

Chapter 3

Insurance Company Organization and Regulations

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Characteristics of Different Type Companies

- Stock Company – owned by stockholders
- Mutual Company – owned by policyholders
- Reciprocals
 - Give-and-take
 - Attorney-in-Fact
- Lloyd's Associations
 - Voluntary Association
 - Syndicate

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Characteristics of Different Type Companies Cont.

- Fraternal Benefit Societies
 - Members Only
 - Not-for-Profit
 - Lodge System
- Risk Retention Group
 - Protects against product liability exposures
- Self-Insurance
- Private vs. Government (Residual Market)
 - Government becomes involved when not readily available through the private sector

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Lines of Insurance **(Mono-line vs. Multi-line)**

- Life
- Health
- Property – First Party Coverage
- Casualty – Third Party Coverage

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Personal vs. Commercial

- **Personal** – coverages that protect an individual or family
- **Commercial** – coverages designed for businesses

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People Involved

Agent Duties

- Countersigning
- Field underwriting
- Quotation
- Application
- Suspense or diary system
- Service needs
 - Errors and Omissions insurance

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People Involved Cont.

Agent Authority

- Principal
- Express
- Implied
- Apparent

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People Involved Cont.

Insurance Marketing Systems

- Exclusive agency system
- Direct writer system
- Direct response system
- Independent agency system

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Other Insurance Professionals

- Solicitor
- Broker
- Excess or Surplus Lines
- Producer
- Consultant

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$$\text{Loss Ratio} = \frac{\text{Incurred Losses}}{\text{Earned Premium}}$$

Earned Premium – premium paid in advance for which coverage has been received

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Other Insurance Functions

- Underwriting Dept.
- Policy Issue and Admin.
- Claims Dept.
- Actuarial and Statistical Dept.
- Accounting Dept.
- Investment Dept.
- Legal Dept.
- Audit Dept.
- Loss Control Dept.
- Agency Dept.
- Marketing Dept.
- Reinsurance Dept.
- Support Dept.

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Regulation

- Regulation is at the state level
- Department (office) of Insurance headed by a Commissioner (director)
- Commissioners of the various jurisdictions comprise the NAIC (National Association of Insurance Commissioners)

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Regulation Cont.

➤ Four Areas of Regulation

1. Companies
 - Authorized (admitted), unauthorized (nonadmitted)
 - Domestic, foreign, alien
2. Agent
 - Fiduciary
 - Misrepresentation
 - Twisting
 - Rebating
 - Unfair discrimination

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Regulation Cont.

➤ Four Areas of Regulation Cont.

3. Ratification (forms, endorsements, rates)
 - Prior approval
 - File and use
 - Use and file
 - Open competition
 - Mandatory
4. Enforcement
 - Cannot imprison

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