

FUNCTIONS OF UNDERWRITING IN PROPERTY INSURANCE

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Abstract: This article describes the underwriting processes in the insurance industry, the study of the terms underwriting and underwriting, as well as their role in insurance business processes, the process of implementation of insurance underwriting in property insurance, as well as the stages and processes of underwriting in the insurance company studied.

Keywords: risk, insurance, insurance company, insurance underwriting, underwriter, risk management, types of insurance, insurance premium.

1. Introduction

The main trends in the development of insurance are related to the need to create a reliable means of protecting the interests of people, society, the state, economic entities from risks. From this point of view, underwriting is the main link of managing the operational activity of the insurance company, and the result of underwriting mainly determines the result of the insurance company.

Due to the development of the insurance market, there is an increasing need for effective underwriting of property and other types of insurance by insurance companies, and insufficient methodological support for insurance risk acceptance processes.

The main problem facing insurance companies is to improve the methods of organizing and managing the underwriting process in insurance, which allows them to work with the individual risks of the insured and improve the underwriting result of the insurance company.

2. Literature comment

The concept of underwriting is not used in our national insurance legal system. Directly translated from English, Underwriting – signing a document; Underwriter is translated as a person who signs a document.

Here are the comments given to this economic concept:

Chernova (2010) stated that insurance underwriting is the grouping of customers based on individual risk assessment to determine the feasibility of concluding a contract and establishing appropriate insurance conditions. The underwriting process includes selection of policyholders, determination of insurance conditions for each of them, and further analysis of underwriting results.

According to Shinkarenko's (2004) tariff, underwriting is the process of determining the rules of the risk assessment procedure and the conditions for its acceptance by the insurance company.

In Nikulina and Berezina (2012) research, underwriting is interpreted as a process of insurance business and it includes the following:

– for the purpose of forming and amending the insurance contract, acceptance of risks for insurance, determination of important conditions of insurance coverage, which includes determination of the degree of harmfulness of

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the sum insured for a certain type of insurance and the insurance portfolio as a whole;

- development of methodological materials for protection of one or another type of insurance included in the insurance portfolio (sub-portfolio);

- development of recommendations for reducing the risks accepted for insurance provided for in the important conditions of the insurance contract and control of their implementation by the insured.

Tulinov and Gorin (2000) defined the underwriter as:

A) a person who is qualified to assess risks, as well as determine premium rates and forms of insurance coverage that can be used to protect against identified risks. The term is derived from the insurance practice of Lloyd's, whereby each person wishing to assume a portion of the risks on his own liability entered his name under the amount and classification of the risk;

(B) an agent who may qualify as an underwriter for a particular type of insurance. In theory, the agent insures the proposal before sending it to the head office for consideration, that is, makes a preliminary decision about the validity of the risk based on the facts known to him. Therefore, he is the person who must inform the insurer about all the facts known to him that may affect the risk.

According to Juravlev (1994), an underwriter is a person responsible for the formation of an insurance (reinsurance) portfolio. He must have the necessary knowledge and experience to determine the appropriate level of risk, tariff rates and insurance conditions.

In his research, Burlyaev (2013) defines the underwriter as follows:

a) a natural or legal person who sells insurance policies to clients or provides insurance consulting services;

b) a qualified specialist in the insurance industry who has the authority to accept risks for insurance, determine tariff rates, agree on the terms of insurance of risks based on insurance legislation and economic expediency. Sometimes the activity of the underwriter is limited to reinsurance;

c) a member of Lloyd's Corporation, a person who signs insurance policies independently or under the control of the corporation;

g) insurer.

3. Research methodology

During the research, the role of underwriting in the organization of business processes of insurance companies, theoretical tariffs given to underwriting and underwriters, economic approaches to the organization of their activities, logical thinking based on empirical research, scientific observation, systematic approach methods were widely used.

4. Analysis and results discussion

One of the main business processes of the insurance industry is the underwriting of insurance contracts. Through this process of insurance activity, the main function of the insurance company is risk assessment and insurance acceptance. Despite the importance of this process, the concept of "underwriting" does not have a clear definition, nor is it clarified in any regulatory documents and standards.

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The operation of an insurance company is a complex and multifaceted process. Various aspects of this process reflect the performance of the relevant functions related to the attraction of the insurer's customers, the maintenance and storage of insurance contracts, and the payment in the event of an insurance event.

Implementation of each function occurs in the form of specific business processes. In general, the following main functions can be distinguished:

- 1) Insurance Marketing;
- 2) Price formation;
- 3) Insurance underwriting;
- 4) Compensation for damages;
- 5) Accounting;
- 6) Reinsurance;
- 7) Investment;
- 8) Actuarial analysis;
- 9) Other.

