

RISKS

The term 'risk' is used by people in the business of insurance to mean either a peril insured against a person or property protected by insurance.

The term risk is generally used to refer to a situation where the outcome is uncertain and there is a possibility of loss. The loss is random in nature. It occurs by chance, and may happen to anybody and any property.

According to the Dictionary, risk refers to its possibility that something unpleasant or damage might happen.

Risk is defined as "a condition in which there is a possibility of an adverse deviation from a desired outcome, that is expected or hoped for"

- In most of the risky situations, two elements are commonly found
- (1) The outcome is uncertain
- (2) Out of the possible outcomes, one is unfavourable or not liked by the individual or the analyst.
- UNDERSTANDING CONCEPT OF RISK AND UNCERTAINTY:
- Uncertainty refers to a situation where the outcome is not certain or unknown. Uncertainty is characterised by doubt, based on the lack of knowledge about what will or what will not happen in future. Decision under uncertain situation is very difficult for the decision-maker, It all depends upon the skill, the judgement and of course luck. Whereas the risk refers to a situation where there is the possibility of a loss.
- A peril refers to the cause of loss or the contingency that may cause a loss. Perils may be general or specific. Examples: fire, wind, storm, theft. Hazard is a condition that may create or increase the chances of loss arising from a given peril or under a given condition. Hazard describes anything that increases the potential of a loss can unanticipated, unforeseen event that causes injury to an insured or damage to property
- Types of Hazards
 - Physical hazard
 - Moral hazard
 - Morale hazard

- DEGREE OF RISK:
 - Degree of risk is related to the likelihood of occurrence. It is measured by the probability of the adverse deviation. In case of an individual, we measure the risk in terms of the probability of an adverse deviation from what is hoped for. In the case of a large number of exposure units, estimates can be made about the likelihood that a given number of losses will occur, predictions can be made on the basis of these estimates. Insurance companies make predictions about losses that are expected to occur and charge a premium based on this prediction.

- BUSINESS RISK
 - Business risk management is concerned with possible reduction in business value from any source. Unexpected changes in expected future net cash flows are a major source of fluctuations in business value. The objective of business risk management is to increase the value of the business to its owners. The major business risks that give rise to variation in cash flows and business value are:
 - Price risk
 - Credit risk
 - Pure risk.
 - Market risk.
 - Operational risk.
 - Other risk

- INDIVIDUAL RISK
- The risks faced by individuals and families can be classified in a variety of ways.
- Earnings risk
- Medical expenses risk
- Physical asset risk
- Financial asset risk
- The individual and family members have to obtain advice about personal risk management from insurance agents, accountants, lawyers and financial planners.

The business world is dynamic and full of risks of uncertainties. The future is always unpredictable and full of uncertainties. From a practical point of view, the whole process of risk can be classified into:

- (a) Financial and Non-financial risks.
- (b) Static and Dynamic risks.
- (c) Fundamental and Particular risks.
- (d) Pure and Speculative risks.
- Pure risks can also be classified further into:
 - (1) Personal Risks
 - (2) Property Risks
 - (3) Liability Risks
 - (4) Risks arising out of failures

- THE BURDEN OF RISK:

- The risk is the loss incurred by a person. When a house destroyed by fire, or money is stolen, there is a financial loss. The negligence of someone results in injury to a person or damage to the property, there is also a financial loss. These losses are the primary burden of risk. There are other detrimental aspect of risk The uncertainty as to whether the loss will occur requires the prudent individual to prepare for its possible occurrence. The individual attempt to avoid the risk or alleviate its impact with the help of insurance.

- ELEMENTS OF INSURANCE RISK:

- Insurance companies do not accept all the risks that others may wish to transfer them. Certain characteristics should be present in order to be considered a proper subject for insurance. The following pre-requisites are the ideal elements of an insurable risk:
 - (1) The losses should be reasonably predictable.
 - (2) The loss produced by the risk must be definite and measurable.
 - (3) The loss must be accidental.
 - (4) The loss should not be catastrophic which means that the loss should not be incurred from attack by the enemies.

- Degree of risk: It refers to the intensity of objective risk, which is assessed by finding the difference between expected losses and actual losses
- Formula :
$$\frac{\text{Diff. Between expected risk and actual risk}}{\text{Expected loss.}}$$

- Risk identification
- Various methods of Risk identification
 - ✓ Check list method
 - ✓ Financial statement method.
 - ✓ Flow chart method.
 - ✓ Onsite inspections.
 - ✓ Interactions with others.
 - ✓ Contract analysis.
 - ✓ Statistical records of losses.

