

Executive Program in General Insurance

Day 1 Introduction to insurance

The Concept of Risk

What is Risk?

There is no single definition of risk, but it can be described as:

- Doubt about the outcome of a situation
- Unpredictability
- The possibility of loss
- The chance of gain (e.g., investment or betting)

Example: Risk in Car Ownership

- Owning a car involves several potential risks:
- Theft of the car
- Accidents causing injury to the driver
- Liability for injuries to others
- Depreciation in car value over time

Risk in Daily Life

- Risks are part of both personal and professional activities
- Some risks are chosen; others are beyond our control
- Daily Decisions we take have an element of risk like choosing to speed on the road when late to work.

Risk & Insurance

What does risk in insurance mean?

The term "risk" can refer to:

- The event being insured against (e.g., fire, theft)
- The object being insured (e.g., a car, house)

The Role of Risk in Insurance:

- Insurance allows us to transfer certain risks to an insurer
- Converts unknown losses (e.g. injury, damage) into a known cost (the premium)
- Insurance is a risk transfer mechanism—insurers accept risk in exchange for a premium

Risk Perception

Risk means different things to different people. Everyday decisions often involve informal risk assessments.

People also react differently to risk:

- Risk-averse individuals prefer safety and avoid uncertainty.
- Risk-seekers are more willing to face potential loss for possible gain.

To understand which risks are insurable, we classify them as:

- i. Financial vs. Non-financial
- ii. Pure vs. Speculative
- iii. Particular vs. Fundamental

Type of Risk	Definition	Insurability	Examples
Financial	Risk where outcomes are measurable in monetary terms.	Insurable	Fire damage to property, theft loss
Non-Financial	Outcomes not measurable in financial terms.	Not Insurable	Choosing a house, selecting a school
Pure	Only possible outcomes: loss or break-even.	Insurable	Accidents, illnesses, natural disasters
Speculative	Possible outcomes: loss, break-even, or gain.	Not Insurable	Gambling, investing in stocks
Particular	Affects individuals or small groups.	Insurable	Car theft, house fire
Fundamental	Arises from large-scale, uncontrollable causes with widespread impact.	Not Insurable	Earthquakes, war, economic recession

Features of Insurable Risks

For a risk to be considered insurable, it must possess certain fundamental characteristics.

These features generally fall into four key categories:

1. The risk must involve a fortuitous event,
2. There must be an insurable interest,
3. The risk must be consistent with public policy, and
4. The exposures must be sufficiently homogeneous

Features of Insurable Risks

1. Fortuitous Event

- a) The event must be accidental, unexpected, and beyond the policyholder's control.
- b) Insurance covers uncertain events, not inevitable ones.

2. Insurable Interest

- a) The insured must have a financial or legal interest in the subject of insurance.
- b) Example: You can insure your own car, not someone else's.

3. Public Policy Compliance

- a) Insurance must not cover activities that go against legal or moral standards.
- b) Example: Fines for criminal acts like speeding cannot be insured.

4. Homogeneous Exposures

- a) The risks should be similar across a large group to allow accurate prediction.
- b) Insurers rely on the law of large numbers to forecast frequency and cost of losses.

Components of risk

The fundamental components of risk Can be divided to 3 key elements, Understanding these components is crucial for analyzing how risk manifests in different scenarios, how it can be quantified, and how insurers and risk managers can address it:

1. Uncertainty reflects the unpredictability of outcomes;
2. level of risk measures potential frequency and severity;
3. Peril & Hazard

Components of risk

Uncertainty:

Uncertainty about the future is at the center of risk. If we always knew exactly what was going to happen, there wouldn't be any risk Because we don't we can't be certain of anything.

Level of risk:

Risk is assessed by insurers in terms of frequency (how often something might happen) and severity (how costly it would be if it did happen).

High frequency and low severity	Low frequency and high severity
An example of high frequency and low severity of loss could be motor insurance, which usually entails a large number of small claims, for things like dented bumpers and cracked windcreens.	This describes a small number of events resulting in very high costs, such as aircraft accidents and oil spillages.

Components of risk

Peril and hazard:

This is the final aspect of risk and it relates to the cause of losses. But what is the difference between the two terms?

- A peril can be defined as that which gives rise to a loss.
- A hazard can be defined as that which influences the operation of the peril.

Hazards Can be Physical & Moral:

Physical hazard: relates to the physical characteristics of the risk. For example, the better the standard of building construction the lower the physical hazard for fire and similar risks, as the building will be more resistant to damage.

Moral hazard: relates to the human attitudes and behaviors which may influence the outcome of the risk, rather than what is being insured. In insurance, the prime source of moral hazard is the insured person. However, the conduct of the policyholder's employees and society in general have an ever-increasing influence in the assessment of moral hazard.

Risk management

Often, insurance is bought because certain aspects of cover are compulsory, such as third-party motor insurance. Alternatively, it may be that another party has financial interest in the item to be insured; for example, if an individual buys a house with a mortgage, a mortgage lender may insist insurance is taken out on the property.

Thus, the ultimate goal of taking insurance is better risk management, but how can we manage risks?

key steps in the risk management process:

- i. risk identification.
- ii. risk analysis; and
- iii. risk control (including the possibility of risk transfer).

1. Risk identification

Risk identification involves uncovering the threats to a company that may already exist and the potential threats that may exist in the future. Not all of these risks will be insurable, but they must all be managed. For a retail shop, petty theft and shoplifting may be real risks and will need to be managed in some way or funding set aside to cover their costs.

Risk identification techniques involve:

- detailed surveys of premises, properties and/or processes;
- on-site discussions;
- examination of records of accidents etc.;
- examination of accounts; and
- consideration of health and safety hazards.

2. Risk analysis

Risk managers then evaluate risk data in terms of frequency and severity. For example, they can look at the past loss patterns of, say, motor accidents involving drivers under the age of 25 years, and so predict what is likely to happen in the future for drivers who fall into this category. Equally, patterns of reported accidents in the accident register may be analyzed for future trends.

3. Risk control

If the risk is seen to have the potential for adverse consequences, action should be taken to control, reduce or even eliminate it. Elimination is the most effective, but it may be costly or impractical. For example, if a manufacturer needs to carry out a paint spraying activity that is highly hazardous, it may be possible to outsource that part of the process and, in doing so, eliminate that element of the risk. The elimination of risk, or even its reduction, will always be subject to the test of whether the cost of doing so is reasonable compared to the cost of the feared event happening.

Have you ever wondered How Insurance companies are profitable?

Law of large numbers

Applying the law of large numbers to insurance enables the insurer to predict the final cost of claims in any one year fairly confidently. This is because insurers provide cover for a large number of similar risks and the final number of actual loss events (claims) tends to be very close to the expected number.

Pooling of risks

The basic principle of insurance is that the losses of the few are met by the contributions of the many. An insurance company gathers together relatively small sums of money from people who want to be protected from similar kinds of perils. The insurer sets itself up to operate a common pool. These contributions, or premiums, must be large enough in total to meet the losses in any one year and, in addition, must cover the costs of operating the pool and provide an element of profit for the insurer.

Types of insurance:

Depending on complexity we note various insurance approaches, including self-insurance, dual insurance, and co-insurance. Self-insurance involves a company or individual setting aside funds to cover potential losses instead of purchasing traditional insurance.

Self-insurance

The term self-insurance means that an individual or company has decided not to use insurance as the risk transfer mechanism, but to carry the risk themselves by setting up a fund from which any losses can be paid.

For example, a shopkeeper might consider that damage to their shopfronts is a risk they are prepared to carry themselves, so set aside a regular sum each month to fund this eventuality

Co-insurance

Co-insurance is fairly usual practice for insurers where no one insurer wishes to take on board all of the risk being offered. Several insurers can be involved, each taking a stated proportion of the risk, each receiving that proportion of the premium and each being responsible for that proportion of any claim made.

Dual insurance

Essentially, the term dual insurance is used when there are two or more policies in force which cover the same risk. The policyholder may have done this accidentally; for example, they may have bought a travel policy for their holiday that includes cover for personal effects that are already covered under the 'all risks' section of their household contents policy.

