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1. MEANING AND FUNDAMENTAL OF UNDERWRITING

Insurance company assumes billions of dollars in financial risk annually, risk that is transferred to them from individuals or businesses via insurance transaction. For an insurance company the overall profitability depends significantly upon the quality of underwriting. Insurance underwriter using various underwriting tools and process are employed by insurers to asses both their new and existing business.

1.1. Underwriting Basics

Introduction

Underwriting refers to the process that a large financial service provider (bank, insurer, investment house) uses to assess the eligibility of a customer to receive their products (equity capital, insurance, mortgage, or credit). The name derives from the Lloyd's of London insurance market. Financial bankers, who would accept some of the risk on a given venture (historically a sea voyage with associated risks of shipwreck) in exchange for a premium, would literally write their names under the risk information that was written on a Lloyd's slip created for this purpose.

Insurance underwriting is defined as the process of choosing who and what the insurance company decides to insure. This is based on a risk assessment. It is pretty much the "behind the scenes" work in an insurance company where they determine who is insured and how much in insurance premiums they will charge the insured person. Insurance underwriting also involves choosing who the insurance company will not insure.

Underwriting can also be defined as a financial professional that evaluates the risks of insuring a particular person or asset and uses that information to set premium pricing for insurance policies. Insurance underwriters are employed by insurance companies to help price life insurance, health insurance, property/casualty insurance and homeowners insurance, among others. Underwriters use computer programs and actuarial data to determine the likelihood and magnitude of a payout over the life of the policy. Higher- risk individuals and assets will have to pay more in premiums to receive the same level of protection as a (perceived) lower-risk person or asset.

Underwriting is the function of evaluating the subject of insurance, whether a person, property, profession, business, or other entity, and determining whether to insure it. The underwriter must apply company standards to each applicant, and, based on these standards, ascertain whether the application represents an acceptable risk. Underwriting is the foundation of the insurance transaction process.

The term underwriter arose out of marine insurance. In the 17th Century, merchants who were willing to take on a portion of the risk for voyages would list the amount of the voyage they were willing to insure and sign their names underneath a contract that detailed the terms of the risk. These merchants became known as underwriters because they wrote their names under the contract terms. Since that time, the insurance business has evolved and policies are no longer underwritten by individuals who insure risks, but the term underwriter continues to be applied to those who review and select risks to insure.

A financial professional that evaluates the risks of insuring a particular person or asset and uses that information to set premium pricing for insurance policies Insurance underwriters are employed by insurance companies to help price life insurance, health insurance, property/casualty insurance and home owners insurance, among others. Underwriters use computer programs and actuarial data to determine the likelihood and magnitude of a payout over the life of the policy. Higher-risk individuals and assets will have to pay more in premiums to receive the same level of protection as a (perceived) lower-risk person or asset.

There are multiple purposes of underwriting. The main predominant purpose is to develop and maintain profitable book of businesses for the insurer. Underwriting is crucial for insurer‘s success. Underwriting goal follow directly from insurer‘s corporate strategies and objectives. Underwriting is common in all forms of insurance, not just health insurance. For example, an automobile insurer will charge higher rates to young, unmarried males, or it may refuse coverage to drivers with a history of accidents. Fire insurers may inspect properties, offer reduced premiums for safety features such as sprinkler systems, and so on.

Two key considerations govern an insurer‘s behavior:

- ✓ People are more likely to buy insurance if they have reason to believe they will incur high costs in near future. This phenomenon is known as adverse selection. Non group health insurers must be aware that people may wait until they are sick before they start shopping for coverage.
- ✓ A small proportion of the insured population accounts for a very large share of total claims costs.

Basically, underwriting consists of two components; risk assessment and pricing. Successful underwriting requires a system of risk selection to obtain a group in which loss results will be reasonably predictable by means of the law of averages. To accomplish this goal there must be a balance between obtaining volume and obtaining homogeneous risks. If an insurance company issuing individual life policies, for instance, adopted such strict standards that it would only accept individuals who were practically perfect physically, ideal from a moral standpoint, and in risk-free occupations, there would be only a very small group from which to choose. Such a group would be very homogeneous, with all the risk units--in this case the individual lives--subject to about the same chance of loss. But the mass or volume of risk units would be very small, and thus the predictability of loss might be adversely affected. Another element entering in to make selection of such a group impractical would be that selection procedures necessary to obtain this near-perfect set of individuals. The expense involved would more than offset the savings from the mortality rate of the group. In underwriting, selection expense is a factor to be considered. There has to be a balance between the strictness of selection standards and the necessity of having a large volume of risk units to be insured.

To achieve profitability, the underwriting function serves additional purposes

- ✓ Guarding against adverse selection
- ✓ Ensuring adequate policy holder
- ✓ Enforcing underwriting guidelines

The objective of underwriting is to produce a pool of insured's, by categories, whose actual loss experience will closely approximate the expected loss experience of a given hypothetical pool of insured's. That is, if an underwriter is told that a pool of exposures with specified characteristics (e.g., a pool of brick buildings located no more than 5 miles from a fire station) will produce a specified loss rate of, say, 1% of the value of the insured property, then the underwriter should try to place in this pool all the exposures whose characteristics match the specifications.

Underwriting Factors

The factors used during the underwriting process vary somewhat based upon the type of insurance being underwritten. If people are being insured, such as under life, health and disability insurance, key factors used in the underwriting process may include

- ✓ Age
- ✓ Sex
- ✓ Health and health history
- ✓ Occupation and occupation history
- ✓ Financial condition
- ✓ Personal habits such as smoking or drinking alcohol
- ✓ Size of the policy
- ✓ Current insurance in force

If property is insured, as in homeowners, automobile, and commercial property insurance, underwriters may review factors such as

- ✓ Type of the property
- ✓ Value of the property
- ✓ Condition of the property
- ✓ Construction materials used in the property
- ✓ Potential hazards surrounding or within the property
- ✓ Age of the property
- ✓ Use of the property
- ✓ Security measures and other loss control measures associated with the property
- ✓ Upkeep of the property
- ✓ Location of the property
- ✓ Current insurance in force on the property
- ✓ Prior losses associated with the property

If a business or business operations are being underwritten under insurance such as general liability and professional liability insurance, factors that underwriters will weigh include

- ✓ Type of business
- ✓ Size of business
- ✓ Financial condition of the business
- ✓ Financial condition of owners
- ✓ Business cycles affecting the business
- ✓ Liability exposures

- ✓ Experience of key employees and owners
- ✓ Past losses experienced by the business

Underwriting Functions

Underwriting involves examining application forms, supporting documents such as appraisals or bills that verify the value of property, or medical reports that verify the health condition of an individual, looking at insurance maps that provide information relevant to the statistical possibility of certain types of loss, reviewing statistical data applicable to the risk to be insured, reviewing company records regarding the application and evaluating site inspection reports. Upon a thorough examination of all the data, underwriters then assign rates to the application, or decline to issue a policy if it does not meet underwriting standards. During the entire process, the underwriting department frequently communicates with agents, inspectors, adjusters and other field personnel.

Types of Underwriters

An insurance company may issue policies for many different types of insurance. However, most underwriters perform their responsibilities as specialists. An underwriter may underwrite just property policies, just casualty policies, just personal property policies, just professional liability policies, and so on.

Property and Casualty Underwriters - Within the property and casualty field, underwriters often specialize in a particular type of property or casualty coverage. Within this field there may be fire underwriters, homeowners underwriters, automobile insurance underwriters, inland marine underwriters, commercial property underwriters, personal property underwriters, commercial general liability underwriters, professional liability underwriters and Workers Compensation underwriters, for example. These underwriters, whether they perform underwriting tasks for one line of insurance or for many lines, must understand the risks involved with each line of insurance for which they underwrite and the available and practical methods of dealing with these risks. They must also be able to gather and understand the various resources used to evaluate each application and determine whether the applicant meets company underwriting standards. Such resources may include site inspection reports, business or personal financial statements and reports, and if a business is being insured, statistical reports generated by the industry in which the business falls, as well as statistical reports from the property and casualty insurance industry that are applicable to the risk.

Personal Line and Commercial Lines - A further distinction among property and casualty underwriters is whether they underwriter personal lines or commercial lines. Although both individuals and businesses need property and liability coverage, the insurance needs of an individual are very different from the needs of a business. In addition, there are many, many types of businesses and therefore many different sorts of risks associated with these varying business types. Therefore, within the commercial lines area, there may be many specialized underwriting functions.

If an underwriter works with commercial lines applicants, the underwriter is generally familiar with risk management principles and methods as they apply to the type of business being insured. Such underwriters also are knowledgeable regarding the type and scope of risks associated with various business occupancies. They understand that the risks related to running a supermarket are different from those that exist when operating a manufacturing plant. Depending on the insurer, a commercial property and casualty underwriter may even specialize in underwriting specific types of businesses. For example, if an insurer markets to those needing boilers and machinery insurance and also to those with extensive data processing facilities, one set of underwriters may work with the boilers and machinery applicants and another set work with those with data processing protection needs.

If a property and casualty underwriter works with personal lines applicants, the underwriter will have a deep understanding of the specific risks facing individuals, such as homeowners or drivers. A homeowner insurance underwriter will understand differences in home construction materials, the safety impact of various security systems, and other factors that determine the rates and insurability of a homeowners applicant. A personal automobile insurance underwriter will be an expert in understanding the various safety features in all makes of cars, what types of drivers are statistically found to be safe drivers, and so on. An underwriter working with highly valuable personal property owned by an individual will be familiar with appraisal reports and appropriate security measures that should be taken to protect the property.