- Methods to handle risk
- Prevention / Avoidance of risk
- Reduction of risk :
 - ✓ Loss prevention
 - ✓ Loss reduction
- Transferring of risk
- Accepting the risk
- Spreading of risk

- Risk Management
- Definition: "Risk management is a scientific approach to dealing with pure risks by anticipating possible accidental losses and designing and implementing procedure that minimise the occurrence of loss or the financial impact of the losses that do occur" .
- Importance
 - To evaluate the risk of the business.
 - ✓ For effective handling of spreading the risk, monitoring and insuring against
 - ✓ To introduce various plans and techniques to minimise the risks.
 - ✓ To give advice and make suggestion for handling the risks.
 - ✓ To avoid cost, disruption and unhappiness in relating to risks.
 - ✓ To fix the sum assured under the policy and to decide on whether to insure or not.
 - ✓ To select the appropriate technique or methods to manage the risks.
 - ✓ To create awareness about risks among the people.

- Risk management tools
- ✓ Risk control
- ✓ Risk finance
- Steps in Risk Management
 - 1) Identify the Risk
 - 2) Evaluation
 - 3) Considering the alternatives
 - 4) Decision making
 - 5) Review / Evaluation

- Risk Management Information System (RMIS)
 - They are software tools to help risk managers
 - It deals with Insurance policies, claim management, financing losses, management work
 - RMIS system can help managers with a various functions. Once connected to an organisation's existing information systems, the RMIS gathers information from all these various systems into one database. The data can be analysed from various angles to get different perspectives on the risks the organisations is facing and assist managers in decision making.

Principles and types of Insurance

Insurance is a financial service. In a contract of insurance, the insurer undertakes in consideration of a sum of money to make good the loss suffered by the insured against a specified risk or any other contingency. There are two parties to an insurance contract, insurance company and insured party. The document laying down the terms of the contract is called insurance policy. The property which is insured, is the subject matter of insurance. It may be insured against loss arising from uncertain events in the form of destruction or damage to the property or death or disablement of a person. The interest, which the insured has in the subject matter of insurance, is known as insurable interest. Depending upon the subject matter, the types of insurance are life insurance and general insurance. In case of Life insurance a specified amount becomes payable on the death of the insured or upon the expiry of a specified period. General insurance covers losses caused by fire, accident and marine adventures.

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- Characteristics of Insurance
 - ✓ Cooperative device
 - ✓ Large number to spread risk
 - ✓ Sharing of risk
 - ✓ Evaluation of risk
 - ✓ Sharing of risk
 - ✓ Payment at contingency
 - ✓ Payment amount

- **Functions of Insurance**

- Protection against risk of loss
- Spreading of risk
- To encourage savings
- Prevention of losses
- Capital formation in economy
- Economic development
- Solution to social problems

- Benefits of insurance
- Evolution of Insurance
- Life Insurance in its modern form came to India from England in the year 1818
- 1870 – Bombay mutual fund, (first Indian insurance co.) was set up
- 1872 – Hindu Annuity fund was started in Calcutta (to provide financial help to orphans and widows)
- 1874 – Oriental Govt. Security Life Insurance Co. was estb.
- 1896 – Bharat insurance Co (inspired by Nationalism)
- 1905-1907 - The Swadeshi movement gave rise to more insurance companies. The United India in Madras, National Indian and National Insurance in Calcutta and the Co-operative Assurance at Lahore were established in 1906

- Prior to 1912 India had no legislation to regulate insurance business. In the year 1912, the Life Insurance Companies Act, and the Provident Fund Act were passed. The Life Insurance Companies Act, 1912 made it necessary that the premium rate tables and periodical valuations of companies should be certified by an actuary. But the Act discriminated between foreign and Indian companies on many accounts, putting the Indian companies at a disadvantage.
- Life insurance was nationalised in 1956 and General Insurance was Nationalised in 1971