Benefits of insurance

Improved cash flow	Money does not have to be kept in reserve for potential losses, which frees up capital and therefore improves cash flow.
Expansion of business	Enterprise is encouraged, since insurance makes it easier for new businesses to start or for existing businesses to invest, innovate and expand.
Loss control	Insurers have an interest in reducing the frequency and severity of losses, not only to enhance their own profitability but also to contribute to a general reduction in the economic waste which follows a loss. Also, the policyholder suffers less business interruption and consequential inconvenience as the effects of the loss are minimised or ideally, do not occur at all.
Premiums invested	Premiums can be invested to earn interest. Money is held until claims have to be paid. This creates a 'premium reserve'.
Social benefits	Insurance has many social benefits, such as encouraging business activity and helping to keep people in employment. Most commercial insurance policies will offer a business interruption element which covers wages and the loss of trading income during a period of business interruption and recovery.

History of Insurance

Do you have any idea on how & when insurance started?

History to Insurance

Insurance is a pillar of modern economies, offering protection against financial loss and promoting economic stability. Insurance plays a vital role in:

- Enabling trade
 - Protecting assets
 - Sharing risk across individuals and institutions
- But insurance is not a modern invention, it originated in ancient times, driven by humanity's timeless need to manage uncertainty.
 - This chapter explores how insurance evolved, from informal community arrangements to today's sophisticated global industry.

I. Ancient Beginnings: Mutual Protection and Risk Sharing:

The earliest known forms of insurance can be traced back over 4,000 years to ancient Mesopotamia. Babylonian merchants developed a system of bottomry—a contract in which a lender would forgive a loan if the borrower's shipment was lost at sea. This is recorded in the Code of Hammurabi (circa 1750 BCE), one of the oldest legal texts in history.

II. Islamic Golden Age: Ethical and Mutual Risk Sharing:

The earliest known forms of insurance can be traced back over 4,000 years to ancient Mesopotamia. Babylonian merchants developed a system of bottomry—a contract in which a lender would forgive a loan if the borrower's shipment was lost at sea. This is recorded in the Code of Hammurabi (circa 1750 BCE), one of the oldest legal texts in history.

III. Lloyd's of London: The Birthplace of Modern Underwriting:

One of the most significant milestones in insurance history came in late 17th-century London. At Edward Lloyd's coffee house, shipowners, merchants, and underwriters met to discuss voyages and share risks. This informal meeting place evolved into Lloyd's of London, the world's first organized insurance marketplace.



The Insurance Ecosystem:

Entity	Role	Key Responsibilities
Client / Policyholder	Buyer of insurance	- Purchases insurance (usually through a broker)
Broker (Captive)	Intermediary between client and insurer	- Finds best insurance terms from multiple insurers - Negotiates policy coverage, price, and terms
Insurance Company (Insurer/Cedent)	Risk carrier and policy issuer	- Issues insurance policy - Collects premium from client - Pays claims
Reinsurance Company (Reinsurer)	Risk partner for insurer	- Accepts part of the insurer's risk - Receives share of premium - Protects insurer from major losses

Legal Framework in Saudi Arabia

Insurance Regulator:

In Saudi Arabia, the insurance sector is regulated by the Insurance Authority (IA).

Insurance-related disputes are primarily handled by the IDC, overseen by the Insurance Authority (IA). If a resolution cannot be reached through these committees, parties may escalate the matter to the Court.

Alternatively, if the insurance policy includes an arbitration clause, the dispute may be resolved through arbitration. Arbitration is a method of resolving disputes outside the court system, where the parties agree to submit their disagreement to one or more neutral third parties (arbitrators). The arbitrator reviews evidence, hears arguments, and then makes a legally binding decision.

Day 2 Insurance Products

Insurance Products

Over the years, the insurance market has evolved significantly, driven by the growing and diversifying needs of individuals and businesses.

What began with basic coverage has developed into a wide spectrum of products, offering protection across both personal and commercial lines.

This chapter explores the various types of insurance products available today, highlighting how they address specific risks in an increasingly complex world.

Personal insurance Lines:

Personal insurance lines refer to the types of insurance products designed to protect individuals and families from everyday risks. These are the most encountered forms of insurance in our daily lives.

- a) Motor insurance
- b) Health insurance
- c) Life insurance
- d) Home insurance
- e) Travel insurance
- f) Extended warranties

Motor insurance:

Third party only (compulsory): a set limit in respect of third-party property damage cover limited cover in respect of third-party bodily injury or death.

All-Risk &/or Comprehensive: Comprehensive is the widest possible protection and includes accidental and malicious damage to the insured vehicle.

Common Extensions	Common Exclusions
personal accident	Wear and tear
medical expenses	Depreciation
Scratching & denting	loss of use
Dealer Repair	mechanical and electrical failure

Important factors Insurance companies take into consideration when underwriting Motor Policies:

- I. Age of the driver
- II. Value of the car

Health insurance:

Medical expenses: The most common insurance policy we come across, which covers any medical expenses we incur in accordance with the policy terms and conditions.

Personal accident: cover pays lump sums in the event of death or specified injuries. It can pay weekly benefits (for period of time) if the insured experiences temporary total disability due to an accident

Common Extensions	Common Exclusions
Maternity Cover	Cosmetic Procedures
Pre-existing cases	Pre-existing cases
Dental	Dental
Optical	Optical

Important factors Insurance companies take into consideration when underwriting Medical Policies:

- i. Age of the Insured
- ii. Medical History

Life Insurance:

Term Life Insurance: Provides coverage for a specific period (e.g., 5, 10, or 20 years). Pays a death benefit if the insured dies during the term.

Life Insurance: Provides lifetime coverage with a guaranteed death benefit and sometimes a cash value component.

Benefit Life insurance: This type of policies adds an investment plan to the typical insurance policy which can be redeemed after a defined period of time.

Important factors Insurance companies take into consideration when underwriting Life Policies:

- i. Age of the Insured
- ii. Medical History
- iii. Occupation
- iv. Personal Assets

Home Insurance:

Common Exclusions:

- Mysterious disappearance
- Simple Theft

Important factors Insurance companies take into consideration when underwriting Home Policies:

- i. Value of the property
- ii. Location of the property
- iii. Owner of the property
- iv. The environment around the property

Travel Insurance

There are many risks associated with travel. A trip may be cancelled because of sickness or delayed by Political disruptions. Luggage may be lost, damaged or delayed. Connections may be missed because of late running public transport. The traveler may become ill or suffer an accident while away.

Travel insurance is designed to cover such risks and most travel policies cover the following:

- Medical and associated expenses, e.g. the cost of treatment, being brought home or having to stay away longer than planned.
- Loss of, or damage to, baggage, personal effects and money.
- Personal liability for accidental injury to third parties or damage to their property.
- Delayed baggage.

Important factors Insurance companies take into consideration when underwriting Travel Policies:

- i. Destination Country
- ii. Period of travel

Extended Warranties:

As consumer expectations evolve and the value of purchased goods increases, so does the demand for protection that goes beyond the standard manufacturer's warranty. Extended Warranty Insurance has emerged as a specialized product that offers continued coverage against mechanical and electrical failures after the original warranty period ends.

Cover usually provided for big purchases such as Phones, TV, Cars and even Home appliances.

While such product might not be provided directly by insurance companies, as some retail dealers organize such schemes, sometimes, the retailers collaborate with insurance companies that backs them up, technically or financially.

For example, apple care is a form of extended warranty insurance.

Important factors Provider take into consideration when underwriting Extended Warranty:

- i. Retailer Selling the product
- ii. Manufacturing company
- iii. Value of the product.

