



# Operation and Structure of the Life Insurance Market

# Insurance Company Operations

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The most important insurance company operations consist of the following:

- Ratemaking & Reserving
- Underwriting
- Production
- Claim settlement
- Reinsurance
- Policyholder Services

Insurers also engage in other operations, such as accounting, strategy, legal services, loss control, and information systems

# Ratemaking & Reserving

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- Ratemaking refers to the pricing of insurance and the calculation of insurance premiums
- A rate is the price per unit of insurance
- Total premiums charged must be adequate for paying all claims and expenses during the policy period
- Rates and premiums are determined by an actuary, using the company's past loss experience and industry statistics
- Actuaries also determine the adequacy of loss reserves, allocate expenses, and compile statistics for company management and state regulatory officials.

# Underwriting

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- Underwriting refers to the process of selecting, classifying, and pricing applicants for insurance.
- The underwriter is the person who decides to accept or reject an application.
- An insurer must establish an underwriting policy that is consistent with company objectives.
- The underwriting policy is stated in detail in an underwriting guide that specifies:
  - amounts of insurance to be written;
  - territories to be developed;
  - forms and rating plans to be used;
  - acceptable, borderline, and prohibited business;
  - business that requires approval by a senior underwriter; and other underwriting details.

# Underwriting

- Underwriting starts with the agent
- Information for underwriting comes from:
  - The application
  - The agent's report
  - An inspection report
  - Physical inspection
  - A physical examination and attending physician's report
- After reviewing the information, the underwriter can:
  - **Accept** the application and recommend that the policy be issued
  - Accept the application subject to restrictions or modifications
  - **Reject** the application
- Many insurers now use computerized underwriting for certain personal lines of insurance that can be standardized

# Production

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- Production refers to the sales and marketing activities of insurers
  - Agents are often referred to as producers
  - Life insurers have an agency or sales department
- The marketing of insurance has been characterized by a trend toward professionalism
  - An agent should be a competent professional with a high degree of technical knowledge in a particular area of insurance and who also places the needs of his or her clients first

# Claim Settlement

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- The objectives of claims settlement include:
  - Verification of a covered loss
  - Fair and prompt payment of claims
  - Personal assistance to the insured
- Some laws prohibit unfair claims practices, such as:
  - Refusing to pay claims without conducting a reasonable investigation
  - Not attempting to provide prompt, fair, and equitable settlements
  - Offering lower settlements to compel insureds to institute lawsuits to recover amounts due

# Reinsurance

- Reinsurance is an arrangement by which the primary insurer that initially writes the insurance transfers to another insurer part or all of the potential losses associated with such insurance
  - The primary insurer is the ceding company
  - The insurer that accepts the insurance from the ceding company is the reinsurer
  - The retention limit is the amount of insurance retained by the ceding company
  - The amount of insurance ceded to the reinsurer is known as a cession
- Reinsurance is used to:
  - Increase underwriting capacity
  - Stabilize profits
  - Reduce the unearned premium reserve, which represents the unearned portion of gross premiums on all outstanding policies at the time of valuation
  - Provide protection against a catastrophic loss
  - Retire from business or from a line of insurance or territory
  - Obtain underwriting advice on a line for which the insurer has little experience



# Policyholder Services

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- Policy Holder Services department (PHS) is responsible for all post-issuance queries. The main responsibilities for the PHS department are:
  - Policy Cancellation & Refunds
  - Renewals
  - Reinstatement
  - Financial & Non- Financial Endorsements
  - Full/Partial Surrenders (Regular & ADHOC)
  - Client Communication/Complaints

# Investments

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- Because premiums are paid in advance, they can be invested until needed to pay claims and expenses
- Investment income is extremely important in reducing the cost of insurance to policyholders and offsetting unfavorable underwriting experience
- Life insurance contracts are long-term; thus, safety of principal is a primary consideration
- Investment linked contracts constitute long term savings of the policyholders, therefore higher returns on savings is extremely important
- A specialized and qualified investment department manages investments of insurance company's assets

# Other Functions

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- Accounting and Finance

Financial reporting and financial control is managed by this department and is of utmost importance.

- Strategy

This department develops long term strategy of the company along with working on product innovations and exploring new distribution channels.

- Legal and Compliance

Regulatory compliance and legal matter are managed by this department.

- Information Technology

Data management and core systems are extremely important for a life insurance company and are managed by the IT department. With introduction of new technologies and digital revolution, a strong IT department will become more integral to success of Life insurance company.