- Principles of Insurance **Contract**

- ✓ Utmost good Faith

- ✓ Insurable Interest

- ✓ Indemnity

- ✓ Cause Proxima

- ✓ Contribution

- ✓ Subrogation

- ✓ Mitigation of Loss

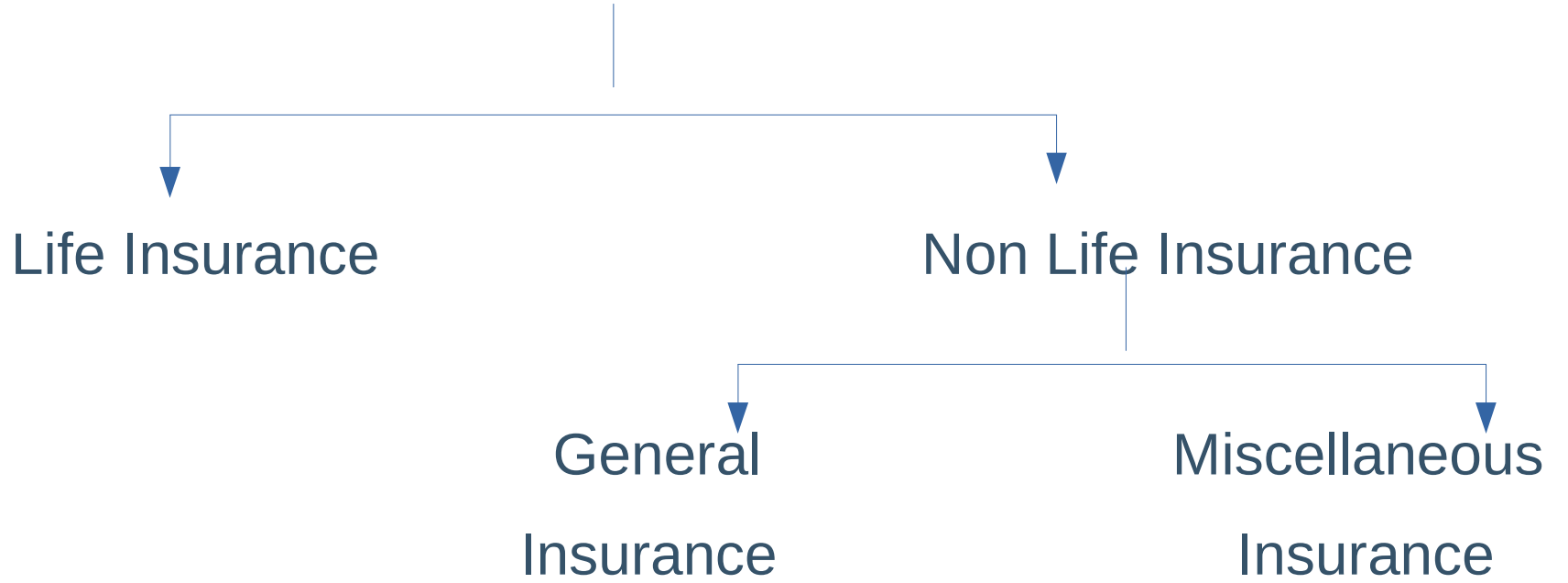


Offer and Acceptance

Consideration

Free consent

Types of Insurance



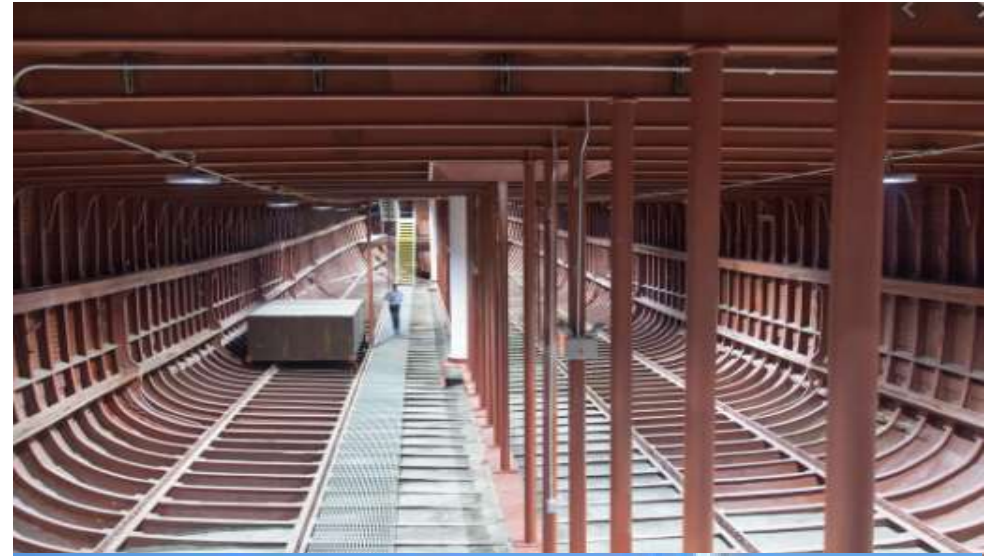
- Life Insurance
- ✓ Money Back
- ✓ Endowment
- ✓ Pension
- General Insurance
- ✓ Marine Insurance
- ✓ Fire Insurance
- ✓ Health / Personal accident Insurance
- ✓ Vehicle / Motor Insurance
- Miscellaneous Insurance