Commercial Insurance Lines:

Commercial insurance lines refer to insurance products designed to protect businesses from risks unique to commercial activities and operations. These lines cover physical assets, legal liabilities, operational interruptions, engineering projects, and more. The common commercial insurance lines include:

- 1) Property Insurance
- 2) Money Insurance
- 3) Liability Insurance
 - a) Employers' liability/workmen's compensation insurance
 - b) Public liability insurance/ GTPL
 - c) Professional indemnity insurance
- 4) Engineering Insurance
 - a) Construction All Risks (CAR) Insurance
 - b) Erection All Risks (EAR) Insurance

Property Insurance

Fire and special perils insurance:

Fire insurance developed alongside the need for businesses to insure their assets. Fire policies tend to be standard across the regions. Individual insurers issue their own versions to include 'extra' perils.

So, what is 'standard' fire cover?

- Fire
- Lightning
- Explosion (restricted to explosion of boilers or gas used for domestic purposes only).
- Aircraft (excluding sonic bang), i.e. an aircraft or aircraft parts falling through the roof of a building.
- Malicious damage, i.e. vandalism.
- Earthquake.
- Storm and flood. These two perils are usually written together as quite often storm is the proximate cause of flood.
- Escape of water/leakage.
- Impact damage (including own vehicles).
- Sprinkler leakage – offered to companies with sprinkler fire protection in their premises.
- Subsidence, ground heave and landslip (with special exclusions).

Property Insurance

Standard exclusions:

Certain causes of damage are excluded. Some because they are regarded as fundamental risks (war, riot, radiation, pollution), and others because they are more properly insured under other types of commercial insurance policy .

The main standard exclusions are:

- War risks.
- Radioactive contamination/explosive nuclear assemblies.
- Terrorism as defined in relevant legislation.
- Pollution or contamination unless caused by an insured peril or causing an insured peril to occur.
- Claims for damage to electrical items/machines from over-running or short circuiting.
- Earthquake, tsunami and volcanic eruption. In regions which suffer significant earthquake damage, cover may be available as a separately related peril.
- 'Consequential loss'. For example, loss of profits or income following and consequent upon a loss proximately caused by an insured peril.
- Sonic bangs.
- 'e-risk' which excludes damage resulting from cyber related risks such as computer viruses etc.

Property Insurance

‘All risks’ insurance (LM7):

The name *‘all risks’ insurance* is slightly misleading as it does not cover everything, it simply covers everything that is not specifically excluded.

In essence, all loss or destruction of, or damage to, the property insured is recoverable as long as it has occurred accidentally in respect of the insured, and the cause is not specifically excluded. There are no optional extensions, everything is covered, unless specifically excluded.

Exclusions can be divided into four groups:

- absolute exclusions such as war, pollution, contamination, consequential loss;
- gradually operating exclusions such as corrosion/rust, wind/rain damage to property in the open;
- aspects of cover which can be written into the policy, e.g. money, Business Interruption; and
- property or risks more appropriate to another class of business such as Construction Sites and Energy Platforms.

Money Insurance

Businesses, especially shops, often have large amounts of cash on the premises. Clearly there is a risk to this money, both while in the shop and in transit. As a result, many businesses take out special insurance to protect against loss of money.

Money generally includes cash, bank drafts, cheques, postal orders, currency notes, and vouchers.

It can be extended to include:

- money in transit
- personal accident/assault; and
- credit cards (which are not covered by a standard money policy).

The main exclusions are losses due to:

- i. error or omissions in accounting and book-keeping;
- ii. dishonesty of an employee (fidelity Insurance)
- iii. Claims arising outside a territorial limit; and
- iv. a safe/strong room opened by a key left on the premises while closed for business.

Liability

In law we all owe a duty to each other to ensure that our actions do not injure others or damage their property. This is known as the 'duty of care'. In the event of a breach of this duty, a party can be liable to pay damages (compensation) to another who suffers loss or damage arising from negligence (lack of care).

negligence can be defined as:

“Doing something which the reasonable or prudent person would not do, or omitting to do something which a reasonable person guided by those considerations which ordinarily regulate the conduct of human affairs, would do”

- ***Employers' liability/workmen's compensation insurance***
- ***Public liability insurance/ GTPL:***
- ***Product liability insurance***
- ***Professional indemnity insurance***

Liability Insurance

Employers’ liability/workmen’s compensation insurance

Employers’ liability or workmen’s compensation insurance provides legal liability cover for compensation to employees for bodily injury or death caused by accidents or diseases arising from and in the course of employment.

Common cover Usually are:

Coverage	Details
Bodily injury & occupational disease	Covers work-related injuries and specified occupational diseases
Medical expenses	Hospitalization, surgery, medications, treatment costs
Lost wages compensation	Salary replacement during temporary incapacity
Permanent/partial disability compensation	Lump-sum payments or structured benefits
Death benefits	Lump-sum compensation to dependents
Repatriation	Transport of remains or injured workers (optional extension)

Common Exclusions Usually are:

Exclusions	Details
War, terrorism, civil unrest	Losses from conflict-related events
Intoxication/drug use injuries	Claims excluded if worker was under influence
Self-inflicted injuries	Suicide, deliberate harm not covered
Non-work injuries	Injuries outside work scope unless extended
Contractor/third-party workers	Unless specifically added
Unlisted occupational diseases	Unless covered by schedule or optional endorsement
Radioactive/asbestos/mould-related claims	Common exclusions

Liability Insurance

Public liability insurance/ GTPL:

Public liability insurance is 'open' in that it covers all legal liability that is not excluded. It provides an indemnity to the insured for legal liability to third parties for damages (including claimants' costs and expenses) related to bodily injury, death, disease or illness, and for any loss of or damage to property which happens in connection with the business insured under the policy and occurring during the period of insurance.

Again, the critical point here is that there has to be legal liability, so there must be negligence for there to be a valid claim against the policy.

- accident: i.e. the cause cannot be either a deliberate act or omission of the insured;
- injury to persons: i.e. there must be some form of physical or medical impairment;
- loss of or damage to property: there must be physical damage to material property (including loss or disappearance) though this excludes intangibles (e.g. copyrights)
- consequential loss: e.g. for damage to a vehicle, the insured may be liable for the cost of a hire car while the third party's vehicle is being repaired – this would be covered;
- limit of indemnity: usually, a limit per occurrence.

Liability Insurance

Public liability insurance/ GTPL:

A number of exclusions apply such as:

- injury to employees (this would be covered under an employers' liability/workmen's compensation policy);
- property belonging to the insured (covered under a property policy);
- product liability, i.e. liability arising following the sale or supply of a product;
- contractual liability, i.e. agreements that the insured makes with third parties which are over and above the legal interpretation of 'legally liable';
- cost of rectifying defective work (insurers would not want to cover the cost of remedying poor workmanship. Any injury or damage to third parties incurred as a result of such
- workmanship would of course be covered);
- professional negligence;
- deliberate acts, i.e. not 'accidents';

Liability Insurance

Product liability insurance:

The standard product liability policy covers legal liability for bodily injury or property damage which arises out of goods or products manufactured, constructed, altered, repaired, serviced, treated, sold, supplied or distributed by the insured. Cover is not usually offered separately from the basic public liability policy. It is often sold in conjunction with the public liability policy as a combined public liability/product cover.

Examples of product liability situations would be as follows:

- injury caused by faulty wiring on an electric item;
- injury caused by use of weak glass in a jar, causing it to smash too easily;
- damage to a car due to a faulty brake part causing it to roll away while parked; and
- food poisoning caused by incorrectly processed food.

Liability Insurance

Product liability insurance:

The points to remember about product liability insurance are:

- Cover is for consequential loss following actual injury or damage.
- Financial loss is not usually covered unless accompanied by bodily injury or loss of or damage to property.
- The basic cover is dependent on an element of accident.
- The injury or damage must occur during the period of insurance.
- A yearly aggregate limit of indemnity is usually specified.

You would expect to find the following exclusions in a product liability policy:

- Damage to the actual good(s) supplied. Insurers are not looking to replace a damaged product, this is the manufacturer's responsibility.
- Faulty design or formula. Insurers are not looking to make good any claims that the insured's products are faulty unless some injury or damage has occurred as a result.