Life and Health Underwriters - Another area of specialty for underwriters is life and health insurance. A life and health insurance underwriter is familiar with things such as the impact of medical history and other health issues on insurability. The health or life underwriter is able to read and understand medical reports such as the attending physician statement and data gathered from the Medical Information Bureau. Due to the extensive regulatory environment surrounding health insurance, health insurance underwriters are also very familiar with state and federal regulations regarding health coverage.

Liability Underwriters - Liability insurance underwriters must be familiar with the liability risks found inherently in commercial businesses, professionals or individuals. They must also be able to evaluate past losses, judgments and settlements in terms of the likelihood of reoccurrence in order to determine relative future risk. They must also be familiar with current trends in court judgments and with liability laws in order to property evaluate high-risk applicants.

Group Underwriters - Many types of insurance are written on a group basis, and health insurance is often written in this manner. Group insurance is handled somewhat differently than individual policies for underwriting purposes. Generally in life and health insurance group programs, a rate is established that applies to the entire group to be insured. This rate is established by analyzing the characteristics of the group as a whole, as well as individuals within the group. This rate is generally reviewed and revised on an annual basis.

Under some types of group underwriting, individual rates are assigned to individuals within the group, but a discounted rate is applied because the individual is part of the group, so the insurer's marketing costs are reduced on a per coverage basis. A group offering automobile coverage to its members may have rates assigned in this way.

Some forms of group insurance, especially when offered as part of an employer's benefit package, are subject to special federal and state regulations. Because group underwriting differs in operations and regulation from individual underwriting, an insurer may use specialized underwriters for group insurance.

1.2. Underwriting Policy

When evaluating applicants, underwriters determine whether insurance on the applicant will be ·

- ✓ Rejected;
- ✓ Issued On A Substandard Basis;
- ✓ Issued On A Standard Basis; Or
- ✓ Issued On A Preferred Basis.

Rejecting Applicants: Insurers reject applications for insurance when they find that the applicant represents a risk that falls outside of the underwriting standards established by the insurance company. These underwriting standards take into consideration many items, such as regulations that require the insurer to establish adequate rates, laws that mandate that certain factors cannot be used to reject an application, insurance principles such as insurability and indemnity, the marketplace in which the insurer sells its products and the profit the insurer hopes to make on its business.

Issuing Policies on a Substandard Basis: The decision to issue a policy on a substandard basis occurs when a risk is not deemed to be outside underwriting standards, but is considered to be of high risk within those standards.
The insurer generally has three basic options when it offers a substandard policy issue to an Applicant. It may:

- ✓ issue the policy with a higher premium than would be required for a standard policy
- ✓ issue the policy with limited benefits
- ✓ issue the policy with certain exclusions

Higher Premium: The insurer may charge a higher premium to applicants deemed to be of higher risk than those who would be considered a standard risk as long as those higher rates fall within certain Parameters. First, if the insurance policy is one that requires that rates be filed with the state in which the policy is issued, the rate must be approved by the state. Secondly, the rate may not be discriminatory. The insurer must charge every insured with the same characteristics the same rate. Thirdly, in some states higher premium may not be charged based on certain items as defined in state statutes. The insurer must of course comply with such statutes in determining whether to charge higher premium rates.

Limit Policy Benefits: Insurers may also respond to substandard applicants by offering a policy with limited policy Insurers may also respond to substandard applicants by offering a policy with limited policy benefits. Again, whether the insurer may limit benefits is regulated by state law. For example, under long-term care policies, some states require that policies offer a minimum home health care benefit limit as a certain ratio of the nursing home benefit limit. Therefore, a long-term care insurer could not limit the home health benefit on a policy in a manner that would not comply with such a law. Assuming state regulations are followed, an insurer could offer lower policy limits on certain coverage to a substandard applicant, or could offer lower policy limits for all coverage to such an applicant. Dealing with substandard applicants by limiting policy benefits is most common in commercial coverage's.

Excluding Certain Provisions from Coverage: Another option an insurer may have is to offer an substandard applicant a policy that excludes coverage for certain property, insured's or operations that are deemed too high a risk for the insurer to cover. As with the other options discussed, such exclusions must be allowable under state regulations. This type of exclusion is most common in commercial property and liability coverage's. For example, an insurer may cover all the property owned by a business, except that within a building whose operations have been discontinued. Or, an insurer may offer to provide liability coverage for all business operations except for that portion that has potential pollution liability that is too high for the insurer to cover.

Issuing Policies on a Standard Basis: Underwriters base their determination that a policy should be issued on a standard basis on an analysis of the characteristics of the risk represented by the applicant. Applicants who are issued policies with standard rates fall within the normal boundaries of underwriting standards for that type of policy.

Issuing Policies on a Preferred Basis: If an application falls within the lowest risk boundaries of the underwriting standards, the policy are issued on a preferred basis, preferred rates represent the lowest rates offered by an insurer for its coverage. Rates offered on a preferred basis must adhere to the insurance regulations applicable to them, just as rates offered on a substandard and standard basis must. Insurance regulators do not want insurers to offer rates that are so low that the insurer cannot meet its contractual obligations to pay covered claims.

Monitoring Underwriting Decisions

Once a policy is issued, underwriters continue to monitor the policy from an underwriting perspective. Such monitoring is done at policy renewal, commonly every six or twelve months, and as claims occurs. Depending upon the type of policy and its provisions regarding rate increases, rates may be increased at renewal, or the insurer may make the decision not to renew the policy. Changes in rates or the decision to non-renew are only made if allowed by policy provisions and applicable regulation. Decisions to modify rates may be based on the actual claims experience over the last policy period for a specific insured, as may occur with Workers Compensation insurance and various commercial property policies, or may be based on a rate change for an entire class of policyholders or category of insurance. State regulations often limit factors that may be used to increase rates. For example, a state may not allow an increase in automobile rates until three claims have been paid under the policy. The decision for non-renewal, if allowed by regulation and policy terms, is typically done only if the insured has excessive claims or the insurer has decided to discontinue offering the type of insurance the policy represents.

The agent also has a role in the monitoring of underwriting decisions. The agent should meet with each client on an annual basis to review coverage and ensure all information on file with the insurer is accurate and up-to-date. This review of coverage also serves the purpose of making sure the client's insurance needs are properly met. Contact between the agent and client outside of the annual review may also result in the receipt by the agent of updated policy information. Updating policy information is an important part of the ongoing underwriting process. The agent must promptly and accurately submit such information to the insurer's home office.

Formulating Underwriting Policy

Staff underwriters try to formulate an underwriting policy that effectively translates the goals of an insurer's owners and management into rules and procedures that guide individual and aggregate underwriting decisions. Underwriting policy determines the composition of the insurer's book of business. Goals for an insurer's book of business might be established by types of insurance and classes of business to be written; territories to be developed; or forms, insurance rates, and rating plans to be used.

An insurer's underwriting policy is influenced by management's desired position in the insurance marketplace. Most insurers see their role as standard insurers-that is, they seek better-than-average accounts. Some insurers, however, see an opportunity to offer coverage in areas that are underserved by the standard market. These nonstandard or specialty insurers might use loss control, more restrictive coverage forms, or higher prices to make a profit insuring accounts considered marginal or unacceptable in the standard market. Underwriting policy is always being reviewed and it is subject to these limitations:

- ✓ Financial capacity
- ✓ Regulation
- ✓ Personnel and physical resources
- ✓ Reinsurance

Terms at Policy Issue: Besides setting specified rates, the applicant may be required to meet underwriting requirements in order for insurance to be issued or remain in force. For example, a business may be required to install a sprinkler system, a homeowner may be required to add railing to a deck, and an individual with a valuable coin collection may be required to place it in a safety deposit box in order for the insurance to apply.

1.3. The Underwriting Process

The underwriting guidelines differ for each insurance company, but the process is essentially the same for each of them. The steps for the underwriting process are outlined below.

Collect Information

Information collection is the first step of the underwriting process. The underwriter requires knowledge of several key pieces of information in order to properly evaluate the potential client. This information will vary depending on the type of insurance policy for which the client is applying.

For example, when an individual is applying for automobile insurance, the underwriter will collect information such as the VIN numbers for the cars being insured, Motor Vehicle Reports for the potential client, loss histories from the potential client’s previous insurance company and any other information that may apply.

Analyze Information

After the required information is gathered, the underwriter begins the process of analyzing each piece of information. He or she follows the specific underwriting guidelines that the insurance company sets forth. These guidelines are used to evaluate all information that is gathered.

There are different levels of authority among underwriters. If the underwriter determines after her analysis that a decision needs to be made by an underwriter who has more authority, the information will be passed onto that particular underwriter.

The purpose of analyzing the gathered information is to predict the amount of risk a potential client will pose for the insurance company. Using the auto insurance example above, a client who has a clean driving record and good credit is generally preferable to someone who has had several driving infractions or automobile accidents.

Identify Options

After the information has been analyzed, the underwriter works to identify the options available for potential clients. These options are related to the type of risk class to which potential clients are assigned. The options are as follows:

- ✓ Approve the issuing of a policy by accepting the insurance application.
- ✓ Deny the request for coverage.
- ✓ Accept the application but attach conditions for coverage.

If the underwriter approves the application, it will be forwarded to the applicable policy processing department for completion. If the application is denied, a rejection letter will be issued to the agent and client. If modifications need to be made, the application will be sent back to the insurance agent who will review it with the potential client.