- Life Insurance Policies can be divided into Basis of
 - ✓ **Time** – Whole Life policy , Endowment policy, Term Insurance Policy
 - ✓ **Premium Amt.**- Single Premium Policy , Level Premium Policy
 - ✓ **Participation in profit** - Participating, Non – Participating
 - ✓ **Claims**- lump sum , Instalment
 - ✓ **Number of person covered**- Single life, Joint life, Last survivorship

Marine Insurance

- Marine Insurance are
 - Hull insurance
 - Cargo Insurance
 - Freight Insurance

- Various kinds of Marine Insurance policies are
 - Voyage Policy
 - Time policy
 - Mixed policy
 - Valued policy
 - Unvalued policy
 - Floating policy
 - Open cover policy/ Blanket policy
 - Fleet policy
 - Named policy
 - Currency policy
 - Wagering policy/ PPI policy
 - Port risk policy
 - Construction/ builders risk policy



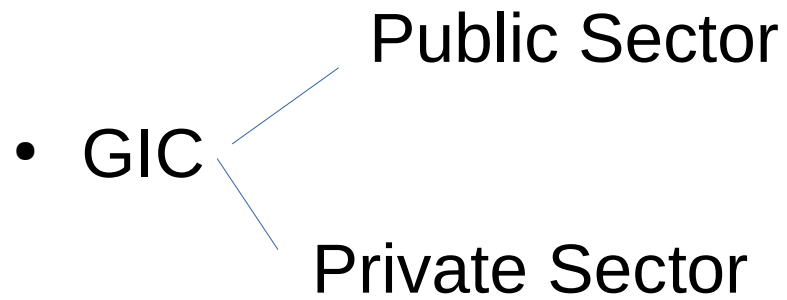
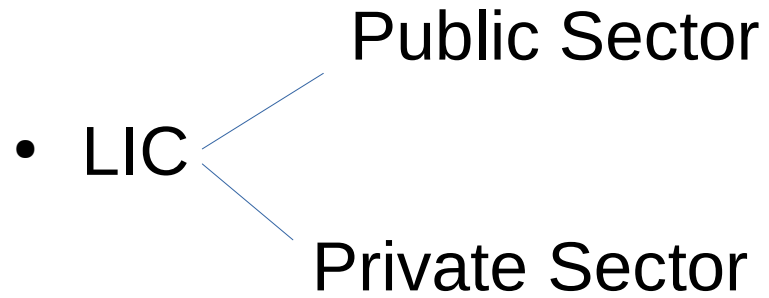


- Fire Insurance
- Property that can be covered includes building, machinery, goods, residential house etc.
- Types
 - Specific Policy
 - Valued Policy
 - Average Policy
 - Floating Policy
 - Replacement Policy
 - Declaration Policy
 - Comprehensive Policy
 - Consequential Loss Policy
 - Adjustable Policy

- RISK AND RETURN RELATIONSHIP:
- In a contract of insurance, the insurance company undertakes risk to protect the insured from a specified loss. There is a risk attached to every policy.
- Analysis of Risk and returns are important for any organisation. Generally Higher risk is associated with higher return, so there is direct relationship between risk and return, hence it is very important to study the risk and manage them properly.
- In Risk management the company does :
 - 1. Systematic study of problems with the context of the organisation
 - 2. Developing a comprehensive strategy based on all the tools and techniques available with the organisation.
- An ideal risk management is necessary to minimize risk of insurance and to maximize the return,
- The company will Identify the risk and will adopt ways (risk reduction, risk prevention) to minimize their losses.(Eg. It can also consider taking re-insurance in case of higher risk)

- FORMS OF INSURANCE ORGANIZATION:
- With the advancement of Insurance practices, different forms of Insurance organisations have developed. Insurance companies in the insurance market are usually classified according to nature of ownership. The following are the different forms of insurance
 - Self-Insurance.
 - Individual.
 - Partnership
 - Joint Stock Companies.
 - Mutual Companies.
 - Co-operative Insurance Organisations.
 - Lloyd's Association.
 - State Insurance.