Liability Insurance

Professional indemnity insurance:

- This covers professional people's liability for injury, damage or financial loss to clients or the public resulting from a breach of professional duty or negligent acts, errors or omissions. Most claims arise for financial loss.
- With professional negligence, the courts may award damages for pure financial loss. This is particularly relevant as the courts would not usually allow a claim unless there is also injury or damage.
- An example of loss would be where a Doctor negligently did a mistake during a face lifting surgery – there must still be negligence.
- It is usual for the policies to offer cover on a **claims made** basis, i.e. the policy applies to claims made against the insured during the period of insurance, rather than **losses occurring** during the policy period. This is why most professional indemnity policies will also contain a retroactive date.

Engineering Insurance

Engineering Insurance covers machinery, plant, equipment, and works under construction, providing protection against accidental damage, breakdown, and testing risks.

Under this branch comes 2 Main Sub Lines being CAR and EAR:

1. *Construction All Risks (CAR)*
2. *Erection All Risks insurance (EAR)*

Engineering Insurance

Construction All Risks (CAR) Insurance :

Contractors' All Risks (CAR) insurance policies cover all types of building and civil engineering construction and offer protection against the hazards which may threaten works under construction.

Most construction projects include certain elements of machinery erection (eg installation of air conditioning and lifts in buildings). If such erection works are of an ancillary nature (not over roughly 10 - 20% of the total project value) they can be insured under the CAR policy, thereby making it unnecessary to issue an additional EAR policy.

Usual Cover:

The policy provides cover on an all-risks basis for physical loss or damage to the insured property, providing such loss or damage is of an unforeseen and accidental nature, and is not otherwise excluded from the scope of the policy. Additionally, CAR policies may be designed to include losses incurred when start up is delayed because of another insured loss. For example, if a structure is damaged and is covered by CAR insurance, then the losses incurred as a result of a delay in opening the property while the damage is being repaired may also be covered.

Engineering Insurance

Construction All Risks (CAR) Insurance :

Insured parties:

In most cases, the project as a whole is insured. Therefore, the insured parties (principal or employer, contractors and sub-contractors) are considered as one entity (the "joint insured").

Main hazards:

The main hazards covered are: fire and explosion, theft, burglary, collapse, earthquake, seaquake, landslides, storm and flood. Certain perils (especially forces of nature) obviously vary from location to location, and the likelihood of loss or damage is also influenced by the actual type and method of construction.

Sum insured:

The sum insured is the anticipated value (usually referred to as the "total contract value") of the completed works including materials, salaries, transport, custom duties and taxes, plus the value of any material or labour supplied by the principal. During the course of construction, the insured is obliged to advise the insurers immediately of any change in the sums insured. Upon completion of the project, the final total investment is declared, making it possible to adjust the provisional premium that was initially charged on the basis of the anticipated total contract value.

Engineering Insurance

Construction All Risks (CAR) Insurance :

The policy can also be expanded to cover the following events:

- a) Additional custom duty
- b) Air freight
- c) Damage to surrounding property
- d) Debris removal
- e) Earthquake
- f) Escalation
- g) Loss due to breakage of glass
- h) Maintenance visits

Engineering Insurance

Erection All Risks insurance (EAR) Insurance :

Erection All Risks (EAR) policies cover the erection of individual machines or complete plants - ranging from complete power stations to lifts and air conditioning equipment. The policy wording is similar to CAR. Many erection projects call for a certain amount of ancillary construction work (eg foundations for the machines to be erected, or a building to house them). If the value of such construction work does not exceed approximately 10-20% of the total project value, it can be covered under the EAR policy together with the machinery.

Usual Cover:

EAR policies provide protection on an all risks basis, including cover for the testing and commissioning of the erected machines - providing that they are not considered prototypes. Similar to CAR, EAR covers physical loss or damage of an unforeseen and accidental nature, which is not otherwise excluded from the policy. In contrast to CAR, however, EAR policies also cover faults in erection (i.e bad workmanship occurring at the erection site itself).

Insured parties:

The insured parties are as in CAR, with the addition that the machinery manufacturer may be included as an insured party if he performs a function on the erection site. However, cover is limited to accidents originating from on-site activities.

The off-site design work and actual manufacturing of the machines at the manufacturer's premises are not covered.

Engineering Insurance

Erection All Risks insurance (EAR) Insurance :

Main hazards:

The variety of hazards threatening erection works vary according to the type of works and location. If machinery erection takes place in buildings - and many projects do - the exposure to forces of nature (except flood and earthquake) is usually less pronounced than in CAR.

One main hazard is fire or explosion, especially during the final erection phase when values at risk accumulate, or during testing when raw materials and/or feedstock are introduced. Equally serious is machinery breakdown during the testing and commissioning period. The possibility of substantial mechanical damage occurring during this phase should not be underestimated.

Sum insured:

As in CAR, the initial sum insured is the anticipated value of the completed works. If necessary, it must be adjusted during the course of erection. The final total investment is declared upon completion of the project. This permits final adjustment of the provisional premium, which is charged initially on the basis of the anticipated total contract value.

Engineering Insurance

Loss settlement & Exclusions (CAR &EAR):

Loss settlement:

Loss settlement is made on the basis of valid bills, documentary evidence and justification, as the case may require.

The cost of any provisional repairs will only be borne by the insurer if such repairs constitute part of the final repairs and do not increase the total repair costs.

The cost of any alterations, additions and/or improvements which may be undertaken as a result of any loss or damage are not indemnifiable.

Particular exclusions:

In addition to the general exclusions, CAR & EAR policies also exclude normal making good, normal upkeep, consequential loss of any kind or loss of use, damage to plans, losses only discovered during the course of an inventory, wear and tear, corrosion, erosion, deterioration due to lack of use, and normal atmospheric conditions.

The basic policy wording also excludes damage caused by defects in design, plans or specifications, as well as direct damage caused by defective material or bad workmanship.

Day 3 Insurance Policy Underwriting

Policy Underwriting:

The role of an underwriter involves ‘assessing the risk which people bring to the pool. Part of this assessment involves material information and material facts. The purpose of this chapter is to focus on the importance of material information and facts in that assessment, the duty of disclosure, and to examine the significance of physical and moral hazard for underwriters. We shall also look at the ways in which underwriters obtain material information and facts.

Utmost good faith

A contract is an agreement between two parties which is legally binding. However, not all agreements are legal contracts. For a contract to be legally binding, certain elements must be present. These include:

- an offer;
- acceptance of the offer; and
- consideration, i.e. a benefit received by one party in return for a promise of the performance of an act by another party.

This principle imposes a duty which means that any party wanting to take out insurance (i.e. a proposer) must:

- provide all information asked for by the insurer;
- disclose facts material to the risk; and
- give any additional information relating to the risk.

Material information and material facts:

The Marine Insurance Act 1906 defines material facts as:

“Every circumstance is material which would influence the judgment of a prudent insurer in fixing the premium or determining whether he will take the risk. “

Material information and material facts which must be disclosed include:

- special or unusual facts relating to the risk;
- any particular concerns which are leading to the request for insurance;
- anything which those concerned with the class of insurance and field of activity would generally understand to be something that should be dealt with when presenting risks of that type.

Duty of disclosure:

The *duty of disclosure* exists for both parties to an insurance contract. It is the duty to inform the other party of everything that is relevant to the contract. It is intrinsically linked to utmost good faith.

The duty of disclosure starts when negotiations begin and applies during the life of the policy if there is an alteration to the risk.

Insurers may, however, insert in their *policy wording* a continuing requirement to modify their rights, thereby changing the duty of disclosure on the proposer. This will be different for different classes of business. The following example for illustrations:

Commercial property insurance: A policy condition requiring continuing disclosure of removal to another location or circumstances that increase the risk of damage.

Duty of disclosure:

Pre-cover: The duty of disclosure exists from the start of the quotation process. The duty would end if a quotation expired after its period of validity.

Mid-term: Between the start of the contract and any subsequent renewal negotiation, there would only be a duty of disclosure if there was an alteration in risk. As a continuing duty, this is implied. Most insurers expressly state this duty as a general condition of cover under their policies.

