

# UNDERWRITING AND SETTLEMENT OF CLAIM

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# Meaning:

- ▣ An insurer receives insurance proposals having different kinds of hazards. It is not, however, practical to accept all these proposals. Only the proposals which are favorable and advantageous to the insurer are accepted and others are rejected. This process of accepting or rejecting a proposal in view of the risks involved in each is called underwriting. Underwriting basically means investigating and verifying the economic, physical and social conditions of a person while accepting the risk for his

# Definition:

“Underwriting involves a determination of whether a given application for insurance will be accepted or declined”. - Frank Joseph Angell

“Underwriting is selection of risks for the insurers and determination of what amounts and what terms acceptable risks will be insured”. -Mowbray and Blanchard

“Underwriting is the process of accepting or rejecting risks”. -Mehr and Cammack

In light of above definitions, we may conclude that underwriting is the process of deciding whether to accept or reject an insurance proposal based on the risk factors.

# Objectives of Underwriting

- ▣ To evaluate the potential risk in the subject matter of insurance
- ▣ To determine the premium amount according to the intensity of potential risk.
- ▣ To accept or to reject the proposals for insurance coverage from the proposer
- ▣ To ensure adequate revenue to insurers while accepting the proposals.
- ▣ To reject the proposals whose risk potentials are detrimental to the interest of insurance company.
- ▣ To help the insurance company to manage risk portfolio efficiently.

# Principles of Underwriting:

- ▣ *Achieving underwriting profit*
- ▣ *Selection of Insureds*
- ▣ *Proper Balance*
- ▣ *Equitable Rates*
- ▣ *Insurable Interest*
- ▣ *Utmost Good Faith*
- ▣ *Material Facts*

# Underwriting Process

- ▣ Collecting information about the prospect
  - a. Proposal form
  - b. Insurance adviser's report
  - c. Government department records
  - d. Pre-insurance inspection report
  - e. Claim files
  - f. Re-insurers

# •Evaluating and Decision Making

- a) Directing to reduce risk
- b) Changing the premium rates
- c) Facultative re-insurance can be used
  - ▣ Executing the decision
  - ▣ Monitoring the activities
  - ▣ Maintaining records of insurance business

# Underwriting Activities

## ▣ Line Underwriting Activities

- a. Selecting Insureds
- b. Classify and price accounts
- c. Recommend or provide coverage
- d. Manage a book of business
- e. Preparation of quotations
- f. Co-ordinating with marketing efforts



# Cont.,

## ▣ Staff Underwriting Activities

- a. To undertake market research.
- b. To help to formulating underwriting policy.
- c. To revise underwriting guidelines.
- d. To evaluate loss experience.
- e. To research and develop coverage forms.
- f. To revise and review pricing plans.
- g. To assist others with complex accounts.
- h. To conduct underwriting audit.
- i. To participate in industry associations.
- j. To Conduct education and training.

Thank you