriting. For instance, insurers charge older people significantly higher premiums than they charge younger people for term life insurance. Older people are thus treated differently than younger people (i.e., a distinction is made, discrimination occurs). The rationale for the differential treatment goes to the heart of the risk a life insurer takes: Old people are likely to die sooner than young people, so the risk of loss (the insured's death) is greater in any given period of time and therefore the risk premium must be higher to cover the greater risk. However, treating insureds differently when there is no actuarially sound reason for doing so is unlawful discrimination.

What is often missing from the debate is that prohibiting the use of legitimate, actuarially sound factors means that an insufficient amount is being charged for a given risk, and there is thus a deficit in the system.[citation needed] The failure to address the deficit may mean insolvency and hardship for all of a company's insureds.[citation needed] The options for addressing the deficit seem to be the following: Charge the deficit to the other policyholders or charge it to the government (i.e., externalize outside of the company to society at large).[citation needed]

- Insurance patents

Further information: Insurance patent

New assurance products can now be protected from copying with a business method patent in the United States.

A recent example of a new insurance product that is patented is Usage Based auto insurance. Early versions were independently invented and patented by a major U.S. auto insurance company, Progressive Auto Insurance (U.S. Patent 5,797,134) and a Spanish independent inventor, Salvador Minguijon Perez (EP patent 0700009).

Many independent inventors are in favor of patenting new insurance products since it gives them protection from big companies when they bring their new insurance products to market. Independent inventors account for 70% of the new U.S. patent applications in this area.

Many insurance executives are opposed to patenting insurance products because it creates a new risk for them. The Hartford insurance company, for example, recently had to pay $80 million to an independent inventor, Bancorp Services, in order to settle a patent infringement and theft of trade secret lawsuit for a type of corporate owned life insurance product invented and patented by Bancorp.

There are currently about 150 new patent applications on insurance inventions filed per year in the United States. The rate at which patents have issued has steadily risen from 15 in 2002 to 44 in 2006. [29]

Inventors can now have their insurance U.S. patent applications reviewed by the public in the Peer to Patent program.[30] The first insurance patent application to be posted was US2009005522 "Risk assessment company". It was posted on March 6, 2009. This patent application describes a method for increasing the ease of changing insurance companies.[31]

- The insurance industry and rent seeking

Certain insurance products and practices have been described as rent seeking by critics.[*citation needed*] That is, some insurance products or practices are useful primarily because of legal benefits, such as reducing taxes, as opposed to providing protection against risks of adverse events. Under United States tax law, for example, most owners of variable annuities and variable life insurance can invest their premium payments in the stock market and defer or eliminate paying any taxes on their investments until withdrawals are made. Sometimes this tax deferral is the only reason people use these products.[*citation needed*] Another example is the legal infrastructure which allows life insurance to be held in an irrevocable trust which is used to pay an estate tax while the proceeds themselves are immune from the estate tax.

v • d • e

Insurance

Types of insurance	**Health**	Accidental death and dismemberment insurance • Dental insurance • Disability insurance • Total permanent disability insurance • Income protection insurance • Long term care insurance • Vision insurance
	Life	Permanent life insurance • Term life insurance • Universal life insurance • Variable universal life insurance • Whole life insurance
	Business	Bond insurance • Errors and omissions insurance • Fidelity bond • Professional indemnity insurance • Professional liability insurance • Protection and indemnity insurance
	Residential	Contents insurance • Earthquake insurance • Flood insurance • Home insurance • Landlords insurance • Mortgage insurance • Property insurance
	Other	Casualty insurance • Crime insurance • Crop insurance • Group insurance • Liability insurance • Marine insurance • No-fault insurance • Pet insurance • Phone insurance • Reinsurance • Terrorism insurance • Vehicle insurance • Wage insurance • Weather insurance •

		Workers' compensation
Insurance policy and law	Insurance policy · Insurance law · Health Insurance Portability and Accountability Act	
Category • List of topics		

"http://en.wikipedia.org/wiki/Insurance"

2.3.4 How Insurance Companies Work

Insurance companies try to charge enough money in insurance premiums to cover the amount of money that they will have to pay out to their insureds (the people who buy insurance policies) under all of the insurance policies that they have issued. Insurance companies make an educated guess about how likely they will have to pay out on the insurance policies that they issue. The likelihood of having to pay out under an insurance policy is called the level of "risk."

2.3.5 Identifying Risk Factors

A person called an actuary studies the history of insurance payouts and identifies which risk factors are more likely to result in insurance companies having to pay out under an insurance policy. For example, inexperienced drivers are more likely to cause a collision than more experienced drivers, and people in their sixties are more likely to die in the next five years than people in their twenties. Actuaries identify the risk factors for each type of insurance policy and compile a corresponding list of risk factors.

2.3.6 Assigning Values to Risk Factors

After an actuary identifies the risk factors involved in issuing a type of insurance policy, he then assigns a value to each risk factor. For example, if a driver under the age of 25 is four times as likely to file an automobile collision claim, then the actuary might recommend that insurance companies charge four times as much in premiums to provide automobile collision insurance for a person under age 25.

2.3.7 Measuring Risk in Issuing a New Insurance Policy

Once risk factors are identified and assigned values, then insurance companies are ready to measure the risk involved in issuing a new insurance policy. Insurance companies ask applicants for new insurance policies to fill out a detailed application that lists the risk factors involved in providing a particular type of insurance coverage. As risk factors are identified on the application, insurance companies adjust the insurance premiums to compensate for the higher risk involved in providing insurance coverage. In some cases, the risk involved in providing insurance coverage is so high that insurance companies decline to offer any insurance coverage at all.

2.3.8 Updating Risk Factors

Insurance companies frequently measure the risk involved in providing insurance coverage for people with particular risk factors, such as providing life insurance to a person who smokes cigarettes. As insurance companies determine that a particular risk factor either increases or decreases over time, then the value assigned to that risk factor changes, which results in a change in the amount of premiums required to cover the risk.