Renewal: The duty of disclosure exists at renewal. Policies are generally annual contracts (in the case of short-term business, e.g. non-life, general insurance), renewable every twelve months. In this scenario, it is helpful to treat the policy as a new contract at each renewal, which it is in the eyes of the law.

Claims: This duty also exists in the event of a claim. Insurers may require information to be disclosed to assist them in providing indemnity under the policy, and are reliant on the information being accurate. The most obvious example of this is when submitting costs in the event of a claim. The duty of disclosure here is closely linked to the potential for exaggeration and fraud. Again, insurers set out the impact of an insured failing in this duty, most commonly through use of a claims condition in their policy wordings.

Disclosure by an intermediary taking out insurance

Where an insurance contract is entered into on the instruction of one party by an agent or intermediary, they must disclose:

- all the facts communicated to them by the proposer; and
- any additional information they are aware of.

The proposer must use due diligence to communicate all information to their intermediary. In effect, the duty on the intermediary is no different to the duty on the proposer.

Facts not to be disclosed:

Facts that do not need to be disclosed can be grouped as follows:

- facts of law;
- facts of public knowledge;
- facts that improve the risk;
- facts where the insurer has waived its rights to certain information;
- facts that a survey should have revealed;
- facts an insured did not know;
- facts covered by the policy terms; and
- facts that the insurer already knows, including those that its employees know.

Non-disclosure and misrepresentation

A breach of the duty of disclosure arises in one of two circumstances:

Non-disclosure: The proposer simply fails to tell the insurer something they know, and it is something that would have made the insurer either not enter the contract or do so on different terms.

Misrepresentation: This is where a statement is substantially false, relates to the subject matter of the proposal, and has led the insurer to enter the contract.

Fraudulent breach of duty: If the non-disclosure or misrepresentation is fraudulent:

- the policy is voidable;
- the insurer can keep the premium and sue for damages; and
- the insurer can ignore the breach of good faith, in which case the policy continues and the insurer would have to pay the claim.

Obtaining material information

The proposal form is the most common way for the underwriter to obtain information regarding the risk. There are, however, alternative ways of obtaining material information available to underwriters, their use depending on the class of business involved.

- ***Brokers***
- ***Risk surveys***
- ***Supplementary questionnaires***

Brokers

Brokers are used extensively in arranging commercial insurances, where their role may extend to preparing documentation for use by the underwriter in the assessment of a risk. This documentation can be extensive and may include a variety of information such as risk registers which would include individual exposures and claims experience, site inspection reports and preparation of health and safety reports.

Brokers also have their own risk surveyors and they will create reports, which could form part of the market submission or could be used by the brokers internally to gain a better understanding of the risk.

Risk surveys

Risk surveys are often used to obtain information where the risk is large and/or complex such as in many commercial insurance risks.

It is the risk engineer/surveyor's role to act as the 'eyes and ears' of the underwriter and prepare a report for the underwriter covering a number of features including:

- a full description of the risk;
- an assessment of the level of risk; and
- a measure of the estimated maximum loss (EML), which is the maximum the surveyor believes will be the subject of a loss.

If appropriate, the report will also include a list of risk improvements the surveyor considers necessary.

Supplementary questionnaires

These are used by some insurers when dealing with particular aspects of risk. There are many areas where questionnaires can be used, for example:

- money risks involving very high-value transactions;
- fire risks in respect of old or obsolete buildings; and
- public liability risks involving, a beauty parlor for example, where the extent of the use of hair dyes and other products may require further investigation.

The road to the Insurance Policy:

- 1) Application Submission** – The client (or broker/agent) submits a completed application with all necessary details about the risk to be insured.
- 2) Initial Review** – The underwriter or automated system reviews the application for completeness and obvious red flags.
- 3) Risk Assessment** – The underwriter evaluates the risk by considering factors like applicant history, claims record, industry data, third-party reports, inspections, and actuarial data.
- 4) Risk Classification** – The underwriter classifies the risk into categories (e.g., standard, substandard, preferred) to determine pricing models and terms.
- 5) Terms & Pricing Determination** – Based on the assessment, the underwriter decides on premium rates, coverage limits, exclusions, deductibles, and special conditions.
- 6) Quotation** – The underwriter then issues a quotation based on all the above.
- 7) Negotiations** – between The underwriter & Client.
- 8) Issuance of Policy** – If accepted by the client, the policy is issued with all terms and conditions documented.
- 9) Ongoing Review** – For longer-term policies, underwriters may periodically reassess the risk (e.g., at renewal) and adjust terms if needed.

Insurance policies

In the past, insurance policies were of a narrative type, i.e. each policy was prepared by hand and was specific to the insured concerned. Nowadays, however, commercial considerations dictate that a policy is generally issued in a *scheduled form*, i.e. the policy wording is pre-printed, often in a booklet, and a schedule is incorporated into the policy. The *policy schedule* contains all the variable information concerning the insured and details of the risks insured.

Every insurer has its own form of policy for the various classes of business it offers, and these vary considerably in style and length. Style will usually be determined by company or corporate approaches to documentation. Some companies produce policies in A4 format; others bind them in plastic folders; others have smaller, booklet-type documents. The length of the document will be dictated more by the class of business.

There is a rule in contract law, known as *contra proferentem*, which states that any clause considered to be ambiguous should be interpreted against the interests of the party that drafted the contract or clause. This rule gives insurers an incentive to be clear in their terms and policy wordings.

Insurance policies

For the most part, the basic structure of all general insurance policies will be the same and include the following:

- heading;
- preamble;
- signature clause;
- operative clause;
- exceptions;
- conditions;
- policy schedule; and
- information and facilities.

Insurance policies

Heading: Every policy will have a heading which includes the name of the insurer and in some cases, the address and company logo.

Preamble: The preamble (also known as the recital clause) sets the scene for what follows in the policy by referring to the two parties, the insured and the insurer (although not by name), forming the contract in terms of which the insurer undertakes to indemnify the policyholder ('insured') in accordance with the cover detailed in the policy, in return for a price (the 'premium').

Signature: Below the preamble, or close to it, there will frequently be the pre-printed signature of an official from the company. This dates back to the times when policies were prepared by hand. It is not strictly necessary today and many policy documents omit a signature.

Operative clause: The operative clause is the most important section of the policy, and is where the actual cover provided is outlined. There may be just one clause outlining the cover or, as is more common, a number of such clauses (as with household or motor policies), each dealing with a different aspect of the insurance and often containing exceptions that are specific to each individual operative clause.

Insurance policies

Exclusions

All insurance policies contain some general exceptions which apply to the entire contract. These are in addition to specific exceptions that apply to different sections under a scheduled policy

Most general insurance policies will contain two types of exception (or exclusion):

- General exclusions – these apply to all sections of the policy and allow the insurer to deny cover under the policy, regardless of the section concerned.
- Specific exclusions – these apply to particular parts of the policy. For example, under a household contents policy there may be an exclusion relating to antiques and works of art. This clearly wouldn't be relevant to the buildings section.

Some general exclusions are common to all general insurance policies, and are termed market exclusions, standard general exclusions or similar.

Insurance policies

Conditions

A condition is essentially a contractual term that the insured agrees to comply with during the period of cover. Conditions are either implied or express.

Implied conditions are implied by legal practice and do not need to appear in the policy.

Examples of these are:

An insured must act as if uninsured and not use the insurance as an alternative to acting carefully. The insured may be required to advise the appropriate authorities, depending on the circumstances, e.g. the police after a serious car accident.:

utmost good faith;

Express conditions are always stated in the policy.

Insurance policies

Policy schedule

This is where the policy is made personal and specific.

The variable parts of the policy include details such as:

- insured's name;
- insured's address;
- policy period;
- premium;
- details of the subject matter;
- location of the risk, where applicable;
- sum insured or limit of liability;
- policy number;
- reference to special exclusions, conditions or aspects of cover; and operative sections of the policy.

Information and facilities

This may include any, or all, of the following:

- Definitions: insurers may define a single word or phrase.
- Complaints procedure
- Claims information

Common Policy Conditions

Contribution:

This deals with the position of what happens if there are other policies in place covering the same loss, e.g. when both the landlord and the tenant have policies in place covering the building.