National insurance companies do not view underwriting as a competitive advantage because of the emphasis on high-quality underwriting on quantitative rather than qualitative indicators of economic performance.

The most common problem with the underwriting business process involves a lack of strategic planning.

The philosophy of underwriting is the general understanding of the development of the insurance company, the formation of its strategy, the principles of insurance, the planning of the share of the insurance market that the insurance company hopes to occupy, the insurance portfolio, the sales channels of insurance products, the formation of the target consumer group, and the clarification of the level of profitability expected from the implementation of insurance operations. .

On its basis, an underwriting policy is developed, which consists of a systematic combination of the insurance company's market segment, consumer groups, requirements for insurance objects, the amount of protection provided, the minimum amount of insurance sums and premiums, and decisions on insurance sums.


The underwriting policy is a separate document that reinsurers pay great attention to, so in the absence of this document, some reinsurance companies refuse to accept certain risks for insurance.

It is becoming common for reinsurance companies to require a special "change of underwriting policy" clause to be included in the binding insurance contract because the insurance company has no right to change the policy without the consent of the reinsurance company.

This is because the underwriting data file is the file that contains all the decisions made to insure each individual property, including the application, property inspection report, settlement sheet, signed changes, reinsurance approvals, correspondence with the client, photographs of the property and consists of others.

This file is necessary in the event of a change of employees, because it is impossible to insure the object for a new period or make changes to the current contract without having an idea about the formation of the initial tariff.

One of the mistakes is to combine the functions of salesperson and underwriter (even in the insurance world, the definition of this position appears to be "sales underwriter"), which leads to a conflict of interest. The seller-underwriter is more inclined to insure the risks of the bad quality of the objects in order to complete

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the plan or to get a commission, which causes the underwriting work to become secondary.

The purpose of the underwriting service in different insurance companies may differ depending on the policy adopted by the insurance company. As a rule, this is to ensure the target level of the technical result.

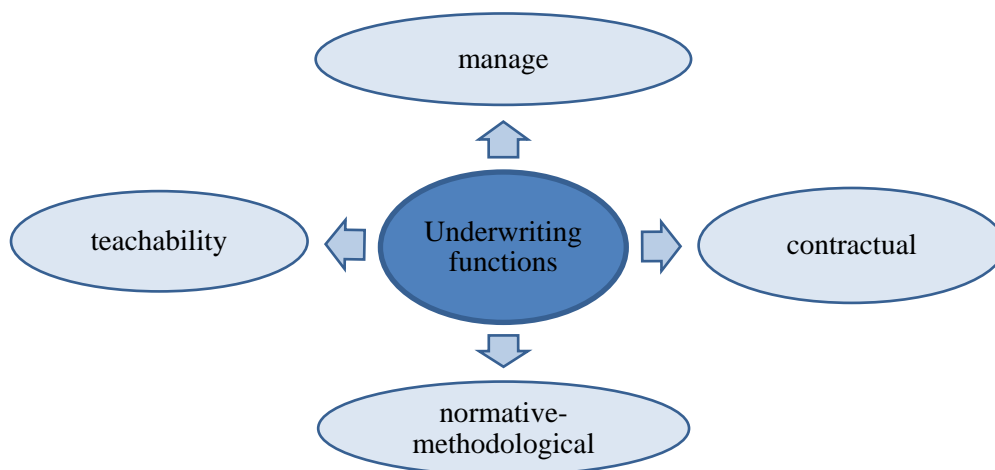


Figure 1. Underwriting functions

The main components of the control function are:

- formation of the annual underwriting policy - the insurance company's decision on the selection of insurance objects (formulated together with the underwriter and managers), the amount of insurance coverage provided, requirements for the quality of risks accepted for insurance, the amount of coverage, requirements for the quality of risks accepted for insurance, examination of objects determination of the minimum amount of the insurance premium for transfer ensures the development of the insurance portfolio in the target direction;

- insurance portfolio management is one of the main functions of an underwriter with a relatively large insurance portfolio. This is a regular analysis of the insurance portfolio in various fields and timely decisions on setting competitive insurance terms and rates for them, and on the one hand, achieving the required amount of payments and loss to capture the main market segments, the planned technical result indicators;

- public portfolio reinsurance - determining the amount of insurance sums that will be retained under the risk itself under these contracts; is to determine the sums of insurance contracts related to mandatory and optional reinsurance.