- How Do Insurance Companies Establish Premiums?
- How Does Insurance Work?

- How to Get Car Insurance as a High-Risk Driver
- How to Become a Life Insurance Underwriter
- How to Choose a Home Insurance Deductible
- How Do Underwriters Approve Life Insurance?
- How Do Life Insurance Companies Check Medical Background?

- How to Get State Auto Insurance
-  Risk Management Certification Online
- How to Compute Car Insurance Risk
- Featured Members

Tags

- companies,
- insurance,

- risk,
- policy,
- factors,
- actuary

2.4 The Meaning Of Insurance

he meaning of insurance: *Insurance is a policy from a large financial institution that offers a person, company, or o eimbursement or financial protection against possible future losses or damages.*

ng of insurance is important to understand for anybody that is considering buying an insurance policy or simpl urance is a hedging instrument used as a precautionary measure against future contingent losses. This instrum ks of the future.

s bought in order to hedge the possible risks of the future which may or may not take place. This is a mode of fin pens then the loss does not affect the present well-being of the person or the property insured. Thus, through **insu** on.

ample will make the **meaning of insurance** easy to understand. A biker is always subjected to the risk of head i causing him the head injury would definitely occur. Still, people riding bikes cover their heads with helmets. Th y protecting him/her from any possible danger. The price paid was the possible inconvenience or act of wearing nce premiums paid.

s of life or injuries incurred cannot be measured in financial terms, insurance attempts to quantify such losses he process of reimbursing or protecting a person from contingent risk of losses through financial means, in retu the insuring body or insurance company.

n range from life to medical to general (residential,commercial property, natural incidents, burglary, etc).

the life of the person buying the Life Insurance Certificate. Once a Life Insurance is sold by a company then the company the beneficiary after the death of the policy holder.

cal

known as mediclaim. Here, the policy holder is entitled to receive the amount spent for his health purposes from the insurance co

General

This insurance type involves insuring the risks associated with the general life such as automobiles, business related, natural incid
properties, etc.

CHAPTER - 3

RESEARCH METHODOLOGY

3.1 GENERAL

Research methodology is the way to solve systematically about the research problem. It helps to analyze, examine and interpret the various aspects of research works such as operation, sales and production,insurance policy, premium planning and other aspects of related with insurance business operation planning as well as profit planning.

The main objective of this research is to find out the practice and application insurance business operation planning around Nepal, with respect to various functional activities.

3.2 RESEARCH DESIGN

The research design of the study is mainly constructed as descriptive analytical and comparative approach. These approaches have been used on the nature of sources of data. This study is an examination and evaluation of insurance business operation procedure in Nepal. This study is closely related with the various functional budgets and other accounting statements. These information are used to analyze and evaluate the profit planning as well as the prospects of insurance business in Nepal.

3.3 NATURE AND SOURCES OF DATA

The study has both primary and secondary data. The primary data has been collected from personal interviews, questionnaires, unstructured dialogues and discussions. Secondary have been taken from published and unpublished records on insurance business and research paper.

3.4 TOOLS USED

This research paper has used various tools to gather information and necessary data, the interview, questionnaire, personal discussions are mainly used and to present and analysis of data .The statistical tools ,accounting & financial tools and other various tools have been applied. Both analytical and descriptive tools have been used to prepare this paper.

Chapter-4

Data presentation and analysis

4.1 Introduction

The collected data are carefully scrutinized and edited before their classification in to a number of homogeneous groups. After classification the data are arranged in rows and columns are presented in the forms of table. Tabulated data are readily comprehensive. There data can also be presented in the form of graphs. When the data are presented a concise form the next step for an investigator is to analyze them. But, in the most of cases, various tools of analysis are used. Some of the commonly used tools in analysis are average measure of dispersions, correlation, index number and time series etc.

4.2 Policy ANALYSIS

Insurance companies try to charge enough money in insurance premiums to cover the amount of money that they will have to pay out to their insureds (the people who buy insurance policies) under all of the insurance policies that they have issued. Insurance companies make an educated guess about how likely they will have to pay out on the insurance policies that they issue. The likelihood of having to pay out under an insurance policy is called the level of "risk."

Fire Rates

s.no.	Particulars	Rate (ciass I)	Rate (classII)
1.	**Re**sidence,office,Banks,Hospital,Scools,College	0.30	0.45
2.	a)Hotels b)Restaurants	0.60 0.70	1.50 1.05
3.	Warehouse & Godawn(Textile)w/w1 Non-hazardous goods w/w2 Non-hazardous goods w/w3	0.80 0.95 1.80	1.80 1.40 2.70

	Hazardous Goods w/o warranty	4.00	5.00
4.	Shops/Stores(Wholesale/Retail) Hazardous Goods w/o	1.05 4.05	1.55 5.50
5.	Aerated water factory(Cold Drinks	0.90	1.35
6.	Bakeries/Biscuits Factory	1.05	1.55
7.	Boiuler House,Firing Places	0.60	0.90
8.	Books,shops/Binders (Hand Power Only) (Other than Gand power)	 1.65 2.25	 2.45 3.25
9.	Carpenters/Funiture manufacturer (Hand power only) (Other than hand power)	 3.40 5.10	 4.40 6.10
10.	Carpet factory (Hand power) Carpet factory other than hand power	1.35 1.80	2.00 2.70
11.	Chemists shop	1.05	1.55
12.	Dyeing/Dry cleaning	2.00	3.00
13.	Gencrating station/transforme	0.70	1.05
14.	Fruits products/Condiments factory	1.35	2.00
15.	Furniture Showroom/warehouse	3.00	4.00
16.	Garment factory /Tailoring shop (Hand power) (Other than hand power)	 1.05 1.80	 1.55 2.70
17.	Hand loom factory	1.85	3.00
18.	Match factory	8.00	9.00
19.	Power loom factory	1.35	2.65
20.	Poultry(Laying/growing house) (Hatchery House)	1.30 0.90	1.95 1.35
21.	Engineering workshop(Heavy) (Light Engineering)	0.60 1.00	1.05 1.50
22.	Cardboard Box Factory	2.25	3.25
23.	Building under Construction	0.45	0.65