Factors That Can Prolong the Process

The time it takes for an underwriting to be completed can vary widely depending on a number of factors. For cases with few requirements, the entire process may take as little as a day or two. For more complicated cases, the process can take much longer.

One of the factors that prolongs the underwriting process the most is trouble verifying the information provided by the applicant. Applicants can avoid this by providing as much information and documentation as possible. Because the underwriter will not have to spend time looking for this information, the process can be sped up considerably.

Underwriting is vital for providing the insurance company a way to access the risks of potential clients. This process protects the company from taking on clients who are prone to a large amount of incidents for which the insurance company will be responsible for covering. Underwriting ultimately benefits both the insurance company and the clients it insures by keeping premiums at a minimum and lowering the risk of loss.

1.4. Sources of Underwriting Information

Many resources are used during the underwriting process. The most important of these resources is the application. In this section, we will review the basic components of applications for various lines of insurance, along with the other resources used in underwriting, including reports, site inspections, insurance maps, insurance company files and industry statistical reports and data.

Insurance Applications: The insurance application is a critical underwriting resource. From it, the underwriter finds most of the basic information needed to determine whether to issue a policy, and if so, at what premium and terms.

Life Insurance Applications: Each life application generally requires the following type of information:

- ✓ Applicant and insured name, address and other general information
- ✓ Medical information
- ✓ Agent‘s statement
- ✓ Selection of riders or optional features
- ✓ Signatures

General Information: The general information section of life insurance applications generally asks for the name, address, birth date, social security number and gender of the insured and owner. The relationship of the owner to the insured is also needed. The name or names of beneficiaries is also requested, along with the percentage for each beneficiary or other beneficiary designation, and the relationship of each beneficiary to the owner. Some applications also require the beneficiary‘s social security number. This is to aid the insurer in identifying the proper beneficiary, if necessary.

Medical Information: Medical questions include asking whether tobacco or nicotine products have been used, and if the insured had been diagnosed, treated or hospitalized for:

- ✓ Cancer;
- ✓ Heart attack;
- ✓ Stroke;
- ✓ Diabetes;
- ✓ Kidney disorders;
- ✓ Alzheimer‘s disease;
- ✓ Liver disorder;
- ✓ Organ transplant;
- ✓ Alcohol or drug use treatments;
- ✓ AIDS or HIV;
- ✓ Irregular heart beat;
- ✓ High blood pressure;
- ✓ fainting spells;
- ✓ Emphysema or other chronic lung or respiratory disorder;
- ✓ Inability to work for more than a week in the past six months or year; and other similar questions.

If there is a —"yes" response to the medical questions asked, the application will generally ask for more details. Once the application reaches the home office, medical reports or an attending physician statement may also be requested. Or, the insurer may have issued underwriting guidelines to the agent, who requests such reports through his or her agency office. These reports will be discussed later in this chapter.

Replacement: Each application also asks whether this proposed insurance will replace or change any existing or pending insurance. If the applicant answers ―yes to this question, the agent may be required by state regulations to complete state replacement forms with the applicant. State replacement forms generally include comparative information for the applicant to read regarding the proposed insurance and the policy to be replaced. They may also include disclosure statements for the applicant to sign indicating that the applicant understands that there may be surrender charge involved in canceling the existing policy, that the new policy generally includes commission loads and that a new surrender charge period may apply to the new policy. An insurance company required ―1035 Exchange or ―Absolute Assignment form must also be completed in a replacement situation.

1.5. Classes of Business

Refers to an industry classification according to the perils insured and the exposure the purpose is to group homogeneous risk for the purposes of rate development Insurance coverage is available for every conceivable risk your business might face. Cost and amount of coverage of policies vary among insurers. You should discuss your specific business risks and the types of insurance available with your insurance agent or broker. Your agency can advise you on the exact types of insurance you should consider purchasing.

General Liability Insurance: A standard insurance policy issued to business organizations to protect them against liability claims for bodily injury (BI) and property damage (PD) arising out of premises, operations, products, and completed operations; and advertising and personal injury (PI) liability. The CGL policy was introduced in 1986 and replaced the "comprehensive" general liability policy.

General liability insurance (GL) is coverage that can protect you from a variety of claims including bodily injury, property damage, personal injury and others that can arise from your business operations. General liability insurance is often combined with property insurance in a Business Owners Policy (BOP), but general liability insurance also is available to many contractors as standalone coverage through the Progressive Commercial Advantage SM program.

Business owners purchase general liability insurance to cover legal hassles due to accident, injuries and claims of negligence. These policies protect against payments as the result of bodily injury, property damage, medical expenses, libel, slander, the cost of defending lawsuits, and settlement bonds or judgments required during an appeal procedure.

As a contractor or small business owner, one need some form of general liability insurance to safeguard your livelihood.
A single accident could result in a lawsuit that you might not be able to handle. A great way to protect against this type of situation is to make sure you carry enough general liability insurance. Some employers might also require you to carry a certain amount of general liability insurance before you can work for them.

Commercial General Liability Insurance protects small-business owners from claims of injury, property damage, and negligence related to their business activities. The indemnity provided by a liability insurance policy helps your business owner cover the costs associated with mounting a legal defense.

In addition, many small-business owners find that their clients require them to have General Liability Insurance (sometimes referred to Commercial General Liability, or CGL, insurance) before they'll sign a contract. This means that having the right coverage in place can make a significant difference in a business owner's ability to land clients and bring in revenue.

In simple terms, a Commercial General Liability Insurance policy protects your business by providing the financial resources necessary to keep it operational when unexpected events (such as a client injury that leads to a lawsuit) throw a wrench in your plans. Read on for the specific costs your CGL policy covers. A general liability insurance policy provides financial protection from the risks that any business owner, no matter how careful, might incur. A typical policy covers the following expenses:

The costs of defending or investigating a suit or claim against you, including court costs, witness fees, attorney's fees, and police report costs

Reasonable expenses incurred when the insurance company asks you to assist in your defense (e.g., income lost while spending a day in court)

Judgments or settlements resulting from covered suits, including interest required on the judgment and the injured party's medical expenses, if your defense is unsuccessful. The premium on a court-mandated bond connected with a liability suit

A general liability policy insurance policy covers you, of course, but it also covers many of the other people involved in your business:

- ✓ If you have a joint venture or partnership, all of your partners, members, and their spouses are protected if they are sued for something they do in an official capacity related to your business
- ✓ If your business is a corporation, your policy covers all of your business's executive officers, stockholders and directors while they are acting in their official capacities
- ✓ If you have subsidiaries, your policy's liability coverage extends to any subsidiary where you own at least 50 percent of the stock

Your policy protects your employees from claims that result from actions they take in their capacity as employees

If you have a written agreement to indemnify a person or organization, such as a vendor, that person or organization would be protected against liability claims for property damage or bodily injury as a result of selling or distributing your products

During the first 90 days after you acquire a new business, it is automatically covered by this policy. After that time frame, you would need to update your policy to continue this protection for the new part of your business

People legally associated with your business, including volunteers working under your direction, are covered for liabilities that result from the work they do for you, and for the use or maintenance of your property that is in their care

If you‘ve read this far, you deserve a pat on the back, or in this case, a free t- shirt. Click here and we‘ll send you one.

Specific Coverage Offered by General Liability Insurance

Bodily Injury: It may be difficult to imagine how your business could cause another person serious harm or even death. But it‘s good to know that if you are ever held responsible for someone else‘s sickness, injury, or disease, your general liability insurance policy would pay for:

- ✓ Medical care costs
- ✓ Loss of services
- ✓ Court-awarded compensation for deaths that result from an injury

Property Damage: Even if you‘re careful and take precautions, it‘s still possible that something your business does – or something it doesn't do – could damage another person‘s property. It‘s also possible that your actions might prevent the property‘s owner from being able to use it. In such cases, your business liability insurance coverage compensates for:

- ✓ Physical damage to the property, or
- ✓ Loss of use of the property

It is important to note that property damage liability coverage often does not cover damage caused to client property you are working on or have in your possession.

Products-Completed Operations: Commercial general liability insurance policies generally include liability protection for services or products completed by your company. So if something your company manufactures or a service your company provides causes an injury, your policy would pay for any resulting legal expenses, as well as damages up to your policy's limit.

Contractual Liability: Your commercial liability insurance coverage would cover liability you might take on when you enter into various contracts, such as:

- ✓ Easement-of-license agreements
- ✓ Building leases
- ✓ Elevator maintenance agreements
- ✓ Agreements to indemnify a municipality, if required by ordinance

Liquor Liability: If you do not manufacture, distribute, sell, serve, or furnish alcoholic beverages as a business, your general liability insurance policy will cover you if are held liable for a liquor-related accident. If you distribute alcoholic beverages occasionally, such as at a company picnic or office holiday party, you‘d also be covered - as long as you don't charge money for the alcohol.

Employee Injuries: It‘s important to know that if an employee should sue you over an injury on the job, your commercial general liability insurance policy would not cover the damages. For this type of coverage, you need a workers' compensation policy.

Fire, Explosion, or Lightning Damage: The property insurance portion of your general liability insurance covers damage you may cause to other people‘s property as a result of fire, lightning, or explosion, whether you own your business property or rent it. This coverage even applies to other areas in your building that may be damaged as a result of negligence on your part. Let‘s say a fire in your office on the building‘s second floor causes damage to another company‘s offices below. Your liability policy will pay for the damage to the downstairs office space.

Hired Auto and Non-owned Auto: Most businesses add an option to their general liability policy called hired auto and non- owned Auto insurance If you don‘t have any vehicles in your company‘s name, this option meets the Requirements of any contract that requires you to have commercial auto coverage.

