

UNDERWRITING IN INSURANCE BUSINESS

Mrunal Pandit, FIII

October 2018

Concepts of Underwriting

- What is underwriting and it's importance
- Different types of risks
- Evaluation and rating of risks
- Policy Coverage, Deductible, Warranty...
- Regulatory Framework

I. What is Underwriting

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What is underwriting ?

“Underwriting is a process to determine or arrive at a rate and a premium amount for each insurable risk. It is very important for an underwriter to calculate the appropriate premiums for the amount of coverage requested.”

Question 1

Ram owns a 2-wheeler and he had 2 accidents in the span of last 3 years. The claims paid by the insurance company were close to INR 50,000. During the time of renewal, the insurance underwriter agrees to underwrite the risk at a less premium. What kind of an underwriter is he?

1. Conservative
2. Aggressive

II. Types of Risks

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Risks

1. Life Risk

(Term Policies, Endowment Money Back Policies)

2. Non Life Risk or General Insurance

(Medical, Mortgage, Property/ Casualty Lines
new emerging risks: Professional Indemnity, Corporate Frauds, Cyber Risk)

Question 2

Ram is 25 years of age and he buys a term insurance plan. Under which category of risk does this fall?

1. Life Insurance
2. Health Insurance

III. Evaluation and Rating of Risks

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Evaluation and Rating

Risks are of different kinds

- Evaluation criteria and rates can vary
- De-tariffing

Example: Ram has a transportation business and owns 2 trucks as well as a personal Honda City car.

-A good underwriter would view both the risks differently as the risk profile are entirely different.

Question 3

Shyam is a owner of a chemical factory and also owns a home. He goes to insurance company to get insurance policy against fire and allied perils for both the factory and his house.

According to the underwriter, which is a better risk?

1. Home
2. Chemical Factory

IV. Policies: Coverage, Deductibles, Warranties

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Policy Covers

Policy wording: terms, conditions and definitions of insurance coverage as they are written down in the insurance policy.

Deductible/Excess

Deductibles: normally provided as clauses in an insurance policy that decide out of pocket expenses for the policyholder at the time of claim.

Warranties

“A promise by the insured/policy holder that the details given in the proposal form is true.”

Most insurance contracts require the insured to make certain warranties.

Question 4

Ram has purchased a home insurance policy with a deductible of INR 7,000. There is a claim amounting to INR 7,001. What is the amount he can claim from the insurance company?

1. Rs 1
2. Rs 7,000

V. Insurance Regulation

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Regulatory Framework

Insurance and Regulatory and Development Act

Insurance Regulatory and Development Authority
(IRDA)

Functions of IRDA:

- Regulation, do's and dont's
- Protecting interest of policy holders
- Dispute resolution

Question 5

Who is responsible for protecting the interests of policy holders?

1. Insurance Company
2. IRDA

Recap

- What is underwriting and it's importance
- Different types of risks
- Evaluation and rating of risks
- Policy Coverage, Deductible, Warranty ...
- Regulatory Framework

THANK YOU

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