Contribution is the right of an insurer to call upon other insurers similarly, but not necessarily equally, liable to the same insured in order to share the claims cost. The condition modifies the principle by limiting insurers' liability to their share of the loss when other policies also exist. The insured is, therefore, obliged to claim proportionately from each insurer.

For example, a holidaymaker may take out a travel policy which covers personal possessions. Certain items such as camera equipment will usually also be covered under the all risks section of a household contents policy. If the camera was lost or stolen while on holiday, the policyholder would be covered under the two policies.

The principle of indemnity is to place the insured in the same position they were in before the loss occurred. In this case the indemnity is to replace one camera. The insurers would then share the claim in agreed proportions. There can also be non-contribution clauses, but these are outside the scope of this course.

Common Policy Conditions

Subrogation

Subrogation is the right of the insurer to take over the insured's rights, following payment of a claim, in order to recover the payment (or part of it) from a third party wholly or partly responsible for the loss: simply put, the insurer can 'stand in the shoes' of the insured.

The subrogation condition modifies the legal position so that an insurer is able to exercise its subrogation rights before a payment is made.

Average

This condition has the effect of reducing claims payments under property insurance policies in proportion to any underinsurance. It can be expressed in the following equation:

$$\frac{\text{value insured under the policy}}{\text{value at risk}} \times \text{the loss}$$

Common Policy Conditions

Arbitration

This clause is intended to deal with disputes relating to the amount of a claim settlement. It is not universal.

Some insurers rely on other methods to resolve disputes such as ombudsman services (i.e. IDC).

Excesses, deductibles and franchises

Excesses

An excess is the first amount of each and every claim for which the insured is responsible.

Theoretically, the insured is their own insurer for the value of the excess. Excesses may be:

- compulsory: imposed on the insured by the insurer;
- voluntary: being accepted by the insured in return for a premium discount.

In motor insurance, a compulsory excess may be imposed on a young or inexperienced driver for motor insurance, while an example of a voluntary excess is where an insurer offers .

Deductibles

A deductible is, essentially, a very large excess. This is increasingly prevalent with commercial insurances. This could be found where, for example, a large industrial company accepts the risk for fire damage up to US\$50,000, and is essentially its own insurer for claims under this amount.

It should be noted that although there is a distinction in terms of size, in some sectors of the market place the terms 'excess' and 'deductible' are interchangeable.

Excesses, deductibles and franchises

Franchises

A franchise is a fixed amount or period that acts as a threshold to determine whether claims are payable. Once the amount or period is exceeded, the claim is payable in full: nothing is deducted. If it is not exceeded, however, nothing is payable.

Franchises are not common, but are sometimes found in engineering business interruption insurances. Time franchises (e.g. seven days) are common with sickness cover under personal accident and sickness insurance policies.

For example, if a policyholder had a health insurance policy with a time franchise of five days and was off work for four days none of the claim would be payable, but if they were off for six days, the whole claim would be payable for all six days.

Warranties, conditions and representations

Warranties

Warranties are promises made by the insured relating to facts or performance concerning the risk. It is an undertaking by the insured that:

- something will or will not be done; and/or
- a certain fact exists or does not exist.

It may relate to past or present facts (i.e. a promise that something is or was so) or it may be a continuing warranty, in which the insured promises that a state of affairs will continue to exist or the insured will continue to do something.

Warranties are used to control the aspects of a risk which insurers believe are the most important. As a result, they have the most significant impact on an insured or the subject matter if breached.

Example of warranties:

- Property risk – there is a warranty that the premises must be protected by a fully operational sprinkler system.

Warranties, conditions and representations

Conditions

Policy conditions are terms, which although they are not warranties, impose important obligations upon the insured.

The effect of a breach of condition is very serious and will vary depending on which of the following categories the condition falls in:

- conditions precedent to the contract;
- conditions subsequent to the contract; or
- conditions precedent to liability (or to recovery).

Warranties, conditions and representations

1. Conditions precedent to the contract must be fulfilled before the formation of the contract. The implied conditions (e.g. insurable interest, utmost good faith etc.) fall into this category. Non-compliance raises doubts as to the entire contract's validity.
2. Conditions subsequent to the contract must be complied with once the contract is in force, e.g. notification of changes to the risk.
3. Conditions precedent to liability must be complied with for there to be a valid claim, e.g. the claims conditions saying that a claim should be notified promptly. If not complied with, insurers may avoid liability for a particular loss, but need not repudiate the contract.

General Insurance

Day 4 Insurance Claims

Legal requirements for a claim

When someone takes out an insurance policy, a legally binding contract is formed between the insurer and the insured. The policy document issued by the insurer is proof of this. Most policies provide indemnity to the insured.

When an insured makes a claim, it is their responsibility to prove that they have a valid claim. This is known as *onus of proof*. The insured will need to prove two things:

- That an insured peril arose: the insured must prove that they have suffered a loss that was directly caused by a peril that is covered by the policy. This may start with the completion of a claim form or telephone notification, but other supporting evidence could also be required.
- The amount of the loss: where the policy is one of indemnity, the insured must also prove that they have suffered a financial loss and its size. The insured cannot simply claim for a lost or damaged item without proving the value of the item. Proof would include a purchase receipt, repair account or a valuation. The important issue is that it is not the insurer's duty to prove the value of the loss.

Legal requirements for a claim

Should an insurer refuse to pay a claim because of, for example, the operation of an exclusion, then the onus of proof moves to the insurer, which must prove that such an exclusion applies.

The insurer has its own duties and responsibilities in respect of a claim. It will need to ensure that:

- cover was in force at the time of the loss (or when the claim was made, under certain policies);
- the insured is the same as that named in the policy (or is the person entitled to indemnity);
- the peril (or event) is covered by the policy (or not specifically excluded under an all risks policy);
- the insured has taken reasonable steps to minimize the loss (mitigation);
- all conditions and warranties have been complied with;
- the duty of disclosure has been complied with;
- no exceptions apply; and
- the value of the loss is reasonable.

The insurer has a duty to its other policyholders (and shareholders, if appropriate) to ensure that all claims payments are fair and are made on time.

Policy conditions That affect the claim:

Some policy conditions can affect the claim amount:

- The **sum insured** (in respect of property insurance) or a limit of liability (in respect of liability insurance): this forms part of the policy and limits the maximum amount recoverable. Claims for losses above this amount will not be met in full.
- The **average clause**, in the case of under-insurance for property insurances: this states that the amount paid will be reduced in proportion to the amount of under-insurance.
- Voluntary or compulsory **excesses or deductibles**.

Duties of the insured after a loss

Implied duties

These are imposed by law, whether or not they are actually found in the policy wording. For example, the law may require that the insured should:

- act as though they are uninsured, and take all reasonable steps to minimise the loss;
- advise the appropriate authorities as necessary in the event of loss or damage, e.g. advising the fire service in the event of a fire or advising the police in the event of a theft;
- take all steps to prevent a loss from spreading, e.g. attempt to contain a fire; and
- not hinder the insurer in the claims investigation process and must assist the insurer where possible with all aspects of dealing with the loss, including helping it to recover its outlay where recovery opportunities exist.

Failure to comply with these conditions could render the claim invalid.

Duties of the insured after a loss

Express duties

These are always written into the contract and are usually found as conditions in the policy.

A breach of these conditions allows the insurer to reject a particular claim, if the breach of the condition is connected to the circumstances of that claim.

There is always a condition setting out the insured's duties in the event of an insured event occurring. It is often entitled 'Claims procedure' or 'action by the insured'.

Although the condition may vary in length and detail from policy to policy, the action required by the insured will be to:

- notify the insurer promptly;
- involve the emergency services, if appropriate;
- take reasonable steps to prevent further damage; and
- give proof and details of the loss in writing within a certain timescale.

Documentary evidence

It is the insured's duty to prove that a loss has occurred and to demonstrate its size. The precise nature of the proof needed will depend on the policy wording. We will now consider the way that a consumer can report their claim and examples of the supporting evidence needed for different types of claim.