This coverage also allows you to save money on at least part of the insurance that rental car companies recommend whenever you pick up their cars. When you rent the car in your company‘s name, this insurance applies to the liability part of the rental car contract. You‘ll still need to purchase damage insurance from the car rental agency if you want to be fully protected, however, as this option doesn‘t cover physical damage to the rented vehicle

Additionally, if you or an employee is driving a personally owned vehicle on company business, and you have an auto accident, non-owned auto coverage protects you should the company be sued. However, the policy will not cover a suit against you or your employee personally – that would be covered by a personal auto policy.

Legal Defense Expenses: Even if your company is not found liable for a claim, the process of mounting a defense is expensive without insurance. A business liability insurance policy will generally pay for:

The cost to defend or investigate a suit or claim against you, including court costs, witness fees, attorney's fees, and police report costs

If the insurance company asks you to assist in your defense against a claim, it will pay your reasonable expenses, such as the loss of your income for a day in court

It will pay the judgments or settlements resulting from covered suits, including interest required on the judgment and the injured party‘s medical expenses, if your defense is unsuccessful

When a court requires you to post a bond to ensure you can pay a potential judgment in a liability suit, this insurance will pay the premium for the bond.

Medical Payments: If a person should be injured, either directly by you or at your place of business, your commercial liability insurance coverage would pay for funeral and medical expenses incurred within a year of the accident. For example, if one of your clients slips and falls at your office and requires medical treatment, your policy would cover the cost of that treatment. Of course, policy limits apply.

Personal Injury: Personal injury is the part of the commercial general liability policy that protects you should someone claim that your business caused damage that isn't physical. In the following examples, most liability policies would protect you against any lawsuits related to:

- ✓ Publishing, in writing or verbally, false information that libels or slanders an organization or person
- ✓ Publishing material that violates someone's privacy rights
- ✓ Falsely detaining, arresting or imprisoning someone
- ✓ Maliciously prosecuting someone
- ✓ Evicting someone wrongfully

Advertising Injury: Should you ever be sued over something that happens while advertising your company's products or services, your business liability insurance protection will cover the claim. Advertising injuries can arise from:

- ✓ Publishing, verbally or in writing, false information that libels or slanders a person or organization
- ✓ Publishing material that violates an individual's privacy rights
- ✓ Copying another company's style of doing business, or advertising concepts
- ✓ Infringing on another business's title, copyright or slogan

General Liability Insurance & the Business Owner's Policy (BOP): For some business owners, general liability insurance can be simplified through an insurance package known as a business owner's policy, or BOP. In order to qualify for a BOP, which offers the kinds of insurance business owners most commonly need in one pre-packaged policy, a business must meet certain criteria.

Product Liability Insurance: Companies that manufacture, wholesale, distribute, and retail a product may be liable for its safety. Product liability insurance protects against financial loss as a result of a defect product that causes injury or bodily harm. The amount of insurance you should purchase depends on the products you sell or manufacture. A clothing store would have far less risk than a small appliance store, for example.

Product liability insurance protects the business from claims related to the manufacture or sale of products, food, medicines or other goods to the public. It covers the manufacturer's or seller's liability for losses or injuries to a buyer, user or bystander caused by a defect or malfunction of the product, and, in some instances, a defective design or a failure to warn. When it is part of a commercial general liability policy, the coverage is sometimes called products-completed operations insurance.

To understand the need for this coverage it is critical to understand the potential liability. There are generally three types of products "claims" a company may face:

Manufacturing or Production Flaws: A claim that some part of the production process created an unreasonably unsafe defect in the resulting product. Recent claims against Chinese manufacturers regarding the presence of dangerous chemicals in their products are an example of this type of claim.

Design Defect: A claim that the design of the product is inherently unsafe. The most memorable example is the series of Pinto car cases against Ford in the 1970's.

Defective Warnings or Instructions: The claim that the product was not properly labeled or had insufficient warnings for the consumer to understand the risk. The McDonald's "coffee case" is an example.

The damages awarded in these claims include medical costs, compensatory damages, economic damages, and, in some instances, attorneys' fees, costs and punitive damages. Product liability claims can and do put businesses out of business - just ask any of the officers from any asbestos manufacturer.

All too often, resellers, gray market commercial sellers, and retailers fail to secure this coverage. The logic is that, since they did not "manufacture" anything, the coverage is not necessary. However, manufacturers are not the only ones subject to product liability exposure, retailers and wholesalers are often brought into a lawsuit for alleged negligence by the consumer. Most states follow the "stream of commerce" model of liability. This means that if your company participated in placing the product into the "stream of commerce," it can be held liable for damages to the end user.

If your company provides any products to the consuming public, then your company needs product liability or completed-operations coverage. In most cases, some form of this coverage will be present in the standard commercial general liability or business owners' policy. You will need to confirm this with your insurance professional. You will want to have a clear understanding of what is covered (for example, some policies will cover economic damages, but not punitive or statutory damages).

Finally, the premiums on such policies are based upon the type of product, volume of sales, and the role of the insured in the process. Thus, underreporting the volume of sales may seem like a good way to lower premiums or the idea may be to insure only a part of the sales. Don't under report or try to insure less than the actual amount of sales. This is because they are usually substantial underinsurance penalties applied when the insured underinsures. On the other hand, you will want to make absolutely sure that your products are properly identified. For example, if you supply step stools, you do not want them categorized as ladders. Ladders will have a much higher premium because of the risk potential.

Professional Liability Insurance: Business owners providing services should consider having professional liability insurance (also known as errors and omissions insurance). This type of liability coverage protects your business against malpractice, errors, and negligence in provision of services to your customers. Depending on your profession, you may be required by your state government to carry such a policy. For example, physicians are required to purchase malpractice insurance as a condition of practicing in certain states.

Professional liability insurance protects your business assets from claims that may result from advice, expertise or professional services you provide. If your business engages in these activities, you could be at risk for being sued by a customer, client or other party who claims he or she lost money or was harmed in some way due to a negligent act, error or omission.

Professional liability insurance may take on different forms and names depending on the profession. For example, in reference to medical professions it is called malpractice insurance, while errors and omissions (E&O) insurance is used by consultants, brokers and lawyers.[1] Other professions that commonly purchase professional liability insurance include accounting and financial services, construction and maintenance (general contractors, plumbers, etc., many of whom are also surety bonded), and transport. Some charities and other nonprofits/NGOs are also professional-liability insured.

Any individual in a profession that provides advice, expertise, recommendations or a professional service to customers, clients or another party would benefit from professional liability insurance. Professionals are expected to have extensive knowledge or training in their area of expertise. Additionally, they are expected to perform the services for which they were hired, according to the standards of conduct in their profession. If they fail to use the degree of skill expected, they can be held legally responsible for any harm or financial loss that they cause to another person or business. Professional liability insurance protects you in cases of faulty service (errors) or failure to provide a service altogether (omission). This type of insurance coverage pays the cost of your defense and any damages awarded (up to policy limits). Insurance companies have developed many specialized policy forms that respond to the individual risks of particular professions and services. Professional liability insurance coverage is specialty coverage and is generally not included under homeowners insurance, in-home business policies or business owner’s policies.

The primary reason for professional liability coverage is that a typical general liability insurance policy will only respond to a bodily injury, property damage, personal injury or advertising injury claim. Other forms of insurance cover are employers, public and product liability. But various professional services and products can give rise to legal claims without causing any of the specific types of harm covered by such policies. Common claims that professional liability insurance covers are negligence, misrepresentation, violation of good faith and fair dealing, and inaccurate advice. Examples:

- ✓ If a software product fails to perform properly, it may not cause physical, personal, or advertising damages, therefore the general liability policy would not be triggered; it may, however, directly cause financial losses which could potentially be attributed to the software developer's misrepresentation of the product capabilities.

- ✓ If a custom-designed product fails without causing damage to person or property other than to the subject product itself, a product liability policy may cover consequential damages such as losses from business interruption, but will generally not cover the cost to redesign, repair or replace the failed product itself. Claims for these losses against the manufacturer may be covered by a professional liability policy.

Commercial Property Insurance: Property insurance covers everything related to the loss and damage of company property due to a wide-variety of events such as fire, smoke, wind and hail storms, civil disobedience and vandalism. The definition of "property" is broad, and includes lost income, business interruption, buildings, computers, company papers and money.

Property insurance policies come in two basic forms: (1) all-risk policies covering a wide-range of incidents and perils except those noted in the policy; (2) peril-specific policies that cover losses from only those perils listed in the policy. Examples of peril- specific policies include fire, flood, and crime and business interruption insurance. All-risk policies generally cover risks faced by the average small business, while peril-specific policies are usually purchased when there is high risk of peril in a certain area. Consult your insurance agent or broker about the type of business property insurance best suited for your small business.
Commercial property insurance helps businesses, including farms and ranches, pay to repair or replace buildings and other property damaged or destroyed because of fire, storm, or other things covered by your policy. It also pays to replace stolen or lost property. Business owners can buy commercial property insurance regardless of whether they own, rent, or lease a building.

If you rent or lease a building, consider tenant coverage that will insure your on-premises property, including machinery, furniture, and merchandise. A building owner‘s policy doesn‘t usually cover the contents of the building that belong to you. The cost of tenant coverage is usually less than building coverage because the policy only covers contents. You can buy a single policy to cover a business with more than one location, unless they have different functions and different risk profiles. This could be the case if your business has an administrative office and a separate factory. If your business has operations at multiple locations, ask your agent if you need separate policies.