24.	Club /Conference Hall Casino	0.35	0.50
25.	Plywood shop/godawn	1.85	2.75
26.	Bone mill	1.75	2.60
27.	Boundary wall – stone /brik/concrete still/CGI sheet Others	0.30 0.45 1.50	
28.	Instant Noodle Factory	1.60	2.40
29.	Macaroni /Ordinary/chow chow factory	1.05	1.55
30.	Silent factory	0.75	1.10
31.	Petrol Pump without warranty	5.00	-
32.	Hosiery hand power Other than hand power	1.10 1.30	1.65 1.95
33.	Vegetable ghee Factory	1.15	1.70
34.	Vegetable gee in tank in open	2.00	
35.	Laundry with warranty	1.70	2.55
36.	Laundry without warranty	2.50	3.50
37.	Printing Press	1.95	2.90
38.	Cinema Hall	1.95	2.90
39.	Color Lab/Photography	2.80	3.95
40.	Audio Recording studio	2.65	3.65
41.	Film editing studio	2.95	3.95
42.	Icecream factory	1.20	1.80
43.	Confectionary	1.45	2.15
44.	Bicycle Shade	0.70	1.05
45.	Tyre Retreading & resoling	3.40	4.40

RIOT & STRIKE DAMAGE

S.No.	Particulars	RSD
1.	Residence,Hotel,Hostel,Bank,School,University , Labraries,Hospital, Nursing homes etc.	0.50
2.	Warehouse and /Godawn: a)Closed godawn in the premises of customs b)Other godawn other than there godawn mentioned in s/no.3 below c)Open godawn in the premises of customs d)Open godawn other than mentioned in s/no. 3 below	 0.85 1.35 1.00 1.55
3.	Industrial /manufacturing risks and in their premises	0.95
4.	Shops ,Stores, Showrooms & Market	2.00
5.	Entertainment places,cinema hall,Exhibition,Mela,Parks and circus	1.35
6.	Telecom-center,Radio station,Transmission & Tele communication	0.85
7.	Electricity station,Electric tramission power house sub station	0.85
8.	Empty & or building under connection	0.50

MALICIOUS DAMAGES ……… 0.20

	1st class	**2nd class**
Earthquake & Shock	**1.25**	**1.40**

Nature of Risks	Residence	Godawn	Shop
Aircraft Damage	0.05	0.05	0.05
Explosion/Implosion	0.16	0.16	0.16
Terrorism	0.50	0.50	0.50
Impact Damage	0.03	0.03	0.03

Note:Appropriate warranties are applicable.

SCALE OF SHORT PERIOD RATES FIRE

Upto 15 days	10% of annual rates
Upto 1 month	15% of annual rates
Upto 2 month	30% of annual rates
Upto 3 month	40% of annual rates
Upto 4 month	50% of annual rates
Upto 6 month	60% of annual rates
Upto 7 month	75% of annual rates
Upto 8 months	80% of annual rates
Upto 9 months	85% of annual rates
Above 9 months	Annual premium

POLICY CLAUSES TO BE ATTACHED AS REQUIRED

1. Aircraft Damage
2. Billiard Table
3. Contact price clause
4. Earthquake fire
5. Earthquake fire & shock
6. Earthquake shock
7. Earthquake special condition
8. Electrical installation A
9. Electrical installation B
10. Explotion clause A
11. Explotion clause B
12. Mortgagee
13. Reinstatement value
14. Storm & Tempest
15. Riot & strike
16. Malicious Damage
17. Terrorism
18. Impact Damage
19. Subsidence & Landslip

CLASSIFICATION OF RISKS UNDER MEDICAL INSURANCE

1. Accountants, Doctors, Lawyers, Businessman, Architacts, Engineers, Teachers, Bankers, Administrators, Shopkeepers, Driver(light)
2. Builders, Contractors, Person engaged in manual labour, Motor mechanics, Carpenters, Plumbers, Machine operators, Drive (heavy)
3. Woodworking ,Machinist and Electricians
4. Trakkers, Mountaineers,and Rafters

- BENEFITS CLASSIFICATION OF RISKS

Rate Per Thousand

	I	II	III
A & B	1.50	1.80	2.20
A,B,C&D	2.00	2.50	3.00
A to D including medical	2%	3%	4%

Trakkers – unnamed :Benefits A&B 0.40%

Trakkers – named :Benefits A,B,&C 0.40%

Mountaineering and rafters

Unnamed:Benefits A&B 1%

Named :BenefitsA,B,&C 1%

Group discount Group>20 ------10%

>50-------20%

>100-----25%

BENEFITS COVERED UNDER GPA POLICUY

	% OF CSI
A Death	**100%**
B Parmanent total or partial disablement:	
Loss of both hands ,both feets, or any two	100%
Loss of sights in both eyes	100%
Loss of one hand or foot and sight of one eye	100%
Total paralysis	100%
Los of one hand or one arm	60%
Loss of one leg or one foot	50%
Loss of sight in one eye	50%
Loss of one thumb	25%
Loss of index finger	15%
Loss of any other finger	6%
Loss on big toe	5%
Loss on any other toe	3%
Loss of hearing in both ears	50%
Loss of hearing in one ears	15%
C Temporary total disablement(up to 104 week)	**1%**
D Temporary partial disablement (up to 104week)	**0.5%**
E Medical Expences up to	2%

MARKET POOL (RSD,MD,ST) PREMIUM RATES :