The contractual function components are as follows:

- selection of risks and formation of relevant insurance conditions;
- determining the insurance value, insurance amount, amount of discounts, and in some cases limiting the amount of payments, etc.;

- collecting additional information about the object and assessing risk factors when insuring unusual objects ;

- setting insurance rates. Insurance tariffs are calculated based on actuarial calculations, the task of underwriting is to select increasing (decreasing) coefficients

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in accordance with the base rate based on the specific characteristics of a specific insurance contract;

– determining the amount of commission fees or other forms of amount of sales value.

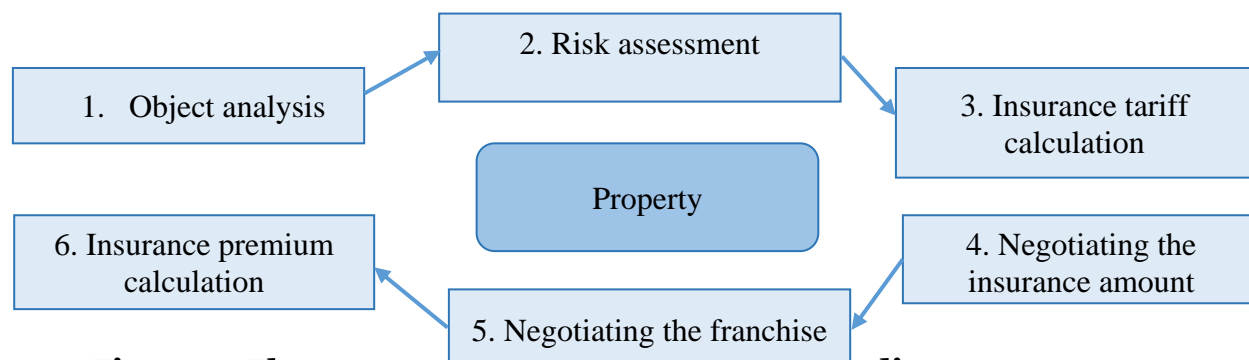


Figure 2. The sequence of operations for concluding a property insurance contract

The stages of contractual underwriting are as follows (Figure 2):

– data collection and analysis. Documents submitted by the insured (applications, questionnaires and other documents at the request of the insurance company) are the primary sources of information about the risk; the company's own information, if any, includes insurance contracts of the previous year; information received from the security service department; publicly available information in mass media and the Internet; information obtained after the pre-insurance examination. If necessary, the analysis of the collected data consists in applying the algorithm of actions to assess the risks of the insurance company;

– evaluation. After collecting and analyzing the risk data, the underwriter determines and evaluates the insurable risks, determines the insurance conditions, the deductible and the allowed rate. After the risk assessment, the insurance company sends an official insurance offer to the insured;

– conclusion of an insurance contract - a contract is concluded after all terms of insurance have been agreed with the client or intermediary;

– contract management. During the term of the contract, the initial insurance situation may change (for example, the insured may buy or sell new property, which requires an adjustment of the insurance amount and insurance premium, as well as taking into account additional risks). It may also require early termination of the insurance contract;

– contract extension. After the end of the insurance period, the extension of the insurance contract is negotiated with the insured and the insurance risk assessment is carried out. Underwriting policy, tariffs, risk assessment methods, property insurance value may change during the term of the insurance contract. Therefore, a new insurance offer is prepared for the new insurance period. This process is called re-underwriting - re-underwriting when renewing an insurance contract. Stages of the process of concluding the contract (Fig. 2).

The normative-methodological function consists of the following:

- formulation of insurance rules and making changes to them;
- formation of insurance products;
- method of determining standard and non-standard objects, their insurance;

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- development of tariff guidelines;
- participate in the development of technical conditions for the implementation of insurance portfolio management functions, the formation of model reports that allow to influence profitability management;
- testing employees and setting limits on their number;
- preparation of instructions for the conclusion of insurance contracts (registration rules, volume of documents required for conclusion, procedure for conclusion, etc.). Formulation of insurance cost determination methods.

The training function is manifested in the following, namely, the training of agents and sales managers. Includes training for new employees, skill development, and training when new insurance products are developed.

5. Conclusion

In conclusion, it should be noted that in the insurance sector, underwriting plays an important role as the main indicator of the initial and subsequent economic viability of the insurance process, the operational management system of the insurance company, marketing policy, tariff policy, and the adequacy of reinsurance.

Underwriting is the main factor affecting the reliability and stability of the insurance company's development and determining the quality of the company's financial management, strategic planning and budget management.

To carry out these tasks, qualified underwriters are needed in the fields and types of insurance. Unfortunately, there is no systematic training of them in national higher education today, there are only short-term courses, which do not fully cover the problems of underwriting.

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