There are three types of commercial property policies. The policies protect against different causes of damage, commonly called ―risks. these include fires, lightning storms, windstorms, or damage caused by vehicles and civil commotion.

Read your policy carefully. You may need to buy additional coverage or specialized policies -- such as flood, windstorm, or crime coverage -- to fully protect your business.

- ✓ **Basic form policies:** usually cover common risks.
- ✓ **Broad form policies:** usually cover the common risks in addition to water damage, structural collapse, sprinkler leakage, and damage caused by ice, sleet, or weight of snow.
- ✓ **Special form policies:** cover all types of risks except those the policy specifically excludes. Common exclusions include damages from flood, earth movement, war, terrorism, nuclear disaster, wear and tear, and insects and vermin.

Commercial property policies provide either replacement cost coverage; actual cash value coverage, or a combination of both.

- ✓ **Replacement cost coverage** will pay to rebuild or repair your property, based on current construction costs. Replacement cost is different from market value and doesn‘t include the value of your land.
- ✓ **Actual cash value coverage** will pay to rebuild or replace your property minus depreciation. Depreciation is a decrease in value due to wear and tear or age. If your business is destroyed and you only have actual cash value coverage, you may not be able to completely rebuild.

Following are some typical commercial property coverage:

- ✓ **Building occupied by the insured coverage:** insures a building that you regularly use but don't own. This coverage can be important if you lease or borrow a building.
- ✓ **Newly acquired or constructed buildings coverage:** insures a new building if you add it to your policy within a certain amount of time. If you don't tell your insurance company within the time period – usually 30 days – your policy won't cover the new building. Commercial property policies usually only cover buildings named in the policy.
- ✓ **Employees personal property coverage:** insures your employee's personal property if the property is on your premises. Generally, you must buy this coverage as an endorsement if you need more than a limited amount.
- ✓ **Off-premises property coverage covers:** your property located off site. Some policies might not cover off-premises property or may provide only limited coverage. You can usually buy an endorsement to cover off-premises property. If you can't buy an endorsement, you may have to buy a separate policy.
- ✓ **Business interruption coverage:** pays for the income you'd lose if your business is damaged and you can't perform your normal business operations.
- ✓ **Extra expense coverage:** pays any additional costs to return your business to normal after it's damaged.
- ✓ **Valuable papers coverage:** provides limited coverage for your business records and other valuable papers. You may be able to buy an endorsement to increase this coverage.
- ✓ **Ordinance or law coverage:** pays additional costs to repair or rebuild a facility to current building codes after it's damaged. Many policies provide limited ordinance coverage, but you can increase it with an endorsement.
- ✓ **Boiler and machinery coverage:** covers boilers, air conditioning units, compressors, steam cookers, electric water heaters, and similar machinery. Coverage is usually only for machinery listed in the policy and to any subsequent losses, such as when a boiler explosion or water heater leak causes damage to other property. You can usually buy this coverage as an endorsement or a separate policy.
- ✓ **Inland marine coverage:** insures goods in transit by land, air, or inland waterways. It also covers projects under construction and transportation and communications structures, such as bridges, tunnels, and communications towers.

Home-Based Business Insurance: Contrary to popular belief, homeowners' insurance policies do not generally cover home- based business losses. Depending on risks to your business, you may add riders to your homeowners' policy to cover normal business risks such as property damage. However, homeowners' policies only go so far in covering home-based businesses and you may need to purchase additional policies to cover other risks, such as general and professional liability.

There are three broad types of business insurance:

- ✓ Assets & revenue insurance
- ✓ People insurance
- ✓ Liability insurance

Assets & revenue insurance:

To protect your assets and your livelihood, you should consider these insurance types:

Compulsory Insurance: The following types of insurance are compulsory for all applicable businesses: Motor vehicles and fleets

It is compulsory to insure all company or business vehicles for third party injury liability. Many different types of policies are available, so make sure you understand the options before making a decision. There are four basic options:

- ✓ **Compulsory third party (injury):** This policy covers you for claims made against you for personal injuries and legal costs arising from the use of your car. You must obtain this insurance to register your car.
- ✓ **Third party property damage:** This policy covers your liability for damage to another person or to the property of others and your legal costs. It doesn't include repairs to your own car if you caused an accident.
- ✓ **Third party, fire and theft:** This policy covers you against the events covered above, as well as fire and theft. It also insures against damage caused if your car was stolen.
- ✓ **Comprehensive:** This policy covers you for all of the above plus damage caused to your own car by you in an accident. If you're buying a car on an installment basis, financiers will usually insist on this cover.

Other Insurance

The following types of insurance aren't compulsory, though it is recommended that you consider all options:

- ✓ **Building and contents:** This covers the building, contents and stock of your business against fire and other perils such as earthquake, lightning, storms, floods, impact, malicious damage and explosion.
- ✓ **Burglary:** Insures your business assets against burglary, and is most important for a retailer or business that has a property that is not always attended.
- ✓ **Business interruption or loss of profits:** Such Insurance covers you if your business is interrupted through damage to property by fire or other insured perils. Ensures your ongoing expenses are met and profit is maintained through a provision of cash flow.
- ✓ **Deterioration of stock:** This covers your business for the deterioration of chilled, refrigerated or frozen stock following the breakdown of the refrigerator or freezer they were kept in.
- ✓ **Electronic equipment:** This covers your electronic equipment for theft, destruction or damage.
- ✓ **Employee dishonesty:** This is Key Employee Insurance which covers losses resulting from employee theft or embezzlement.
- ✓ **Farm insurance:** This category Insurance plan is for farms covering things such as crops, livestock, buildings, and machinery.
- ✓ **Goods in transit:** Covers loss of, or damage to, the goods you buy, sell or use in your business when they are in transit by ship, air, post, rail or road.
- ✓ **Machinery breakdown:** This insurance protects your business when mechanical and electrical plant and machinery at the worksite break down.
- ✓ **Tax Audit:** This covers you for the cost of professional fees in the event of a tax audit or investigation into your business.
- ✓ **Property in transit:** Covers theft or damage of items you use for business purposes that travel with you, such as tools and equipment.

People Insurance: Insuring yourself and your employees in the event of a workplace accident or illness is essential for protecting your business against costly compensation claims. Consider the following workplace insurance obligations

Workers Compensation: You must provide accident and sickness insurance for your employees - workers compensation - through an approved insurer. Workers compensation is covered by separate state and territory legislation.

Personal accident and illness: If you are self employed you won't be covered by workers compensation, so it's recommended by law that you cover yourself for accident and sickness insurance through a private insurer. This policy will compensate you for loss of revenue while you or your employee(s) recover.

As a business owner, you may also wish to consider personal life insurance. There are several types of life insurance available. Some are investment-type funds where you contribute over a certain time and get back your investment plus interest earnings at the maturity date. Others are designed to cover things that could happen to you, such as:

- ✓ Income protection or disability insurance - covers part of your normal income if you are prevented from working through sickness or accident.
- ✓ Trauma insurance - provides a lump sum when you are diagnosed with one of several specified life threatening illnesses.
- ✓ Term life insurance or whole of life cover - provides your dependents with a lump sum if you die.
- ✓ Total and permanent disability insurance - provides a lump sum only if you are totally and permanently disabled before retirement.

Liability Insurance: There are many different types of insurance policies available, but liability insurance is one of the most popular because it costs much less than many other options. For example, in regard to auto insurance policies, liability insurance costs far less than full coverage. The reason for this is because full coverage insurance must pay for both your vehicle and any other vehicle involved in a collision, as well as property damage and medical expenses due to injuries to you or another party.

On the other hand, liability insurance is only responsible for the other party's losses. Your person and your property are unprotected, but liability insurance protects you from being held responsible for the other party's damages.

If you own a business, you may be liable for damages or injuries to another person or property. Though liability insurance is optional in most cases, it is strongly recommended for businesses in all industries as the likelihood of being sued for negligence is unpredictable and potentially very costly. Types of liability insurance you may need to consider include:

Public Liability: Public liability insurance protects you and your business against the financial risk of being found liable to a third party for death or injury, loss or damage of property or economic loss resulting from your negligence.

Professional Indemnity: Professional indemnity insurance protects advice-based businesses from legal action taken for losses incurred as a result of professional negligence. It provides indemnity cover if your client suffers a loss - material, financial or physical - directly attributed to negligent acts, errors or omissions.

Product Liability: If you sell, supply or deliver goods, even in the form of repair or service, you may need cover against claims of goods causing injury, death or damage. Product liability insurance covers you if any of these events happen to another business or person by the failure of your product or the product you are selling.

1.6. Product Design

Insurance product design is the process of creating a new and or enhancing an existing insurance product to be sold by an insurer/intermediary to its customers. An insurer should take into consideration among others the following aspects when designing an insurance product

- ✓ Setting a business case for new or enhanced product;
- ✓ Market testing and analysis;
- ✓ Cost/benefit analysis;
- ✓ Risk identification, assessment and mitigation;
- ✓ An implementation plan for the product, including milestones;
- ✓ Clearly defined and appropriate levels of delegation for approval of all material aspects of product design;
- ✓ Post-implementation review; and
- ✓ Methods for monitoring compliance with product design policies and procedures. One main issue in the liberalized scenario of the insurance sector is in the area of developing new products. Constant activity in this area is very important for determining the overall profitability, and growth of any insurance company. The main reason for the liberalization of the insurance sector is that it the public sector was not practical in the process of developing products that satisfied the needs of the customer.