1. FIRE
   a. For sum insured up to Nrs 400 million
   b. Premium rates as per tarrif as mentioned above.
2. ENGINEERING

a. For sum insured up to Nrs 400 million

b. Premium rates :

i.Riot and strike damage…………0.85 per millie

ii. Malicious damage……………..0.135 per millie

iii.Sabotage/Terrorism……………0.50 per millie

3. Personal Accodent:

a. RSD,MD and ST Premium rate ………..0.50

4. FOR ALL OTHER MISCEELLANEOUS INSURANCE

Minimum Rate……………0.50 Per millie

TRANSIT INSURANCE PREMIUM GUIDE RATES FOR CARGO MOVEMENTS As per Beema Samiti circulars

S.no.	Name of commodities	Basic Risks	All Risks
1.	All non hazardous liquid cargo including liquid chemicals except wine & liquors medicine :- i. in tankers ii.in other packing	 0.20 0.16	 0.35 0.32
2.	All hazardous liquid cargo/liquid chemicals i.in tankers ii.in other packaing	 0.50 0.25	 0.80 0.50
3.	Automibiles,Tractors,Scooters,Motorcycles,Mopeds in knocked down conditions and spare parts	0.14	.26
4.	Automobiles,Tractors,Scooters,Motorcycle,Mopeds in assembled	0.15	0.28
5.	All non hazardous and non liquid chemicals in drums and other packing	0.12	0.18
6.	Bagged cargo all types non otherwise specified	0.15	0.25
7.	Butter,Non liquid milks products,candles,chocklets,and other same kind	0.17	0.30
8.	Betel nuts in Bags	0.30	0.70
9.	Catton hemp,kapok,kappa,s,jute,and other staple fiber,vegetable fibre,coil,and manmade fiber,yarns,tobacco leaves : i. in fully pressed bales in closed vehicles/wagon	 0.13	 0.26

	ii.in other than f.p. bales in closed vehicle/wagon	0.43	0.56
10.	Cast iron goods of all kinds non forming parts of any machinery	0.15	0.25
11.	Copper scarp in drums	0.08	0.15
12.	Copper scarp in bulk	0.14	0.22
13.	Computers and computers spare parts accessories	0.40	0.80
14.	Cement in H.D.P. Bags	0.13	0.40
15.	Electrical/electronic machine ,parts,tools,spares including such dimestic appliances	0.20	0.30
16.	Fruits ,vegetables,seafoods,meat,frozen foods and other similar category,fruits ,pulps i.in refrigerated and /or insulates van ii.in non refrigated and/or non insulated van	 0.16 0.18	 0.30 0.32
17.	Glassware,china ware, porcelain ware, and other fragile items non comong under any of above categories	.050	1.00
18.	Hides, skins leather, rubber and plastic items including shoes,sandals,boots of all kinds	0.15%	0.25%
19.	Metal bars, tubes, ingots, sheets, plates and other structural materials including hardware items	0.08%	0.15%
20.	Matches, fire works,crackers, gun powders ammunition, celluloid, explosive, hay, grass, straw, baggage's and gasses of all kinds	0.50%	0.70%
21.	Non-electrical/electronic machines, tools, spares including such ddomostic appliances	0.13%	0.20%
22.	Newsprint rolls,papers, cardboards rolls,wrappers and books,office and other stationaryitems	015%	030%
23.	Personal effects and other house hold goods including furniture	0.50%	2.00%
24.	Plastic granules in bags	0.25%	0.40%
25.	Raw silk packed in bales and other packing	0.17%	0.80%
26.	Plywoods and practical board	0.13%	0.80%

27.	Textile, osiery, wool, Hessain, products,coir products, and carpet: i.In fully pressed (F.P.) bales ii.In other customary packing	 0.09% 0.10%	 0.15% 0.15%
28.	Television sets packed in standard customery packing	0.55%	1.00%
29.	Telephone sets (including mobile set),watches in cartons /boxes	0.20%	0.40%
30.	Tea in chest	0.15%	0.25%
31.	Timber	0.10%	0.15%
32.	Vanaspati ghee in tins ,plastic containers/jars,pouches etc	0.15%	0.22%
33.	Wines, Liquors,Medicines and liquid perfumes: i.In glass bottles in cases /cartons ii.In any other standard non fragile teades packing	0.50% 0.17%	1.00% 0.30%
34.	Any non hazaedous and non fragile items not specifically stated including dry and liquid bulk in loose with intermediate standardization, if any	0.15%	0.28

Note:

a) For coverage in between Basic and all risk discretionary rates above the suggested basic rates may be charged.

b)The premium rates for extra perils over and above the basic risks should be 30% on the above rates.

c)20% discount in premium rates is applicable for all domestic transit.

d)20% discount in premium rates is applicable for all air transit .

e)20% discount in premium rares is applicable fot all the policies to where the sum insured is over and above rs 10 crere for single consignment.But this discount is not applicable for open marine policies.

f)For all other items not specified above , the basic rate should be 0.15%

g)There is no exclusion for all risks.

h)The war premium rate in peace time should be as under:

i.For ocean transit Rs 0.30% inclusive of SRCC.

ii.For inland transit and air transit Rs 0.02% inclusive of SRCC.

a)The SRCC(strike ,riot, and civil commotion) premium for domestic surface transt should be 0.02%.

b.Containerised movement of any cargo will attract 10% discount on the gross marine premium rate.

c)There should be at least 0.50% deductible excess per conveyance for all liquid cargo ,bulk cargo, and bagged cargo for basic and all risk coverage.

d.There should be at leat 1.00% deductible excess per conveyance for all fragile cargo both for Basic risk and all risk coverage.