- First notification of loss (FNOL)
- Claim form
- Supporting evidence

First notification of loss (FNOL)

Most insurers operate a first notification of loss process (FNOL) in order to quickly gather details about the claim. This is usually a telephone process whereby the customer calls a hotline to report the claim to a dedicated claims team. In some instances, this can be done online or via a smart phone app and, as technology expands, we can expect to see more notifications via non-traditional ways. For example, an alert from a telematics device automatically triggering the FNOL process, following a motor accident.

Claim form

If a claim form is required, it will either be issued on the conclusion of the FNOL call or directly by the broker that sold the policy to the insured (either as physical copies in the policy issuing office, or e-copy via email or online).

The purpose of the claim form can be summarized as to:

- establish whether the insured is entitled to indemnity under the policy. The insurer must satisfy itself that:
 - the loss (actual or potential) is covered under the terms of the policy, and
 - the information given on the claim form is consistent with that given on the proposal form;
- provide sufficient information to permit the insurer to begin processing the claim (if appropriate);
- enable the insurer to make an assessment of the potential severity of the claim;
- enable the insurer to assess whether there may be a potential third party claim (in respect of motor and liability insurance); and
- enable the insurer to consider whether any potential recovery rights exist.

All these issues have an important impact on the claim liability and therefore the reserves.

Supporting evidence

In addition to the notification information, additional evidence and/or enquiries could be made. These will be different depending on the type of claim, as the following examples show.

Theft claims	The details given at notification can often be compared with the list given to the police by the insured
Motor liability claims	Images/dashboard camera footage of the incident and satellite images of the location may be reviewed as necessary, as well as engineering reports
Personal injury and sickness claims	First Information Report (FIR), medical evidence and/or doctors' certificates, final police investigation report, death certificates and coroners' inquest judgments will be examined, as applicable
Motor damage claims	Vehicle registration documents in respect of total loss motor claims or vehicle theft would be appropriate

Different types of experts may also be used in the investigation process, for example:

Solicitors	to give legal opinions, or to commence or defend legal proceedings
Surveyors	to estimate rebuilding costs
Doctors	to verify or assess the severity of injuries and assist in rehabilitation
Motor engineers	to verify the damage caused and agree repair costs with the garage
Loss adjusters	to investigate the cause of loss and adjust claim settlement amount

Proximate cause

‘Proximate cause’ was defined in the UK case Pawsey v. Scottish Union and National (1907) as:

“The active, efficient cause that sets in motion a train of events which brings about a result, without the intervention of any force started and working actively from a new and independent source.”

It is one of the basic principles of insurance and is the last link in a chain of cause and effect. Insurers will, therefore, look first at the relationship between the peril and the loss to establish the proximate cause of the loss. The proximate cause of an incident is always the dominant cause and there is a direct link between it and the resulting loss.

Estimating and reserving

Claims reserving is the process that a company carries out in order to assess the level of funds that are required to meet current and future claims liabilities. It is a key indicator of whether a company is financially solvent.

Claims reserving is required for internal and external reporting purposes and for monitoring financial performance. It is used to assess the:

- overall financial performance of the company, as the claims reserve will affect the net profit and net worth of the company;
- relative profitability of the various classes of business; and
- adequacy of premium rates.

In essence, in order to establish the size of reserve that is required:

- a value is placed on each claim; and
- an allowance is then made for direct claims expenses, e.g. the fee charged by a loss adjuster who has been called on to use their expertise in establishing a claim.

Reserves are regularly reviewed to ensure they continue to reflect the likely cost of the claim.

Fraud

What constitutes insurance fraud?

Insurance fraud can be illustrated by the following examples:

- inventing a loss event that never took place, e.g. a burglary at home;
- exaggerating the number of items stolen during an otherwise honestly reported break-in;
- deliberately creating an insured event, e.g. throwing paint on a carpet at home; and
- exaggerating the effects of an insured event, e.g. claiming compensation for whiplash after an innocuous car accident where no injuries were sustained.

It is difficult to quantify insurance fraud because it can go undetected. However, quantifying it by collecting data on the types and amounts of fraud is becoming increasingly important. This is because identifying and quantifying the effects of fraud is the first step towards eliminating it.

Fraud

Fraud prevention

Fraud prevention is best undertaken at a strategic level and most jurisdictions will have some form of insurance bureau to lead the insurance industry's collective fight against insurance fraud. An insurance bureau will act as a central hub for sharing insurance fraud data and intelligence. Using its position at the heart of the industry and its access to data the bureau can detect and disrupt organized fraud networks.

Insurance bureau use a range of data and intelligence to achieve two primary objectives:

1. To help insurers identify fraud and avoid the financial consequences.
2. To support police, regulators and other law enforcement agencies in finding fraudsters and bringing them to justice.

Fraud prevention and combat is becoming a global practice and regulators across the world are pushing hard to implement controls to minimize its impact.

Fraud

Fraud detection:

Technology is being harnessed in the drive towards *fraud detection*. This includes the use of pooled claims databases where insurers can share information with a variety of other insurers. With this practice, insurers can identify claimants who put in repeat claims by matching their new claims details against those already held.

The claims handler plays a vital part in detecting fraud. Methods of detection vary across the classes of business, but there are many common indicators. Examples of these include:

Fraud detection:

- claims made soon after a policy has been taken out;
- frequent change of insurer, which gives the impression that the claimant is trying to disperse the information held about them by frequent changes;
- uncharacteristic increase in the level of cover, e.g. a request to add accidental cover halfway through the policy term;
- financial difficulties, which may not be immediately apparent but may come to light. For example, when bank statements are provided to substantiate a loss of cash claim;
- prevarication by the insured;
- excessive pressure to settle;
- inconsistencies in the story given;
- lack of co-operation (a genuine claimant has nothing to hide and would want their loss to be remedied as soon as possible);
- poor or missing documentation, e.g. a total lack of receipts to substantiate purchase; and
- perfect documentation, which appears to be 'too good to be true' to the experienced claims handler.

Fraud detection:

Other measures within the insurance industry have also combated fraud, whilst actually being implemented to enhance customer service and cut costs, for example:

- completing claims forms over the telephone: individuals often find it harder to lie directly, as opposed to when merely filling in a form;
- claims settlement by replacement rather than cash:

It is most important for insurers to detect and eliminate as much fraudulent activity as they can in order to maintain a profitable account. Most of the larger insurers now employ one or more in-house fraud detection teams. These tend to be staffed by insurance fraud detection experts who are often people with experience in the surveillance or security services and the police.

Consequences of fraud

If a fraudulent claim is paid, it will have an impact on all the various parties concerned:

The insurer: The cost of fraud is enormous. If individual insurers fail to take action on this, it will have an impact on their bottom line (profit), claims costs will rise, meaning premiums will too, making them less competitive. They may even get a reputation as a 'soft touch', which may lead to genuine insureds avoiding them whilst attracting an ever-growing number of fraudulent claims.

The insureds: Genuine policyholders will be affected by the commensurate increase in premiums, not just the fraudsters.

Fraudulent claimants: If they get away with it once, the temptation will be there to continue this practice in the future.

It is important that insurers are seen to prevent fraudulent claimants, so as to protect the integrity of their genuine customers.

Related claims services

There are a variety of services that can be utilized in the claims handling and settlement procedures. In this section, we will deal with the following and their impact on the procedures:

- authorized repairers;
- uninsured loss recovery services;
- risk control/advice; and
- Third Party Administrators.

Authorised repairers

Insurers will often negotiate with various suppliers and/or repairers to provide services at a discounted rate, and at an agreed standard. This benefits the provider, the insured and the insurer.

Such contractors or suppliers are termed approved or authorised repairers. Motor insurance has the most prevalent use of approved repairers. Private motor insurers have a panel of authorised repairers and, when a claim is reported, insurers usually provide their insured with the details of such repairers in their area.

The main benefits of using approved repairers are:

- convenience;
- cost (a price reduction on labour and parts will normally be negotiated); and
- competence (as mentioned, approved repairers are vetted first and continuing quality control and monitoring takes place).

