



ACTEX Learning Flashcards

Learning & Memorizing Key Topics and Formulas

Introduction to General Insurance

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Part I

Insurance Operations

What are the core operations of an insurance company?

- Underwriting
- Claims
- Marketing

What are the different classifications for P&C insurance companies?

- Legal form of ownership
- Place of incorporation
- Licensing Status
- Insurance distribution systems

What are the different legal forms of ownership for insurance companies?

- **Proprietary:** purpose is to earn a profit for owners
- **Cooperative:** owned by policyholders
- **Other**

What are the different types of Proprietary Insurers?

- **Stock insurers**
 - most prevalent type
 - stockholders expect return on investment
- **Lloyd's of London and American Lloyd's**
 - technically not an insurer but a marketplace
 - members are investors and are mostly corporations
 - provides coverage for unusual or difficult loss exposures
- **Insurance Exchanges**
 - acts as a marketplace
 - exchange members underwrite any insurance purchased
 - members belong to a syndicate and delegate operations to a manager

What are the different types of Cooperative Insurers?

- **Mutual Insurers:**

- most prevalent type of cooperative
- policyholders have voting rights
- excess profit returned to policyholders

- **Reciprocal Insurance Exchanges:**

- unincorporated association
- members agree to mutually insure each other
- members share profit and loss
- tax incentives

- **Fraternal Organizations:**

- like mutual insurers but combined with a social function
- primarily life and health insurance

- **Other Cooperatives:** Captive Insurers (subsidiary formed to provide insurance), Risk Retention Groups (limited group eligible to purchase insurance)

What are the different types of Other Insurers?

- **Pools:**

- several insurers joined together
- insure exposures individual insurers are not willing to insure
- operate as syndicate or reinsurance
- often require by law to organize as Fair Access to Insurance Requirements

- **Government Insurers:**

- insure losses that are commercially uninsurable [Ex: National Flood Insurance Program (NFIP), Terrorism Insurance Act (terrorism coverage backed by government)]
- worker's comp through state

What are the different Places of Incorporation for insurers?

- **Domestic Insurer:** Incorporated within a state, doing business in incorporated state
- **Foreign Insurer:** Domestic insurer that is licensed in states other than domiciled state
- **Alien Insurer:** Incorporated in another country, usually required to establish branch office

What is an insurer's license and what are the different Licensing Status' of insurers?

License indicates company has met state's standards for financial strength and competence

- **Licensed insurer** (admitted insurer): granted license to operate in a state, producers only licensed to do business with admitted insurers
- **Unlicensed insurer** (nonadmitted insurer): no license to operate in a state

What are the different Insurance Distribution Systems and Channels?

- **Independent agency and brokerage marketing system:** producers sell insurance as representatives of several insurers
- **Direct writer marketing system:** sales agents are direct employees of insurer
- **Exclusive agency marketing system:** agents contract to sell exclusively

What are the major goals of insurance companies?

- Earn a profit (mostly for proprietary companies)
- Meet customer needs (competitive prices, prompt service, professional service)
- Comply with legal requirements (one of greatest responsibilities)
- Diversify risk (emerging goal, compliments earning profit)
- Fulfill their duty to society (promote well being of society)

What are the internal constraints of achieving insurer goals?

- Efficiency (rapid pace of technology makes it hard to keep up)
- Expertise
- Size (small companies can adapt quicker, large companies have more resources)
- Financial resources
- Other internal constraints (lack of name or brand recognition, damaged reputation)

What are the external constraints of achieving insurer goals?

- Regulation
- Rating Agencies
- Public Opinion
- Competition
- Economic conditions
- Insurance marketing and distribution
- Other external constraints (natural or man-made catastrophes, disregard for law and order, legal changes)

How would you characterize the hard and soft underwriting cycles?

- Hard: high rates and low competition
- Soft: low rates and high competition

What are the different ways to measure the performance of an insurer?

- Meeting profitability goals
- Meeting customer needs
- Meeting legal requirements
- Meeting social responsibilities

**What are the different metrics for measuring
profitability goals?**

- Premiums and investment income
- Underwriting performance
- Overall operating performance
- Estimation of loss reserves

**How do you analyze premium growth in
measuring profitability goals?**

- Premium growth not always indicator of success (lax underwriting standards, premiums too low)
- Rate of premium growth over time is a good measure, should not be too high or too low

Define net underwriting gain/(loss)?

Net Underwriting Gain/(Loss) = Earned Premium - Incurred Losses & LAE -
Underwriting Expenses