- Insurance companies in India



- Growth of Insurance Business
- There are 24 life insurance and 33 non-life insurance companies in the Indian market who compete on price and services to attract customers, whereas, there are 11 reinsurance companies including foreign re-insurers branches. The industry has been spurred by product innovation and vibrant distribution channels, coupled with targeted publicity and promotional campaigns by insurers.
- The market share of private sector companies in the non-life insurance market rose from 15% in FY04 to 56% in FY21 (till April 2020). In life insurance segment, private players had a market share of 31.3% in new business in FY20.
- The Government has approved an ordinance to increase Foreign Direct Investment (FDI) limit in the Insurance sector from 26% to 49%, which would further help attract investment in the sector. As per Union Budget 2019-20, 100% FDI was permitted for insurance intermediaries.
- Over 53.8 million farmers benefitted under the Pradhan Mantri Fasal Bima Yojana (PMFBY) during FY20. National Health Protection Scheme was announced under Union Budget 2018-19 as part of Ayushman Bharat. The scheme provided insurance cover up to Rs. 500,000 (US\$ 7,723) to more than 100 million vulnerable families in India.

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- Pradhan Mantri Jan Arogya Yojna (PMJAY), the world's largest social health scheme, is expected to provide coverage to around 50 crore people. Fund of Rs. 6,400 crore (US\$ 887 million) has been allocated for FY21, which is thrice that of last year.
- On July 09, 2020, Union Cabinet approved capital infusion of Rs. 12,450 crore (US\$ 1.77 billion), including Rs. 2,500 crore (US\$ 354.66 million) infused in FY20, in three public sector general insurance companies - Oriental Insurance Company Limited, National Insurance Company Limited (NICL) and United India Insurance Company Limited.

- Know all about **Actuary and their Role in Insurance Company**
- The operation of insurance companies is largely based on the degree of risk they undertake and the returns that they generate from it. Which is why, they require employing advanced analytical and statistical skills to gauge risks and returns associated with each proposal they receive. Here is where an insurance actuary comes into the picture.
- **What is an Actuary?**
- An actuary is a professional who specialises in the field of analysing financial risks by implementing statistical, financial and mathematical theories. In insurance, actuaries aid in assessing risks which help companies in the estimation of premiums for their policies.
- **Role of an Actuary in an Insurance Company**
- ✓ It is ideal for insurance companies to create policies that bear minimal risk and can generate stable returns. Estimating risk and return from each proposal also in turn aids in assuring policyholders that their claims will be settled.
- ✓ With regards to insurance, actuarial practices involve analysing factors related to a customer's life expectancy, construction of mortality tables that help one to have a measurement of predictability and offering insight to brokers.

- ✓ Sometimes recommendations for the determination of premium for insurance policies made by actuaries can also have a positive impact on the behaviour of policyholders. For instance, premium payable by non-smokers for life insurance policies is often significantly lesser than that for smokers. This might push individuals to quit smoking to avail their life insurance policies at a lower premium.
- Who can be Appointed as Actuaries for Insurance Companies?
- As per the Appointed Actuary regulations put forth by the IRDAI, any insurer or insurance company should mandatorily appoint an actuary to manage financial risks and uncertainty of the insurance business.
- To be appointed as an actuary with any insurance company, an individual has to fulfil the following criteria, as put forth under regulations:
 - ✓ He/she should be a resident of India.
 - ✓ Should be a fellow member as per the Actuaries Act, 2006.

- Apart from these, an individual can be eligible for the position of Appointed Actuary with any insurance company if they comply with the following criteria:
- Should be an employee of an insurance company.
- Is not already appointed as an actuary with any other insurance company in India.
- Is not over the age of 65 years.
- Possesses a Certificate of Practice from the Institute of Actuaries in India.
- Has not committed any professional breach or is not guilty of any other misconduct.
- **Is there an Association of Actuaries in India?**
- Yes, the Institute of Actuaries in India is a professional body for actuaries in India. Formed in the year 1944, the Actuarial Society of India (ASI) was converted into the body corporate of the Institute of Actuaries in India under the virtue of the Actuaries Act, 2006.
- **Objectives of ASI:**
- To propagate the advancement of actuaries in India.
- Facilitating research on the subject relevant to actuarial sciences.
- Opening avenues to promote communication between different members of the profession.
- Providing the necessary guidance for those studying actuarial sciences in India.
- The Actuarial Society of India is also one of the founding members of the International Actuarial Association, which is the organisation for all actuarial bodies across the world.