A. Premium Collection and Surplus (Deficit)

The following table no.1 shows the Premium Collection and Surplus (Deficit) of PIC Ltd. For past four years:-

(in 000)

Business	2061/062	2062/063	2063/064	2064/065	2065/066
Fire		22013	23086	29247	41777
Marine		35432	39266	33637	33525
Engineering		3659	56080	2936	4747
Motor		18976	22369	23656	38485
Miscellaneous		8563	8547	18673	18750
Total		88643	98876	108149	137284

B. Premium collection & Surplus (deficit) of PIC Ltd.

The following table no. 2 shows the Surplus and deficit of PIC Ltd. For past four years:-

(Rs in thousand)

Year	Amount (Rs.)	% Return(Surplus/Prumium)
2062/63	5356	6
2063/64	3894	3.94
2064/65	12395	11.46
2065/66	6203	4.5

The prudential Insurance company development can seen in the above table .From above table it is clear that the insurance performance is good in the fiscal year 2064/65 in comparasion to other year . The surplus of fiscal year 2063/64 shows poor . The surplus trend shows normal .

C. Premium collection for past four year of PIC Ltd.

The following table No.3 shows the premium collection of PIC Ltd. For past four years:-

(Rs in thousand)

Year	**Amount**
2062/63	88643
2063/64	98876
2064/65	108149
2064/65	137284

The prudential Insurance company development can seen in the above table .From above table it is clear that the insurance performance is good in the fiscal year 2065/66 in comparasion to its performance in previous year . The prenoum collection of four fiscal year pic shows increasing trend which is positive signal of better service.

D) Premium collection ,surplus and deficit ,percentage return on Fire business of PIC Ltd for past four years

The following table No.4 shows Premium collection ,surplus and deficit ,percentage return on Fire business of PIC Ltd for past four years

Year	Premium collection	Surplus and deficit	% Return
2062/63	22013	2291	10.4
2063/64	23086	2808	12.16
2064/65	29247	4178	14.28
2065/66	41777	1308	3.13

The prudential Insurance company 's fire business can be seen in the above table .From above table it is clear that the premium collection is in increasing trend but surplus is not so .the percentage return of 14.24 in the year 2064 /65 is good ,but very poor in the year 2065/66.

E) Net profit of past four years of PIC Ltd

The following table No. 5 shows the Net profit of past four years of PIC Ltd:-

Year	Amount (Rs)	% Return(=Ner profit margin)
2062/63	8585	9.68
2063/64	10267	10.38
2064/65	6329	5.852
2065/66	10796	7.86

From above table it is clear that the insurance performance is good in the fiscal year 2063/64 in comparison. Although the percentage return in the year 2065/66 has been increased against the year 2064/65.

F) Premium collection ,surplus and deficit ,percentage return on marine business of PIC Ltd for past four years

The following table No. 6 shows Premium collection ,surplus and deficit ,percentage return on marine business of PIC Ltd for past four years

Year	Premium collection	Surplus and deficit	% Return
2062/63	35432	2633	7.43
2063/64	39266	3602	9.17
2064/65	33637	6405	19.04
2065/66	33525	4399	13.12

From above table it is clear that the insurance performance is good in the fiscal year 2064/65 in comparasion to other year . The surplus of fiscal year 2062/63 shows poor due to newly establishment . The performance of marine business is good in over all.

G) Premium collection ,surplus and deficit ,percentage return on Engineering business of PIC Ltd for past four years

The following table No.7 shows Premium collection ,surplus and deficit, percentage return on Engineering business of PIC Ltd for past four years

Year	Premium collection	Surplus and deficit	% Return
2062/63	3659	156	4.26
2063/64	56080	(177)	(0.316)
2064/65	2936	426	14.51
2065/66	4747	2342	49.33

The prudential Insurance company's Engineering business can be seen in the above table .From above table it is clear that the insurance performance is bad in the fiscal year 2063/64 in comparasion. The performance of the year 2065/66 is very good which is positive signal of betterment .

H) Premium collection ,surplus and deficit ,percentage return on Motor business of PIC Ltd for past four years

The following table No. 8 shows Premium collection ,surplus and deficit, percentage return on Motor business of PIC Ltd for past four years:-

Year	Premium collection	Surplus and deficit	% Return
2062/63	18947	(674)	(3.55)
2063/64	22369	(3924)	(14.57)
2064/65	23656	(411)	(1.73)
2065/66	38485	(57)	(0.15)

The prudential Insurance company's motor business can be seen in the above table .From above table it is clear that the insurance performance is very bad in in comparasion of the other business. The performance is indicating negative signal which should be checked in time .Due to this the profit of the company is decreased.

I) Premium collection, surplus and deficit, percentage return on Miscellaneous business of PIC Ltd for past four years

The following table No. 9 shows Premium collection, surplus and deficit ,percentage return on Miscellaneous business of PIC Ltd for past four years

Year	Premium collection	Surplus and deficit	% Return
2062/63	8563	950	11.09
2063/64	8547	1585	18.54
2064/65	18673	1797	9.62
2065/66	18750	(1789)	(9.54)

From above table it is clear that the insurance performance is good in the fiscal year 2063/64 in comparasion to other year . The surplus of fiscal year 2065/66 shows negative . The premium collection is in increasing trend.In the fiscal year 2065/66 ,there is deficit due to more claim as well as the business is taken haphazardly.

J) Premium Collection and percentage contribution in premium of different business of PIC Ltd for past four years

The following table No. 10 shows Premium Collection and percentage contribution in premium of different business of PIC Ltd for past four years

Business	2062/63		2063/64		2064/65		2065/66	
	Total premium	%	Total premium	%	Total premium	%	Total premium	%
Fire	22013	25	23086	23	29247	27	41777	30
Marine	35432	40	39266	40	33637	31	33525	25
Engineering	3659	4	56081	6	2936	3	4747	3
Motor	18976	21	22369	22	23656	22	38485	28
Miscellaneous	8563	10	8547	9	18673	17	18750	14
Total	88643	100		100	108149	100	137284	100

From above table,in the year 2062/63 , the premium contribution of marine business is highest where as there is lowest contribution of engineering business and normal contribution of fire,motor and miscellaneous are there .

In the year 2063/64 , the premium contribution of marine business is highest where as there is lowest contribution of engineering business and there is normal contribution of fire ,motor and miscellaneous business.