Product development process is an important process for an insurance company. Developing insurance products include the following steps:

Customer requirement analysis: In the first step, the customer requirements are analysed. In this phase, the information on the amount to be insured, total income, client biometrics such as age and family size, current purchasing habits, and so on are analysed.

Business analysis: In the business analysis stage of product development, different departments of the insurance company have the following responsibilities.

- ✓ Marketing department has to perform the market analysis to know the customer needs, and make a forecast for sales.
- ✓ Underwriting department has to prepare the manuals.
- ✓ Customer service department assesses the procedural requirements of the new products.
- ✓ Actuarial department develops the specifications of the product, and the resulting impact on product portfolios.

- ✓ Accounting department reports the financial requirements of the new product.
- ✓ Information systems department checks whether the insurer has enough operating systems to accommodate the new product or not.
- ✓ Investment department along with the actuarial department determines the investment needs for the new product.

Prototype development: In this step, a prototype of the product is designed and testing is carried out.

Pricing the product: The pricing of the insurance products plays an important role in the design and development of the product The price of the product should include the risk premium that the insurance company needs for accepting the policy, and the cost for distributing and administering the product to the client. The policy price that is charged to the client includes the risk premium and the cost of the distributor.
Product release: This stage is called as the ‗technical design stage'. It involves creation of drafts for policy documents, commission structure, underwriting, forms and procedures and issue specifications. Before the product is released to the market the insurance companies have to take care of the following:

- ✓ Arrangement of training material.
- ✓ Designing promotional materials for the products.
- ✓ Releasing all the information that is needed to understand the product.
- ✓ Administration of the product after release.
- ✓ Complete policy filing, the process by which the organisation obtains all the regulatory approvals from all the applicable authorities that are needed to release the product.
- ✓ Educating and training the staff and the sales agents on administrative procedures and forms that are needed to sell administer and service the product.

The environment in which the insurer functions inspires its product development. This comprises of the legal framework which the insurance industry has to follow and social and economic factors. Any stage of product development has to be carried out in accordance with the customer's interest. Thus, since 1973, the Indian Insurance sector has directed the product development towards meeting this goal. In the last three decades, the General Insurance Company (GIC) together with its four subsidiaries has developed 150 new products, and has met its customer requirements. To control poverty and provide employment in the rural areas, the insurance sector developed the Integrated Rural Development Program (IRDP).

Business Challenges in Product Design: Across various economies and geographic regions, ―hard e insurance sector developed the Integrated Rural business imperatives for insurers and producers, especially in general insurance lines of business. Premium pricing strength erodes during soft market conditions, pushing carriers to seek more profitable niche growth through finer risk segmentation and tailored product and service offerings. To respond quickly to these dynamic market conditions, carriers must have the ability to either price-down in soft markets or price-up during hard cycles at the right risk levels. Most carrier's legacy platforms respond to pricing and underwriting change controls in 90–180 days on average — often missing starting and ending cycle rhythms. Policy renewals are particularly vulnerable during these cycles. Risk reevaluation and pricing periods typically are susceptible to competitive predators. Renewal pricing often is left either to inefficient manual processes as guesswork or to mass re-pricing applied across the board without insight into risk-ratio tolerances or customer loyalty.

Inability to Identify and Capitalize on New Product Opportunities with Risk Selection and Pricing Accuracy
Insurance carriers typically move across all or a subset of seven key business process management steps when responding to market cycle challenges. The steps, in sequence, are research, design, development, analysis, filing, maintenance and deployment. Not all product updates require carriers to move through the entire sequence of steps. For the situations that do use all seven steps, such as new product portfolio and branding, the bulk of the workload and duration lies within the ―design, develop and analyze steps, depending on the degree of product complexity for launch or modification. However, in North America, filing, along with regulatory and compliance, takes the most time because of the time required to work with all 50 states‗insurance commissioners. Whether products have to go through all seven steps or only a few of the steps, ultimately, carriers want several product development work streams and launches done simultaneously and issued to production on a specific date. Another issue brokers deal with is the need for instant risk evaluation, rating, pricing and product modification to close business quickly. This type of design capability is invaluable when a broker is negotiating underwriting details for a multimillion-dollar deal with a major customer, such as a global hotel chain in Europe or more than 1,000 commercial delivery vehicles across China. Real-time responsiveness and collaboration with a broker during these timely negotiation situations are priceless in winning against the competition.

Rigid, Existing Policy Administration Systems: Insurers struggle with the imperative to grow business with limited resources and budgets. Many insurers are hampered by inflexible legacy systems that stymie their efforts to grow, through 20- to 30-year-old technology platforms that hold critical data assets captive. It is not uncommon for an aged policy administration system to possess old, impossible-to-maintain, hard-coded information that holds carriers back. This often is known as the ―spaghetti code of policy systems. The legacy systems are difficult to maintain, change and teach to new IT staff. Carriers are looking for ways to use new, best-of-breed technology to make their systems more agile so they can support improved processes, including shortened PD&D configuration cycles. Gartner‗s Kimberly Harris- Ferrante says, ―Some insurers want to extend the life of their legacy systems and leverage past investments by modifying policy solutions. Using this approach, established systems are modified to comply with standards or to support new initiatives. Policy system modification projects might include using new technologies, such as Web services and XML, to expose trapped legacy data to that holds carriers back. This often is known as the ―spaghetti code of policy systems. The development has been preferred in the past; the trend has reversed during the past three to four years. Instead, insurers today have shifted to purchasing packages or maintaining their systems.

1.7. Underwriting of Life Insurance

Life Insurance Underwriting is the process of accepting the proposal of the customer based on the guidelines formulated by the insurance company. The insurance companies codify a set of procedures which must be followed before accepting any new business. When a new proposal comes to the insurance company its underwriting department scrutinizes the proposal whether or not it fulfills the criteria laid down by the company. If they find any lacunae they ask the agent to get it corrected. It is not that one can get whatever cover one wants. The issue of policy depends on income of the insured and whether he has the capacity to pay the premium over the years. Once the underwriters are satisfied that all the conditions have been fulfilled they go ahead to accept the premium and issue the policy. Underwriting can be defined as the decision making process during which the company decides whether to insure or not and if yes at what rate.

Life Insurance in Operation - From Proposal to Policy

Since life insurance is a financial contract, and a long-term contract and that a contract which may come to be executed when one of the parties to the contract may not exist and may be called up to a court of law in case of dispute in future, it is essential that all the terms and conditions of the contract must be clearly understood and put in writing legibly. Looking at the importance of the contract combined with the raised expectation of a benefit which is still in the womb of a promise, unstinted trust should be created in the mind of the insured so that he remains confident of its benefit and continues to perform his part of the duty during the continuance of the contract. The proposal form, as prescribed by the insurer for the type of insurance that the prospect has agreed to buy, must be appropriately selected. The proposer, must go through the proposal column by column, appreciate the meaning and importance of each information sought and fill it up legibly and completely. Hyphens and oblique, dittos and blanks should be avoided as they are likely to be misunderstood or can be misused. An incomplete proposal leads to further queries and in the process a lot of valuable time and effort is wasted. While different insurance companies will have different formats for the proposal from the points on which information is sought, are substantially the same.

Wherever medical report is required, the medical examiner is required to endorse the answers to the questions relating to personal history and personal health as stated in this form. If no medical report is required, the life proposed has to give additional information about his physical measurements as required. However, most insurers insist upon medical reports only in cases where either the sum assured is very high, or the life proposed is beyond certain age limit or the plan of insurance carries a lot of risk element. We shall discuss these points later on in this chapter. However it is sufficient to state here that a medical report has to be given by a company approved medical examiner. Medical examination has to be conducted at a well-equipped clinic. A lady life has to be examined by a lady doctor only. The medical examiner should not be related to the life proposed and the report should be submitted confidentially to the insurer who pays for the medical examination. However, if the prospect decides ultimately not to go ahead with the completion of the proposal, he bears the cost of the medical examination and the initial deposit is refunded less this cost. Every insurance company has its own policy as to the need for the medical report and therefore company rules must be consulted before taking the life proposed to the doctor. The insurer may also ask for special reports like X-ray, ECG, and Blood Sugar Test etc. after examining the proposal. There are also standard rules for obtaining these reports depending upon age at entry, sum under consideration or personal history of illness etc. These circumstances are provided in the company manual. The cost of these special reports is initially paid by the prospect but it is reimbursable by the insurer, after the proposal is completed. The rates of payment for these reports are fixed by the insurers in advance and these reports are confidential and are the property of the insurer irrespective of who ultimately pays for those reports.

Personal statement regarding health declaration: This statement is required at the time of revival of a policy either with or without a medical report depending upon the duration of policy-lapses and physical condition of the life assured. However if there is a delay in completing the proposal say 3 months to one year, the insurer may ask for a statement in the prescribed form.

Queries regarding occupation: This statement gives a complete picture regarding the extent of hazard, if the life to be assured is engaged in any hazardous occupation like electrical industry or mining or chemical industry etc. If a policy is to be taken under Married Women's Property Act 1874, to secure the policy money against all other claimants to the estate, prescribed forms are used depending upon the number of beneficiaries and trustees. For the revival of a children's policy, a separate health declaration is required. Special statements are required, if the proposal has to be financed by a HUF for the benefit of one of its members. If the insurance is to be taken on the life of a key functionary in a company - what is called Keyman's policy, a separate questionnaire is to be filled in by an authorized person of the company.

