Achievable

CASUALTY INSURANCE DUMP SHEET

Insurers, producers and underwriting

Where insurance comes from

- **Service providers** support insurers instead of issuing policies — claim-adjusting firms, inspection bureaus, and rating organizations such as ISO
- **Government** writes what the market will not
  - Federal: NFIP, Federal Crop Insurance, TRIA
  - State: unemployment and workers compensation, and residual markets — FAIR Plans and Joint Underwriting Associations
- **Private commercial insurers** need a **certificate of authority** from the state to be admitted (authorized)
  Only surplus lines brokers and reinsurers may transact without one. An insurer without one is non-admitted.
- Classified by state of domicile:
  - **Domestic:** chartered in this state
  - **Foreign:** chartered in another state
  - **Alien:** chartered in another country
- **McCarran-Ferguson (1945)** left insurance to the states after the South-Eastern Underwriters decision made interstate insurance commerce, and gave insurers a limited antitrust exemption

How private insurers are organized

- **Stock:** owned by stockholders, who take stock dividends; writes **non-participating** policies. Most P&C insurers
- **Mutual:** owned by its policyowners, who take **policy dividends**; writes **participating** policies
- **Reciprocal:** subscribers insure one another under individual indemnity agreements, each with an account, managed by an **attorney-in-fact**
- **Fraternal:** member societies; mostly life and health, rarely P&C
- **Lloyd's of London** is a marketplace, not an insurer — members group into syndicates but stay individually liable. **Excess and surplus lines** are the risks no admitted carrier in the state will write
- **Reinsurance:** one insurer cedes part of a risk to a reinsurer. The **ceding company** stays responsible to its own insured
  - **Facultative:** each risk offered and judged one at a time
  - **Automatic (treaty):** accepted in advance
  - **Quota share:** the reinsurer takes a set percentage of premium and of loss
  - **Excess of loss:** the reinsurer pays only above a stated amount

Marketing systems, authority and binders

- **Agent:** represents the INSURER under a written appointment
  The agent's act is the company's act — an application taken, a premium paid and knowledge held by the agent all belong to the company.
- **Broker:** represents the APPLICANT, and may place business with several insurers
- **Solicitor:** works for an agent or broker — solicits, collects the initial premium and delivers policies, but **cannot bind coverage**
- **Direct writers** sell through salaried employees; **direct response** sells by mail and advertising, at limited benefits and low premiums
- Three kinds of producer authority:
  - **Express:** what the contract grants in writing
  - **Implied:** what is necessary to carry out the express authority
  - **Apparent:** what the insurer's conduct leads an applicant to believe — a terminated agent still holding company forms
- **Fiduciary duty:** premiums are held in a trust account, apart from the producer's own funds. The standard of care is the **prudent person rule**
- **Binder (binding receipt):** a temporary contract giving immediate coverage — the insurer is bound even if underwriting later declines the risk. It takes the application AND the initial premium
- **Conditional receipts are not used in P&C** — coverage is bound at once or deferred to issue. With no initial premium the insurer may require a no-known-loss statement or an inspection at delivery

Underwriting

- What the underwriter reads:
  - **The application** — the most important source
  - **The producer's report** — field underwriting: the questions asked, the demeanor observed, the red flags documented
  - **Inspections**, to confirm the property exists and is as described
  - **Consumer reports** — credit, and investigative reports from employers and neighbors
- Applicants are classed **preferred**, **standard**, **substandard** or uninsurable. Rates turn on loss experience, occupancy, construction and exposure, and on the **loss ratio** — incurred losses over earned premium
- Underwriting discriminates on risk, which is lawful. **Unfair discrimination** — race, national origin, sex, religion — is not
- **Fair Credit Reporting Act:** the signed application is the authorization. Decline on a consumer report and the insurer must send an adverse action notice naming the reporting agency; the applicant asks that agency for the report, free within 60 days
- **Adverse selection:** the worse the exposure, the more insurance it seeks
- **Rating services** grade claims-paying ability — A.M. Best runs A++ and A+ (Superior), A (Excellent), then B, C, D (Poor), E for regulatory supervision, F for liquidation. Private, and not regulated by the NAIC
- **Waiver** is the insurer giving up a right, such as cancelling after accepting late payments; **estoppel** stops it taking that back to the insured's harm. Both apply once the policy is in force, not in underwriting