In the year 2064/65 , the premium contribution of marine business is highest where as there is lowest contribution of engineering business and contribution of fire and miscellaneous business has normal increament on the comparison of previous years and motor business's contribution is very favourable.

In the year 2065/66 , the premium contribution of fire business is highest where as there is lowest contribution of engineering business and contribution of motor business is increased on the comparison of previous years and marine and miscellaneous business contribution has been reduced.

PRUDENTIAL INSURANCE COMPANY LIMITED

MAIN INDICATORS

Annexture – 1

Financial Year

S.No	Particulars	Indicators	2065-66	2064-65	2063-64	2062-63	2061-62
1.	Net worth	Rs.	21354040	116098847	113728438	109059742	106594333
2.	Number of shares	Number	1000000	1000000	1000000	1000000	1000000
3.	Per share book vales	Rs.	121	116.10	113.73	109.06	106.59
4.	Net profit	Rs.	10255191	2114209	10601248	8585020	3572593
5.	Earning per share	Rs	10	2.11	10.60	8.59	3.57
6.	Dividend per share	%	5	-	6	6	-
7.	Market price per share	Rs	204	208	238	210	230
8.	PE Ratio	Ratio	20	98	22	24	64
9.	Net insurance premium/Total insurance premium	%	28	25	23	26	24
10.	Net Profit/Total insurance premium	%	7	2	11	10	5
11.	Total insurance premium/Total Assets	%	70	53	45	42	41
12.	Income from investment/Total investment	%	6	6	6	6	7
13.	Reinsurance	%	18	19	22	19	22

	commission/Total insurance premium						
14.	Managemrnt Expenses/Total insurance premium	%	16	17	17	17	21
15.	Agency commission/Total insurance premium	%	9	10	12	12	11
16.	No. of agent	Number	35	34	32	38	33
17.	No.of Employee	Number	58	48	51	37	37
18.	No. of office	Number	7	4	4	3	3
19.	Employee expenses /Mgmt. Expenses	%	52	50	46	40	42
20.	Employee Expenses/Number of employee	Rs.	220,372	190,773	149,956	173,609	172,617
21.	Outstanding Claim/claim Settlement	%	120	106	75	70	122
22.	Number of outstanding claim/Number of settled claim	%	30	71	383	48	128
23.	Total Insurance Policies	Number	11,338	9,409	7,476	6,708	6,354
24.	Renewal Insurance Policies/Total Insurance policies	%	18	25	14	14	19

25.	Number of Settled Claim / Total Insurance policies	%	10	8	1	8	5
26.	Margin of Solvencies	%		-	-	-	-

Sources: Annual report of PIC.

After study of above indicators the performance of PIC is showing in favour of the business .The company is operating successfully from the very beginning and its indicators are also seemed to be better in the future .

The claim settlement of PIC has been presented in the following table:-

PRUDENTIAL INSURANCE COMPANY LIMITED

Claim Settlement (Net)

(Rs.)

S. no.	Item	Current year claim settlement		One previous year		Two previous year		Three previous year		Four previous		Total claim settlement		Recovery from Reinsurer			Claim settlement (net)
		Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year	C.Y.	P.Y	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Years
1.	Fire	7856826	915426	379994	1029091	6942	73662		10013904	159513	-	11817275	12032083	10537916	11477007	1279359	555076
2	Marine	3300711	371924	5236979	10367182	713413	896679	-	-	-	-	9251103	15135785	7958682	14243586	1292421	892,199
3	Motor	6124024	6563812	4461154	3087029	4745	36,581	111200		-	-	10701123	9687422	3392,944	3616154	7308179	6071,268
4	Engineering	233731	683968	1316514	3495347	1419378	-	-	-	-	-	2969623	4179315	2787377	4019752	182246	159563
5	Miscellaneous	6514403	5405429	3518804	92214		1250	-	-	-	-	10033207	598893	4694713	2276268	5338494.48	3222625
	Total	24029695	17440559	18327445	18070863	2144478	1008172	111200	10013904	159513	-	44772331	46533498	29371632	35632767	15400699.48	10900731

Sources: Annual report of PIC.

From the study of the above report ,the company is making good record in the claim settlement .Because of the prompt settlement of the claim properly in time it has got good faith in the market .Due to this reason the company is succed to earn more premium every year.

PRUDENTIAL INSURANCE COMPANY LIMITED

Outstanding claims at the end of the financial year of 2065/66 (2008/2009).

(Rs.)

S.no.	Items	Current year	One previous year	Two previous Year	Three previous year	IBNR	Total outstanding claims	Recovery from reinsurer	Net out standing claims-115%
1.	Fire	29503219	917171.00	-	-	-	30420390.00	28111791	2654889
2.	Marine	15177731	4111778	-	-		19289509	18680664	700172
3.	Motor	8289600	85000	-	-	100000	8474600	1720850	7766813
4.	Engineering	6168713	26250	12500	-	-	6207463	5818298	447540
5.	Miscellaneous	1659249		-	-	34400	1693649	625914	1227896
	Total Amount	60798512	5140199	12500	-	134400	66085611	54957517	12797310

Sources: Annual report of PIC.

The above table has reported in details about outstanding claims of PIC.It has good record in claim settlement also.There is more outstanding claim in motor business and less in miscellaneous business of PIC LTD.

CHAPTER -5

Summary, Recommendation and Conclusion

5.1 Summary

This research has been conducted on insurance policy of "Prudential Insurance Company Ltd." We have obtained all information and explanations required for the purpose of our research. The account and records of the Company have been maintained as required by law and practice.

The company is proud to announce that it has received the globally recognized ISO 9001:2000 certifications from the United Registar System Ltd.(URS) affiliated to United Kingdom Accreditation service (UKAS) , the British governments authorized agency .It has also received the Best presented Accounts Awards 2006 from the institute of charted Accountants of Nepal.

