

# 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)

Insurance	Operations:	Ch.	1.	Overview	of	Insurance	Operation	ons
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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

Insurance Operations: Ch. 1, Overview of Insurance Operations

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

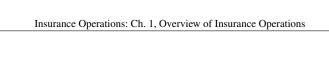
# What are the different metrics for measuring profitability goals?

- 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