Selection of Plan and Term

The plan should be carefully selected taking into consideration the special need of the life to be insured. A plan well selected generates lot of goodwill for the company which means a lot more business, a lot more income. Term of course means the period of the plan after which it matures for payment. Here again the need of the proposer alone is to be considered. Term also determines the rate of commission to the agent, but this is of no consideration while canvassing insurance plan and term.

Objects of Insurance

Objects of insurance can be family provision or old age provision etc. Irrespective of what is stated here, the payment of claim money is decided by the nature of the plan of insurance purchased. There are plans specially designed to provide for the marriage of the female child, maintenance of a handicapped child, a child's insurance to give him the benefits of lower premium etc. Therefore the object stated must match the plan selected. An endowment plan benefits the family in case of early death of the insured, when the claim money is paid in a lump sum. In case of maturity also, the money is paid in lump sum. However, it is also possible to opt for installment payment of the lump sum money, in the shape of a pension if option is so exercised in good time, say one year in consideration while canvassing insurance plan and term is most flexible in the hands of the receiver, that the money may be mismanaged, poorly invested or spent foolishly. The Surviving beneficiaries of the family need a guaranteed income rather than cash. Of course it is possible to purchase an annuity policy with the cash amount available, even if no such advance arrangement has been made.

Sum Proposed: This is the amount insured and is paid as claim money either on death or maturity along with bonus or guaranteed addition etc. as per the conditions of the policy. As stated earlier, life insurance is not a contract of indemnity and therefore, the claim amount is not related to the financial status of the life assured. It is therefore, advised, while deciding the sum proposed, a proper estimate on lines of Human Life Value theory should be made. In case, the prospect finds it difficult to pay the required premium for a certain sum assured, who is proper, the agent can select a plan, which permits high sum assured with a low premium like a convertible whole life policy. Alternatively he may keep in continuous contact with the life insured to sell him additional insurance, whenever, his financial situation improves.
In any case, everybody needs a review of his insurance cover from time to time at least for two reasons - One - the income goes up along with the liability in course of time. Two-the continuous inflation in the market, reduces the money value of the insurance over time and therefore

additional insurance has to be purchased, at least every five years, to maintain the value of sum assured, at the original rate planned for.

For example, the sum assured of one lakh taken today may find it worth only if compared in terms of its purchasing power ten years from now. The problem is that as people pay more for goods and services and as their income and wages rise, they often do not increase the life insurance protection to compensate for the other changes. An agent would do well to appreciate this for continuous business.

Accident Benefit

This part refers to the double accident and permanent disability benefit and for this a small extra premium is charged. We will discuss this benefit a little later. But first let it be known that there is a normal provision for disability benefit allowed in all policies for free and the benefit relates to the waiving of all future premium after the total permanent Disability has been caused due to an accident as defined hereafter within stipulated period of the accident and provided the policy is in force. The Double Accident and Permanent Disability benefit has two parts - one relating to death due to accident and second permanent disability suffered due to such accident. The benefit payable on the death of the life assured is an additional sum equal to the sum assured, provided the

policy was in force at the time of accident and the bodily injury has been sustained directly due to an accident caused by an outward, violent and visible means and the death has been caused solely, directly and independent of all other intervening causes, within the stipulated period, due to the bodily injury. Thus the above definition of accident excludes self injury, attempted suicide, insanity, immorality or when the life assured is under the influence of any liquor, drug etc. The injury suffered by a person while flying in any capacity other than as a passenger without any duty on board is also excluded. So also injury caused during riots, civil commotion, war, mountaineering etc. or while the life assured is committing any breach of law or while in the employment of the armed forces or navigation.

As a general rule, whenever an extra premium is charged due to the hazardous nature of occupation this benefit is excluded, in case the death or disability occurs due to such occupation. So also life assured with physical impairment. The children, male or female are not granted such benefit. Normally an exclusion clause is inserted in the policy document in all such cases. The permanent disability benefit is the payment of a sum equal to the sum assured, in monthly installments spread over a period of years. However, if the policy becomes a claim either due to death or maturity, before the expiry of specified years, the balance installments are paid with the claim. The second benefit in case of permanent disability in the way of waiving the payment of future premium to the extent of a sum assured specified.

To be eligible for the aforesaid benefit the disability must be the consequence of an accident as defined above and must be total and permanent. In other words the disability must completely disable the life assured from following any occupation or profession in order to earn his livelihood. The insurer must be informed about the happening of this disability with such proof as required and the insurer has a right to examine the disabled person through a medical examiner. However any wrong payment on this count is recoverable by the insurer.

Mode of Payment of Premium

This is an important aspect of selling life insurance because the immediate sacrifice of cost burden to the policyholder can be regulated by selecting carefully the mode of installment payment. In the prospectus, the insurer prints only annual premiums and if the mode of payment is chosen yearly, a rebate in premium is allowed. In case the mode selected is half-yearly lesser rebate is allowed. Quarterly rate is exactly one fourth of the published annual rate. Monthly installments invite 5 % extra. The reason is the higher administrative cost to account for more frequent payments.

Many prospects may find it difficult to pay annual premium in one goes. Resistance to sale becomes less, if payment amount can be divided in a number of installments‘. However, there is a danger of forgetting such frequent payment causing policy to lapse. It is in the interest of the agent and of the policyholder to ensure that the policy does not lapse due to non-payment of premium.

Modes of payment like payment by bank on a scheduled date or loan from P.F. A/C is other alternatives. For those who are in secured jobs with reputed companies including government, payment of premium through salary savings scheme is possible. In such a case the insurer and the employer enter into an agreement whereby the employer agrees to deduct the premium from the salary of the insured employee who accordingly authorizes the employer for the deduction and the employer remits a consolidated amount with a demand note to the insurer. However this mode of premium payment is not free of its complications. The employer as a third party is involved in payment of premium and thereby keeping the policy in force. If for some reason which may be anything from non- payment of salary to negligence or misappropriation or financial problem of the employer the installment of premium does not reach the insurer and the claim arises there is a real problem leading to misery and litigation.

Declarations

At the end of the proposal, the proposer makes three declarations which make the answers in the proposal the basis of the insurance contract:

- ✓ The proposer guarantees as to the truthfulness of the information so far it is within his knowledge. Thus the foundation of the basic principle of utmost good faith is laid and the breach of it makes the contract void.
- ✓ The proposer authorizes the doctor to divulge all information known to him about the health and habit to the insurer whenever necessary. Thus a doctor giving such information to the insurer at any time, either at the time of proposal or at the time of claim, cannot be held guilty of divulging any confidential information.
- ✓ The third declaration relates to a period between the date of signing the proposal and acceptance of the risk by the insurer. This is a period during which the underwriter has not yet seen the proposal and has, therefore, not undertaken any risk. Any unfavorable incident during this period shall, therefore, materially affect the decision.

The proposal is to be signed in the presence of a witness because that is the legal requirement to enter into a contract. Normally agent should sign as a witness as that is the proper way. If the proposer has signed in a language other than the one in which the questions have been asked in the proposal form, he must declare that he has understood the questions and has answered in his own language. The person who has explained the questions must also endorse for having done so.

However, if the proposer is illiterate and puts his thumb impression, similar declaration is required both by the proposer and the person who has explained the questions. Under no circumstance, the agent should write the answers in the proposal form in his own hand. It is prohibited in the Agents Regulation, 2000. Section 41 of the Insurance Act states that offer or acceptance of any rebate other than what is permitted in the company prospectus is an offence. However we hope, this provision of law becomes really effective.

Whenever the proposer has to be medically examined by an authorized doctor, the doctor signs the proposal as a proof of having read the proposal form duly filled in. The life proposed signs to establish his identity. The proposal form duly filled in is the basis of contract and no amount of care taken to fill it up is too much. It is rightly compared with the rituals which a couple goes through at the time of marriage. An elaborate ritual is necessary to realize the importance of the relationship. Insurance, establishes a lifetime relationship.

1.8. Underwriting of General Insurance

For a general insurance company, underwriting business is the basic core activity. All other activities, in fact, emanate from this core activity only. Not much attention was being paid to this core activity in the nationalized set-up under tariff era. Underwriting was reduced to referring to the tariff. There was no application of mind. Any innovation was out of question. The customer has to tailor his needs according to the available products rather than it being other way. In an environment like this the underwriting skill and expertise development saw a decline. Then came the liberalization of insurance sector and gradual withdrawal of tariff with the ultimate aim of ushering in a fully tariff free regime. Suddenly underwriting became all important. The environment became very competitive. Profit and solvency concern forced insurance companies to Relook at their underwriting operation under IRDA regulation on ―File & Use system. This Meant amongst other, all insurance company must have - An underwriting policy duly approved by the board –

- ✓ The pricing has to be actuarially evaluated and if it is subsidized, this has to be spelt out.
- ✓ The concept of appointed actuary in general insurance company has come.
- ✓ Nominated underwriters & issues connected with that.
- ✓ Marketing & underwriting delinked.

Then there are regulations to protect policy holder's interests and certification of outstanding claims provisioning by Appointed Actuary. These regulations have their own bearing on underwriting and pricing, which cannot be ignored now. There is now talk of risk perception based effective underwriting. Risk management and related issues are increasingly becoming crucial and important which is the way it should always be.

Pursuit of premium for obvious reasons is the goal of all general insurance companies. But this premium underwritten must be quality premium and must generate profit. The excellence and the quality of underwriting will determine the long term survival of general insurance companies. This realization is now coming. Then there are whole lots of other issues (e.g. marketing, claims settlement, investment operation, etc.) which are dependent upon the underwriting operation of the company.