The biggest world wide global financial crisis after second World war has now slowly been improved.The real estate crisis that appeared in U.S.A. as a result of such huge financial crisis USA ,Developed and Developing countries economy are facing economic crisis , uncertainty and instability. As a result the world economy growth has been going down to -1.3 during the revelation period where as it was 3.2 percent in 2008. As a result of the adverse global financial crisis, the gross domestic production in Nepal is expected to increase by 3.90 during this financial year 2065-66 where as it were 5.30 in 2064-65. During this financial year the Insurance Industry has got 8 percent increment as compare to last year and generate more than 427 crores insurance premium where as the industry had contributed 2 percent of the Gross Domestic production (GDP) in 2064-65.

During the revelation period, despite of the political instability, uncertainty in making new constitution at a pre set up time and various other uncertainty factor the insurance premium has been increased by 8% as a whole in the country where as the premium of this Company has been increased by 27 percent which is a positive result for this company.

Nepal has already entered into WTO and keeping is view that after 2010 foreign companies might operate their branch offices; this Company has been providing international standard services through its skilled man power along with modern information technology. The board of director of this company is positive for all those concern people who are in favour of increasing the capital of the Company. The Company has given continuity in its mission by increasing customer relationship and delivering quality services.

According to its policy of expanding its business activities, the Company has extended its business relationship with various industrial,business and banking sector. The board and the Management have also been concentrating on extending the business relationship.

5.2 Recommendation

The following steps should be brought for PIC Ltd..

a. The services should be fast.
b. Showroom should be opened in outside of main city also.
c. The services should be advertised through the different media with new slogan.
d. The cost should be controlled.
e. Employee should be trained time to time.
f. The process of survey time should not be long.
g. The more effective schemes should be lunched to collect more funds.
h. The customer should be motivated to safe the property from risk.
i. It should give services on international level.

5.3 Conclusion

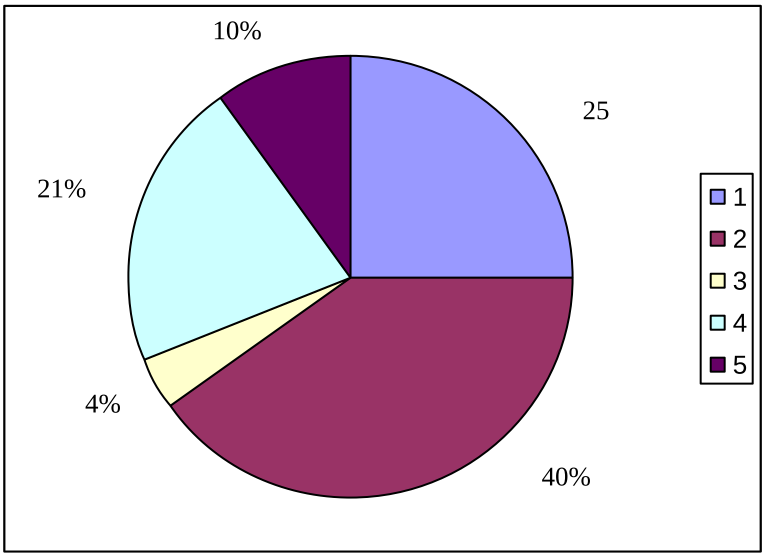
Really this study has given light on the premium policy reflecting PIC ltd.It has tried to attract the related persons to make service effectively. Because of large demand and faith, it is hoped that investors/ parties should purchase the policy of PIC ltd. Its service is not more difficult than others .The environment of market for PIC ltd. is suitable. It is possible without complex process. Due to more profit expectation, dynamic, competitive, effective, foresighted and updated administrative management, prospect of large market to increase demand and give services, related persons should come forward with PIC ltd. The main aim of this study is to draw conclusion about the insurance policy of PIC ltd.and encourage to work in large scale.

At last, this research has concluded that the business of the company has been conducted satisfactorily and found within its authority as well as gives a true and fair view.

Thanks

Pie- Chart Table

A Premium Collection of different business of PIC Ltd for year 2062/63 can be presented in the following pie- chart :-