Uninsured loss recovery services

Uninsured losses are those losses that an insured may suffer that are not directly covered by a policy of insurance relevant to an insured event.

Other examples could be:

- the cost of a hire vehicle;
- loss of use (where a replacement vehicle cost was not incurred);
- personal injury;
- loss of earnings; and
- the cost of alternative transport, e.g. buses, trains.

This list is by no means exhaustive, and you should try to think of others.

Some insurance intermediaries provide help with recovering uninsured losses, but practices vary widely.

Uninsured loss recovery services

Uninsured loss recovery is a service that sits alongside the claims recovery carried out by an insurer's claims handlers. An insurer's recovery team will usually only try to recover the outlay they incurred.

However, that does not mean that the two are always exclusive. An insurer may agree to attempt to recover an insured's policy excess from a liable third party or their insurers. In practice, a liable third party insurer will often issue an excess cheque at the same time as an outlay cheque.

Risk control and advice

Companies use 'risk management' to control the risks that impact their business. Risk control is one of the three main elements of risk management. The other two are risk identification (which involves identifying the actual risks of loss that the company faces) and risk measurement (which involves evaluating the cost to the company of a particular risk coming into play). Risk control is concerned with minimising the adverse effects of an event, if and when it occurs.

Risk controls may be:

- financial
- physical

Financial risk control

It is unlikely that a policyholder would be able to remove every possibility of a loss occurring. Therefore, they need to make sure that money is available to meet the losses that do occur.

This they could do through:

- risk retention;
- risk transfer; or
- a combination of both.

Risk retention is when a policyholder decides to meet the cost of its losses itself. It can do this in a number of ways. For example, by simply paying for losses out of its own cash flow as and (when losses occur) by setting up a captive insurance company or by building up a separate fund which can then be used to meet the cost of any losses (self-insurance).

Risk transfer means that the responsibility for meeting the cost of any losses is passed on to someone else. The purchase of insurance is the most common way to transfer risk.

Physical risk control

Physical risk control refers to the practical techniques that are used to reduce the frequency and/or severity of losses.

It can be done through either:

- risk avoidance; or
- risk reduction.

Risk avoidance can often only be achieved by abandoning the prospective cause of a loss. As the cause of the loss may be something inherent to the company's business, this is generally neither practical nor desirable.

Risk reduction, however, can be achieved by taking practical measures to reduce the frequency and/or severity of a loss. Examples of such risk reduction measures would be the installing of sprinkler systems and fire breaks, establishing fire drills etc.

Recovery

An insurance contract is one of indemnity. The intention is to put the insured in the same financial position after a loss as they were before it occurred. Therefore, an insured cannot recover their loss from another source if their claim has already been settled by their insurer.

The insurer, therefore, has subrogation rights. These mean it can pursue any right of action available to the insured, which may reduce the insurer's loss. Essentially, the insurer 'stands in the shoes' of its insured and avails itself of the rights and remedies open to the insured.

The insurer can pursue a responsible third party to recover from them any payments it has made. There will usually be a condition in the insurance policy giving the insurer subrogation rights before any payment is made, but the insurer cannot actually recover until it has made payment. If a responsible third party has insurance covering their liability, their insurers may make payment, but any right of recovery will be against the third party directly.

Recovery of payments is most clearly seen with motor insurance, and insurers will often have whole departments dedicated to recovering monies from negligent third parties or will outsource this role to a dedicated supplier.

Salvage

Salvage is the damaged article that has been the subject of a claim. An important consideration for the claims department on settling a claim is whether a damaged item (the salvage) has any residual value.

Most insurers will have a condition in their policy wordings that (on settlement of a claim) the salvage will become the insurer's property. The insured has no right to abandon the property to the insurer: it is the value of the salvage to which the insurer is entitled.

When a motor insurance claim has been settled on a total loss basis, the insurers usually keep the salvage and sell it through specialist salvage companies to minimise costs. Alternatively, the insured may be allowed to retain the salvage. The claim payment will then be reduced by whatever amount has been agreed to be the value of the salvage.

The same principles apply with property insurance. For example, if a carpet is damaged by paint, the insured may want to keep the carpet and cut it down to use it in a smaller room. The insurer would then negotiate with the insured to pay a sum to retain the salvage (or reduce the payment to the insured by that amount).

Day 5 Insurance Portfolio Managment

Common practices for better corporate insurance portfolio management:

- **Comprehensive Risk Assessment:** Regularly identify, quantify, and prioritize risks across operations, supply chains, and geographies. Use data-driven tools and engage stakeholders in the process.
- **Tailored Program Design:** Structure insurance programs to match your company's unique risk profile — balancing retention (deductibles/self-insured layers) with transferred risk (insurance).
- **Diversify Carriers & Relationships:** Avoid over-reliance on one insurer. Build strong relationships with multiple carriers to ensure competitive terms, flexibility, and continuity.
- **Benchmark & Review Regularly:** Benchmark coverages, pricing, and terms against peers and industry standards to identify gaps or improvement opportunities.
- **Leverage Captives & Alternative Risk Financing:** Consider captives, parametric solutions, or other alternative risk transfer options to optimize costs and improve control over risk financing.

Common practices for better corporate insurance portfolio management:

- **Claims Data & Analytics:** Continuously monitor claims data for trends. Use analytics to identify root causes, adjust programs, and improve loss prevention.
- **Integrate Risk Management:** Align insurance purchasing with broader enterprise risk management (ERM) frameworks to ensure a strategic, rather than reactive, approach.
- **Maintain Robust Documentation:** Keep clear records of policies, endorsements, claims, and correspondence — critical for renewals, audits, and disputes.
- **Compliance & Regulatory Monitoring:** Ensure programs comply with local and international regulations, especially for multi-national operations.
- **Expert Partner Engagement:** Engage brokers, advisors, and legal counsel with deep sector expertise to support placement, wording negotiations, and claims advocacy.

Choosing the right risk partner Broker/Insurer:

Corporates can choose between working with a broker, directly with insurer's and even in some cases setting up a captive for them Self. Regardless of the approach below is a list of some key factors can help you assess the risk partner:

Underwriting Capabilities & Appetite:

- Sector Expertise: Verify underwriter experience in your industry segment. Evaluate track record in complex or bespoke coverages.
- Capacity & Limits: Confirm ability to provide required limits per policy and participation in layered programs, especially on high severity exposures.
- Policy Wording Flexibility: Test their approach to manuscript wording, endorsements, and tailoring extensions/exclusions rather than pushing standard forms.

Claims Experience:

- Claims Settlement Practices: Evaluate average claim closure times, litigation frequency.
- Reinsurance Strategy: Understand insurer's reinsurance programs, retention levels, and counterparty concentration risks.

Other Factors:

- Global License Footprint: what is the size, is the partner local, regional or global?
- Credit Ratings: Analyze AM Best, Moody's, Fitch, and S&P ratings. Look at not just headline ratings but also outlook (positive/stable/negative) and recent rating actions.

Insurance budgeting and cost control

Layering & Program Design

- Limit Benchmarking: Benchmark policy limits and excess layer pricing against peer and industry data.
- Attachment Point Efficiency: Evaluate attachment points vs. modeled loss volatility to avoid over-insuring attritional layers.

Broker & Insurer Cost Controls

- Fee Negotiation: Audit broker remuneration and align to value-added deliverables rather than % of premium.
- Commission Rebates: Seek commission rebates or fee-only structures on high-premium programs.

Claims & Risk Engineering ROI

- Loss Prevention Spend: Track and justify risk engineering and safety program investments by measuring claims frequency/severity impact.
- Recoveries & Subrogation: Aggressively pursue third-party recoveries to offset net retained losses

Continuous Monitoring & Reporting

- Variance Analysis: Compare forecast to actual monthly claims and premium trends, adjusting forecasts mid-year.
- Stewardship Reviews: Conduct quarterly insurer/broker reviews on performance vs. service guarantees and cost targets.

The Mall Insurance Proposal

The Factory Insurance Proposal

The Mall Claim

The Factory Claim



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