The underwriting issues therefore cannot be seen in isolation and there is a need to Re look at things in the present day context. Let‘s now examine what does underwriting entail, how is the underwriting philosophy /policy of a company is formulated and how this policy is monitored for effective implementation. But before that let us discuss the corporate goal of a general insurance company because policies in other areas of operation must fit in and help achieve the corporate goal.

In today‘s world most of the organizations have vision and mission statements. Insurance companies are no exception. These statements provide the broad frame work within which the corporate goals / objectives of the insurance companies are set. The corporate objectives provide the business direction for medium and long term goals. This involves understanding as to where the organization stands now, its core capabilities, strength and weakness and the environment (business, social and economic, regulatory / legal etc,) in which it operates. Bases on these understandings, the road map to achieve the goal is set. Corporate objectives cover whole range of the organizations activities including the underwriting goal. The underwriting policy of the company must therefore be capable of delivering the required results and accordingly must be subject to continue review for its effectiveness. Underwriting basically refers to the process of evaluating a proposal that comes for insurance. Based on the evaluation done a decision is to be taken as to the acceptance of proposal or otherwise If it is to be accepted, at what price and on what terms, conditions and coverage‘s. This process ends with the issue of policy documents. For a routine kind of simple proposal, the entire procedure is very simple. Generally insurance companies have internal guide rates and standard policy documents, for these routine risks which are typically High frequency, low severity risk and do not require much of an underwriting expertise & skill.

For simple risk, the evaluation is done through the information contained in the proposal form. For big and complex, industrial risk, the evaluation is done through risk inspection carried out by specialist trained engineers of the insurance company. Individual risk peculiarities will vary and the report of the risk engineer comprehensively examines the physical hazard aspects in relation to the perils covered. Depending upon the class of business, additional questions may be asked through a questionnaire. For medical insurance, medical checkup and diagnostic test may be insisted upon. Moral hazard aspects are difficult to assess. But for big corporate clients, it is worthwhile to examine their corporate governance, risk management philosophy, safety and investigation mechanism and above all the quality, skill and experience of manpower in handling and minimizing loss. All said, insurance companies are always exposed to adverse selection. whether it is proposal form, questionnaire or risk inspective, the idea is to get all relevant information for an informed underwriting. Insurance companies have to be on their guard for adverse selection and moral hazard aspect.

After having decided to accept the proposal after due evaluation, the next step is to decide about the pricing and this involves matching of risk to price (via experience and modeling) as also limiting of potential loss exposure through some mechanism. Insurance is an intangible product and pricing intangible product is difficult for it cannot be based on deterministic model traditionally used for tangible goods / products. The uncertainty about frequency and severity of claims makes the pricing task of insurance product very difficult. We have to make use of stochastic models which are based on theory of probability. Based on the past data (experience), these model help us in making prediction about the likely number of claims that are expected to be reported as also about the average claims size. The expected claims cost is worked out by multiplying the two. The claims cost must also take into account the provision for IBNR & IBNER claims.

Inflation must also be factored in pricing. For any policy issued today, the claims if it arises will be on some future date. Claims cost is the most dominant cost and most difficult to determine. The other costs are the management cost and cost of business acquisition which are to be factored in the pricing along with a reasonable margin of profit.

The pricing will also depend on **the terms, conditions, special warranties, scope of coverage,** etc. Higher deductible, reduced coverage, etc. would obviously attract lesser premium.

Pricing should also be sensitive to **the business, regulatory, economic and social environment.** Balancing has to be done to make the price competitive on the one hand and actuarially adequate (alignment of risk with price) i.e. economic price on the other hand. Reducing claim cost and other costs of operation is therefore such a big issue.

Price adequacy is a regulatory concern also. Modern day computers have enabled storage and analysis of huge volume of data. Since actuarial modeling is based on past claim data and simulation, the insurance company, must have a system of capturing good quality relevant data. Repetitive underwriting decision can then become a rule in the under writing manual or better still the system supported e-risk analysis and pricing There is no other way except leveraging IT.

After having fixed the price, the next issue is to examine the acceptance in relation to the underwriting capacity and also if so warranted how to increase this capacity and the cost of the some. Underwriting capacity refers to the maximum premium that an insurance company can go for against the specified level of capital because of regulatory requirements and also dictated by prudence therefore; generating volume of business is linked to underwriting capacity of the company which in turn is linked to the capital and free reserve of the company. This means that if you want to increase the underwriting capacity you have to bring more of capital and more of free reserve. The other option is to hire the capital through reinsurance arrangement. Depending upon the underwriting capacity, business plan, size and volatility of portfolio, etc, a decision is to be taken as to how much exposure to retain on a big single risk or on an aggregate exposure from a group of risk. This retention is kept on companies own account and the balance is reinsured through a well thought out comprehensive reinsurance programmed. Reinsurance incidentally narrows down the range of variability of the insurers result. The capacity of underwriting being limited, profit has to be generated from this limited volume of business. The skill and judgment of underwriter therefore becomes very important to make use of the available capacity to maximize profit. The other underwriting objective could be

- ✓ Leadership of a selective business class e.g. health insurance
- ✓ Underwriting profitability
- ✓ Brand leader
- ✓ Company of choice for businessman / common man
- ✓ Aggressive underwriting for volume
- ✓ Developing balanced portfolio by spreading the risk geographically and class wise

There is therefore a need to have an underwriting policy which should define the underwriting objective of the company, the underwriting structure and authority approach to key underwriting issues, portfolio goals (volume and mix), marketing strategy, R & D, response time for proposal acceptance, etc. This involves a proper understanding of organizational strengths and weakness, the challenges ahead, the changing business and regulatory environment, etc. The strategy to overcome the weakness and the preparedness to meet the future challenges should form part of the underwriting policy. The underwriting capacity and reinsurance support arranged should be factored while formulating underwriting policy. The training of underwriting people is also an area which is to be addressed through this policy. As part of this policy underwriting manuals and guide rates should be developed to provide underwriting direction and decision. The underwriting authority should be clearly defined. The underwriting goal and the road map to achieve the same should be clear to one and all in the organization. The underwriting policy helps in translating goals into strategies which in turn will be reflected in the business that the underwriter accepts.

The underwriting challenges that the insurance company will face in near future may include

- ✓ Terrorism cover
- ✓ Environmental and pollution issues
- ✓ High tech/ high value project
- ✓ Coverage's for intellectual property right
- ✓ Cyber security / liability
- ✓ Insurance as a comprehensive solution under one umbrella
- ✓ Credit risk
- ✓ Performance guarantee
- ✓ Contingent business interruption

Long term insurance cover e.g. latent defect insurance (high rise building) Insurers have to make use of the advances being made in science and technology to better analyze the risk and have better pricing capability. For example in health sector the advances made in genetics and the ability to make prediction about disease based on genetic testing can be a powerful tool for life and health insurance underwriting.

The company which will first develop the underwriting capability of future generation risk will be the company that will rule. R & D, innovation and futuristic view of things are important. Insurance companies should understand and realize, if they are not able to meet the new demands of market, some non-insurance player may step in. Globalization and its impact on insurance, liberalization of insurance sector, the proposed changes in Insurance Act of 1938, intensified competition, electronic commerce, emergence of new risk, local factors affecting the insurance market, the financial meltdown and recession, etc. are the factors which will deeply affect the insurance business and will bring challenges of new kind before the underwriting community. Are we prepared to face the new challenges? The insurance companies must gear themselves to be the true underwriter of the future risk.

1.9. Mortgage Underwriting

Mortgage underwriting is the process a lender uses to determine if the risk (especially the risk that the borrower will default) of offering a mortgage loan to a particular borrower is acceptable. Most of the risks and terms that underwriters consider fall under the three C's of underwriting: credit, capacity and collateral.

To help the underwriter assess the quality of the loan, banks and lenders create guidelines and even computer models that analyze the various aspects of the mortgage and provide recommendations regarding the risks involved. However, it is always up to the underwriter to make the final decision on whether to approve or decline a loan. Critics have suggested that the complexity inherent in mortgage securitization can limit investors' ability to monitor risk, and that competitive mortgage securitization markets with multiple securitizers may be particularly prone to sharp declines in underwriting standards as lenders reach for revenue and market share. Private, competitive mortgage securitization is believed to have played an important role in the U.S. subprime mortgage crisis.

1.10. Life Insurance Underwriting

Life Insurance Underwriting is the process of accepting the proposal of the customer based on the guidelines formulated by the insurance company. The insurance companies codify a set of procedures which must be followed before accepting any new business. When a new proposal comes to the insurance company its underwriting department scrutinizes the proposal whether or not it fulfills the criteria laid down by the company. If they find any lacunae they ask the agent to get it corrected. It is not that one can get whatever cover one wants. The issue of policy depends on income of the insured and whether he has the capacity to pay the premium over the years. Once the underwriters are satisfied that all the conditions have been fulfilled they go ahead to accept the premium and issue the policy. Some factors that underwriters typically look at, are

- ✓ A person's age: Age is an important consideration. People who are in their thirties or even younger typically present lower risk than older people and may thus qualify for lower premium rates.
- ✓ Medical history: A history of serious illness such as cancer or heart problems in family is assessed as high by the underwriters.
- ✓ Current health conditions: If in good health, client is assessed as a lower risk than someone who has some illness or who has undergone serious surgeries in the past.
- ✓ The nature of occupation: People who have jobs such as office jobs are regarded as lower risk in terms of premature deaths. On the other hand, a job which require to tackle dangerous or risky situations on a regular basis, risk factor will be considered higher by the underwriters, which could cause life insurance premiums to increase.