- DUTIES & OBLIGATIONS OF ACTUARY:
- (1) Rendering actuarial advice to the management of the insurer particularly in pricing and designing products.
- (2) Ensuring the solvency of the insurer at all times.
- (3) Complying with the provisions of section 64-V of the Insurance Act in regard to certification of assets and liabilities that have been valued in the required manner.
- (4) Complying with the IRDA's directions from time to time.

- Settlement of claim
- The contract is entered into when the insurance company issues the first premium receipt. It ends with the settlement of claim by the insurance company or when the policy matures/lapses. A claim refers to the demand for the commitment made by the insurer at the time of entering into the contract.
- The easy and timely settlement of a valid claim is an important function of an insurance company
- Claim settlement under Life insurance policy.
 - ✓ Death
 - ✓ Maturity claims

- Death claims
- The death of the life assured has to be intimated in writing to the insurer. It may be done by the nominee, assignee, a relative of the life assured, the employer
 - ✓ his or her relationship with the deceased
 - ✓ the name of the policyholder,
 - ✓ the numbers of the policy/policies
 - ✓ the date of death
 - ✓ the cause of death and
 - ✓ sum assured etc.

- Claims Document Forms Needed:
- In the case of claims by death, after the receipt of intimation of death, the following will be asked for:
 - (a) Policy document in original.
 - (b) Deeds of assignments/reassignments.
 - (c) Proof age, if age is not already admitted.
 - (a) Certificate of death original.
 - (e) Legal evidence of title, if the policy is not assigned or nominated.
 - (f) Forms of discharge executed and properly witnessed.

- If the claim has occurred within 3 years from the commencement of policy, following additional requirements may be called for in order to remove any suspicion of suppression of material at the time of proposal.
- (a) Statement from the last medical attended giving details of last illness and treatment.
- (b) Statement from the hospital if the deceased has been admitted to the hospital.
- (c) Statement from the person, who had attended last funeral rites and had seen the dead body.
- (d) Statement from the employer, if the deceased was employed, showing details of leave.
- If the assured had an unnatural death, such as accident, suicide or unknown cause, police inquiry report (FIR), chemical analyser's report post-mortem report etc. would also be looked into Depending on preliminary data, a special inquiry may also be ordered
- Payment of claims

- Maturity claims
- Original policy document,
- Age proof if age is not already submitted, Assignment/reassignment, if any,
- Claims Documents - Forms Needed:
- In the case of maturity claims, the following documents will be called for by the insurer, well before the date of maturity. They are:
 - (1) Policy document
 - (2) Age proof if already not submitted
 - (3) Deed of assignment if any
 - (4) Discharge form issued by the office
- Payment of claims
- (Claims Settlement Operations of LIC: The LIC strives to settle all maturity claims well in time preferably on or before the due date on receipt of all requirements from the policyholders and also strive to settle all death claims, which do not require investigation, within 30 days of submission of requirements by the claimants. If there is a delay beyond the stipulated days, LIC pays interest for the delayed period as perceived by the IRDA.)

- FIRE INSURANCE CLAIMS:
- The insurance company usually employs experienced Assessor to investigate the causes of fire and the extent of the damages. As per the report of the Assessor, the insurance company settles the claim made against it for loss due to fire.
- Types of Loss:
- There are two types of losses such as
- (1) Loss of Asset or stock.
- Claims for loss of stock : Average Clause

- (2) Loss of profit
- Claims under loss of profit (for Consequential policy)
- Settlement procedure
- Insured ———▶ Notice of loss and submit proof and particulars of loss ———▶ to Insurer
- Steps followed in processing the claim
- 1. Verification
- 2 allotment of claim number
- 3. Issue of claim form
- 4. Appointment of surveyors

- 5. Preliminary report
- 6 Final report
- 7. Adjustment
- 8. Payt. Of claim
- Marine Insurance
- Marine losses are classified into total loss and partial loss
- Unless the policy provides, the insurer is liable for any loss proximately caused by a peril insured against.
- Insured → Damage notice to be given → to the Insurer

- Documents to be submitted for purpose of claims
- In case of Total loss
- Insurance policy
- Bill of lading
- Copy of invoice
- Copy of Protest
- Notice of abandonment

- In case of Partial loss
- The policy
- The invoice for whole shipment
- Bill of lading
- Copy of Protest
- Surveyors report
- Bill of sale
- Letter of subrogation
- Cost of protection