1. Fire Insurance

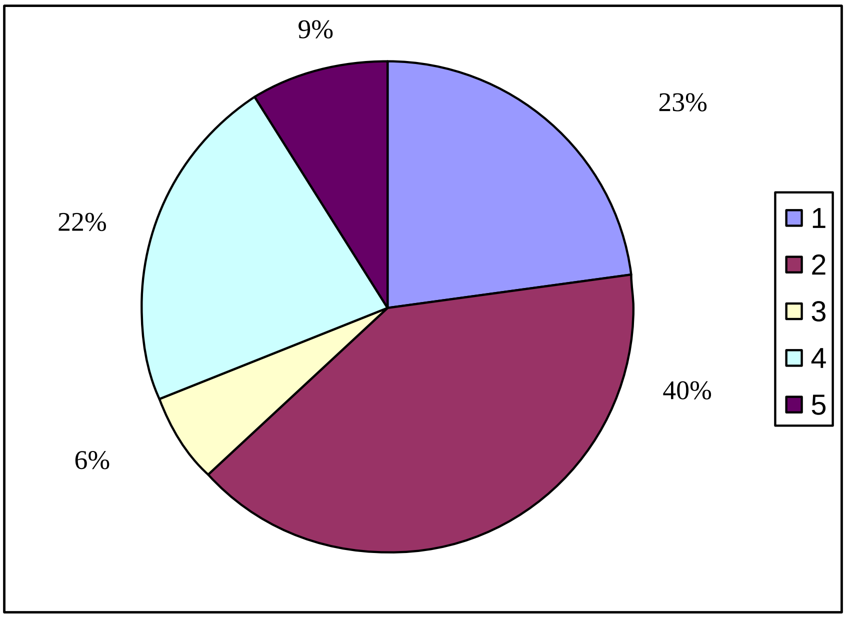
2. Marrine Insurance

3. Engineering Insurance

4. Motor Insurance

5. Miscellaneous Insurance

B. Premium Collection of different business of PIC Ltd for year 2063/64 can be presented in the following pie- chart :-



1. Fire Insurance

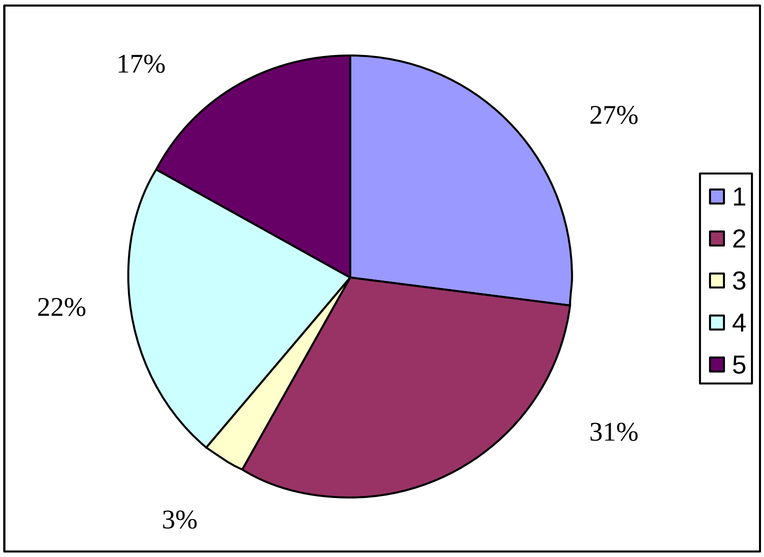
2. Marrine Insurance

3. Engineering Insurance

4. Motor Insurance

5. Miscellaneous Insurance

C. Premium Collection of different business of PIC Ltd for year 2064/65 can be presented in the following pie- chart :-



1. Fire Insurance

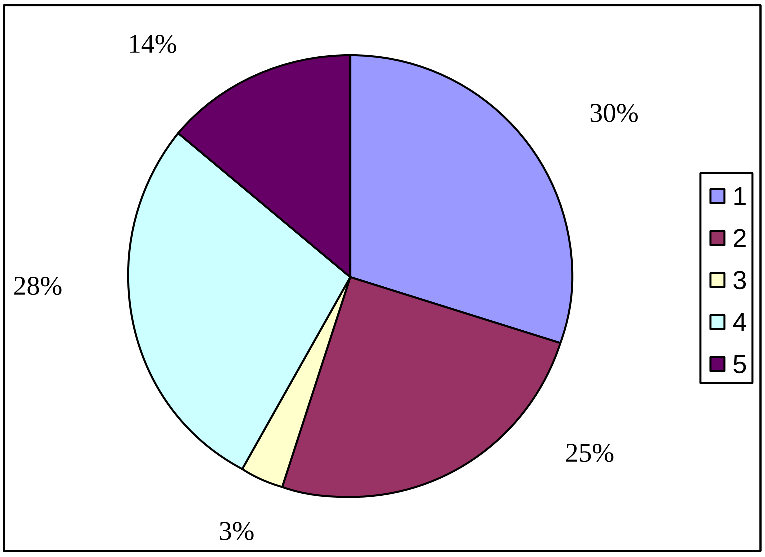
2. Marrine Insurance

3. Engineering Insurance

4. Motor Insurance

5. Miscellaneous Insurance

D. Premium Collection of different business of PIC Ltd for year 2065/66 can be presented in the following pie- chart :-



1. Fire Insurance

2. Marrine Insurance

3. Engineering Insurance

4. Motor Insurance

5. Miscellaneous Insurance

Glossary

- 'Combined ratio' = loss ratio + expense ratio + commission ratio. Loss ratio is calculated by dividing the amount of losses (sometimes including loss adjustment expenses) by the amount of earned premium. Expense ratio is calculated by dividing the amount of operational expenses by the amount of written premium. A lower number indicates a better return on the amount of capital placed at risk by an insurer.
- 'SSA' = subscriber savings account.
- 'AIF' = attorney in fact.
- 'Premium" = payment to an insurance company for a service. This word is a marketing term to replace "price".

1. ^ This discussion is adapted from Mehr and Camack "Principles of Insurance", 6th edition, 1976, pp 34 – 37.
2. ^ "Insured cars by state". Insurance Information Institute. http://www.economicinsurancefacts.org/economics/state/insuredcars/.
3. ^ C. Kulp & J. Hall, Casualty Insurance, Fourth Edition, 1968, page 35
4. ^ However, bankruptcy of the insured does not relieve the insurer. Certain types of insurance, e.g., workers' compensation and personal automobile, are subject to statutory requirements that injured parties have direct access to coverage. Ibid, page 35
5. ^ Ibid, page 35
6. ^ Feldstein, Sylvan G.; Fabozzi, Frank J. (2008). *The Handbook of Municipal Bonds*. Wiley. p. 614. ISBN 978-0470108758. http://books.google.com/books?id=Juc4fb1Fx1cC&lpg=PA614&ots=IryMrWB21p&pg=PA614#v=onepage&f=false. Retrieved February 8, 2010.
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9. ^ See, e.g., Vaughan, E. J., 1997, *Risk Management*, New York: Wiley.
10. ^ "And whereas I have left in the hands of Doctor Ducke Channcellor of London two pollicies of insurance the one of one hundred pounds for the safe arivall of

our Shipp in Guiana which is in mine owne name, if we miscarry by the waie (which God forbid) I bequeath the advantage thereof to my said Cosin Thomas Muchell...whereas there is an other insurance of one hundred pounds assured by the said Doctor Arthur Ducke on my life for one yeare if I chance to die within that tyme I entreat the said doctor Ducke to make it over to the said Thomas Muchell his kinsman..." Will of Robert Hayman, 1628:Records of the Prerogative Court of Canterbury, Catalogue Reference PROB 11/163

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30. ^ (Source: Insurance IP Bulletin, December 15, 2006)
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