Lecture 2.

Structure of the market – buyers, intermediaries, sellers.

1. Buyers.
    a. These can be Personal or Commercial. Personal focuses on individuals and Commercial focuses on businesses. Both buy to compensate for risks which are financial.
2. Intermediaries
3. Sellers
    a. Offering insurance protection. These are insurance companies that can either be proprietary or mutual. Proprietary are those owned by shareholders (it is owned by people who have invested money) ex Mapfre.
    b. Mutual companies are owned by the policy holders ex BUPA in the UK. So if you buy a life insurance from BUPA, you become part of the company. They pass their profits to the shareholders by ways of premiums or by corporate social responsibility. It is part of the company strategy that go towards the society. They have to be seen that they are not about making profits .In the UK there are Mutual Indemnity Association, which are strong to insure Marine risks, especially Protection and Indemnity Clubs. These come together to create a fund, but this fund is created from those with common interest in Marine. When there is a collision of 2 ships, the insurers of these ships only pay ¾ of the loss. There is 25% not covered, so the ship owners come together to create a fund and come together to pool money to cover that shortfall that the insurance market does not provide in real terms.
    c. Marine is a very important market place in insurance – LLOYD's . It is not the bank, but the LLOYD's market, it is a place. See note it is a place where insurance transactions can take place. The LLOYD's corporation provides a medium in which insurance can take place. The Syndicates are a group of investors known as Names. These Names are groups of people (wealthy) who are investing i.e. by taking a part of the responsibility, so they are promising to pay the ensuing claims. Nowadays, the people behind the risk are corporate companies. Names had unlimited liability. The history of LLOYD originated from Marine Insurance. Edward Lloyd was the founder of Insurance.

Captive Insurance is a type of self-insurance, because the company is transferring its portfolio to a company that is on its own. Eg Air Malta and Air Malta Insurance Company. SO you have your own insurance company ensuring the risk for your own company. They place this risk with a re-insurance company.
Where there is Risk, there has to be insurance. Ex BOV created MSV life. SO banks and Insurance companies have common interests, so there is Bancassurance. The Regulator of Malta (MFSA) allows Banks to offer insurance to life insurance and credit.

Affinity Groups are groups that have large databases. There could be Antique collectors, racing car enthusiast, old people … so these are groups that bring together people of common interest or status. Once you have these people, you are in a position to do business.

Intermediaries are those that bring together the buyers and sellers. The main intermediaries will be the agents called Tied Insurance Intermediaries (TII). There are also brokers, consultants and Salesmen.

Life assurance covers death. Death of whom?

There could be these three types of situations:

- Cover of the life assured – if he/she dies the payment is given out. (A)
- The life assured might be a person who has his life assured (B) but whose policy is paid by somebody else (the policyholder). (in terms of a creditor and a debtor).
- The beneficiary is the person who is going to receive the money. Normally a policy is between the policyholder and the beneficiary. If the beneficiary is not declared in the policy, then the proceeds will be given according the legal heirs of that person.

We are covering death and we are covering any death (natural death, death by illness/disease, murder, however suicide is excluded).

This policy can be bought as a stand alone policy and as a group (employees) and even as a joint basis (husband and wife)

Term assurance (level term) works on this basis: E.g. a policy that is for 20 years and there is a sum assured agreed upon which is €20,000 and this depends on how much you afford to pay the premium. What happens in a term policy is that the policy is taken out and if death occurs during the policy period, then the sum assured is paid out. If there is no death within this term, nothing will be paid out. NO DEATH = NO PAYMENT. This is taken out mainly when you have a loan outstanding. It is the cheapest form of life assurance.

Decreasing term is when you take out a loan in year 1 for €20,000 every year you need less protection until it comes to €0, the loan balance is decreasing when you repay a loan and so you take assurance to reflect the sum outstanding to the bank. E.g. year 1 €20,000, year 2 €19,000, etc. it is the cheapest of the products, because the premium is cheaper because the sum assured is decreasing. It has a negative slope curve (like a demand curve).

Under term policy, the assurance company will charge a level premium every year to cover the risk of death during a term, for example 20 years. So, if death occurs during this term, the agreed sum of money will be paid known as the sum assured will become payable. A variation of this arrangement could be a decreasing term policy which also pays out a sum of money in the event of death during the term. However, the sum assured payable is reduced very year to reflect the outstanding balance that is owed to a bank in the case of a loan repayment. The premium will be cheaper in a decreasing term than in a term assurance.

Endowment is exactly the same in principle as a term policy in so far as the payment of the sum assured during the term. A life policy for 20 years is taken out and you have a sum assured for €20,000, the Endowment will still pay out but it will only pay either upon death or **upon the expiry (**the policyholder survives the whole term) **of the policy whichever comes first.** This is mainly taken out if you have a loan but you still think about investment. The downside of this is that the premium is more expensive.

Whole of life – there is no timeline, this is a policy that pays out a sum of money and this will be paid out when death occurs. This is mainly done when retired people would want to leave some sum of money to their dependants. Premium depends on the age. It is one thing if you start the policy at 118, another if you start at 45 and another if you start the policy at 60 years of age.

Personal Accident

This is a type of policy which pays a benefit. (a benefit policy is one which pays out a lump sum of money in case of a covered contingency). So this pays a lump sum. It is an annual policy, unlike life insurance which runs for a number of years.

They run for a period of 12 months renewable. This policy could be bought stand-alone, ie could be a product which is sold alone, Or, in combination with other products. (Eg Travel policy would include personal accident or property insurance). It is also one which is geographically bound, ie, the policy will operate only if the accident occurs within a specified geographical location(Local, Europe, worldwide).

It would also specify if it is for 24 hours or for Work Basis (ie to be covered only during the time of work). It covers the policy holder in terms of an accident. The definition of accident is something which is outwardly, violent and visible.

If you are run over by a car, it is outwardly as it is external, violent is when you are seriously injured, and it is visible. (A heart attack is visible, so it is not an accident) . To fall off a ladder is also an accident.

Complex example: An old man has a heart attack while driving and crashes. The heart attack is the more dominant in this case so this event would not be covered.

Another example: Breath gas -> faint -> dies. No cover as it is not violent.

Paceville example: Breathing of Gas – Stampede-Accumulation of people- failure of premises – injury. If there was a Personal accident policy it would pay.

The Grade of what is worst after an accident.

1. Death
2. Loss of Sight
3. Loss of Limbs (hands or the feet)
4. Permanent total disability (PTD)

When any of these 4 above occur as a result of an accident a sum of money is paid out (a capital sum).

5. Permanent partial Disability (PPD) – a % of the capital sum is paid. (% from the Continental Scale of Benefits table)
6. Temporary Total disability – for a period of time you are unable to work. This is when the injury is preventing you from working, but you are going to heal. Eg Broken arm.
7. Temporary partial disability – this is a case of experiencing an injury which renders you inactive from your daily routine, but you can still do something else. Eg a broken arm for a builder, but you can still perform supervisory duties, or a watchman at night.