FN241
Risk Management and Insurance
Insurance and Risk

Sakkakom Maneenop

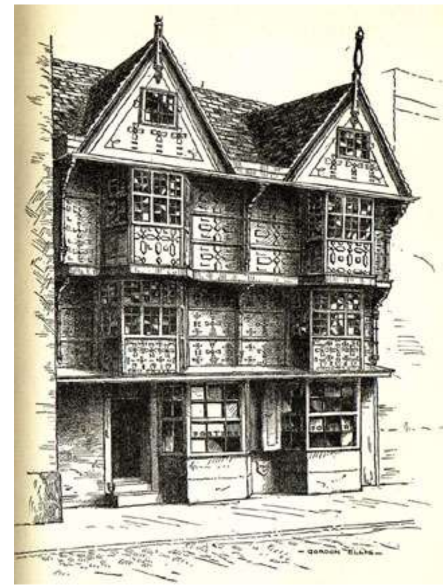
Insurance and risk

- History of insurance
- Characteristics of insurance and insurable risk
- Private and government insurance
- Benefits & costs of insurance to society

History of Insurance - Lombards

- Around 12th to 13th century, the earliest practice of marine insurance is associated with the Lombardy merchants in Italy
- The **Lombards** also established themselves in London and other cities and brought the practices of marine insurance with them
- The earliest known policy issued in London was written in Italian in 1547

History of Insurance - Lloyd's of London



- Edward Lloyd owned Lloyd's Coffee House in London with customers ranging from ships' captains, sailors, merchants, and ship owners
- He gained a reputation for trustworthy shipping news and even published Lloyd's News in the late 1600s, which became one of the very first newspapers providing shipping news
- Finally, **Lloyds Coffee House** became the recognized place for **obtaining marine insurance**

History of Insurance – 18th-19th century

- *Mid-18th Century:* Many insurance companies had substantial cash reserves so that they could start to act as **lending institutions.**

- *1790s*: Insurance companies became a primary source of finance capital and begin expanding into new markets. **U.S. insurance companies gained political and cultural influence**.

History of Insurance – 18th-19th century

- *Pre-1800s*: Life insurance was seen as a form of gambling/immorality in U.S. and U.K. Gamblers were **taking out policies on unrelated third parties** and turning profits when the third parties died.

- *Late 1800s*: Industrialization of society led to greater risk of injury, which, in turn, led to "accident insurance"

Thailand Insurance History

- การประกันภัยทางทะเลและขนส่งเกิดขึ้นเป็นประเภทแรก โดยวงการธุรกิจทำกันเอง จนกระทั่ง พ.ศ.2468 ก็มีกฎหมายกำหนดให้ผู้ประกอบการประกันภัยต้องได้รับอนุญาตก่อน
- ธุรกิจประกันชีวิตเริ่มสมัย ร.5 โดยบริษัทอี๊สต์เอเซียติก จำกัด ซึ่งเป็นตัวแทนของบริษัทเอควิตาเบิลประกันภัยแห่งกรุงลอนดอน
- ระยะแรก ธุรกิจประกันชีวิต ไม่ประสบความสำเร็จ เพราะคนยังไม่เข้าใจ มีรายได้น้อย และตัวบริษัทเองก็มีธุรกิจอื่น ๆ ที่สำคัญกว่า

Thailand Insurance History

- หลังสงครามโลกครั้งที่หนึ่ง ธุรกิจประกันชีวิตในยุโรปและอเมริกาขยายตัวมากขึ้น และขยายมาถึงเมืองไทยสมัย ร.6-7 ได้มีการติดต่อขอนุญาตประกอบธุรกิจกับกระทรวงพาณิชย์และคมนาคม จนสำเร็จในปี 2471 บริษัทต่างชาติแรกคือ Great Eastern บริษัทประกันชีวิตไทยแรกคือ ไทยประกันชีวิต ส่วนบริษัทประกันวินาศภัยไทยแรกคือ ไพบูลย์ประกันภัย
- ช่วงสงครามโลกครั้งที่สอง บริษัทต่างชาติหยุดดำเนินกิจการชั่วคราว และกลับมาเปิดใหม่หลังสงคราม รวมถึง AIA ด้วย
- ปี 2510 กระทรวงพาณิชย์ออก พรบ.ประกันชีวิตและ พรบ.ประกันวินาศภัย เพื่อควบคุมและส่งเสริมธุรกิจประกันภัย และมีเวอร์ชั่น update 2535 และมีแก้ไขเพิ่มเติมปี 2551 และ 2558 ซึ่งยังใช้อยู่ ณ ปัจจุบัน

Definition of Insurance

- **Insurance** (ประกันภัย) is the _______ of ________losses by transfer of such risks to insurers, who agree to _________ insureds (ผู้เอาประกัน) for such losses, to provide other pecuniary benefits on their occurrence, or to render services connected with the risk

Basic Characteristics of Insurance

- Pooling of losses
  - Pooling involves spreading losses incurred by the few over the entire group
  - Risk reduction is based on the Law of Large Numbers
  - According to the Law of Large Numbers, the greater the number of exposures, the more closely will the actual results approach the probable results that are expected from an infinite number of exposures.

Ideally Insurable Risk

1 Large number of exposure units

- Large group of roughly similar, but not necessarily identical, exposure units that are subject to the same peril
- To enable the insurer **to predict average loss** based on the law of large numbers

2 Accidental and unintentional loss

- **to assure random occurrence of events**
- If an individual deliberately causes a loss, he or she should not be indemnified for the loss

Ideally Insurable Risk

3 Definite loss

- The loss takes place at a **known time, in a known place, and from a known cause**
- And if the loss is covered, how much should be paid
- Some losses are difficult to determine and measure, e.g. sickness and disability

4 No catastrophic loss

- **to allow the pooling technique to work**
- Not incur losses at the same time
- Exposures to catastrophic loss can be managed by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KUMAMOTO
皆様が無事でありますように
心よりお祈りしています。

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  - 4.1) using reinsurance (ประกันภัยต่อ)
  - 4.2) dispersing coverage over a large geographic area
  - 4.3) using financial instruments, such as catastrophe bonds

Ideally Insurable Risk

5 Calculable chance of loss

- Average **frequency** and **severity** of future losses can be calculated
- to establish a premium that is sufficient to pay all claims and expenses and yields a profit during the policy period
- Some losses are difficult to predict → need government's help

6 Economically feasible premium

- so **people can afford** to purchase the policy
- For insurance to be an attractive purchase, the premiums paid must be substantially less than the face value, or amount, of the policy

Ideally Insurable Risk

- Based on these 6 requirements:
  - Most personal, property and liability risks can be insured
  - Market risks, financial risks, production risks and political risks are difficult to insure because….

Ideally Insurable Risk

- Based on these 6 requirements:
  - Most personal, property and liability risks can be insured
  - Market risks, financial risks, production risks and political risks are difficult to insure
    - They are speculative
    - Potential of each risk to produce a catastrophic loss is great
    - Chance of loss cannot be accurately calculated

Risk of Fire as an Insurable Risk

Requirements	Does the risk of fire satisfy this requirement?
1. Large no. of exposure units	
2. Accidental and unintentional loss	
3. Definite loss	
4. No catastrophic loss	
5. Calculable chance of loss	
6. Economically feasible premium	

Risk of War as an Insurable Risk

Requirements	Does the risk of war satisfy this requirement?
1. Large no. of exposure units	
2. Accidental and unintentional loss	
3. Definite loss	
4. No catastrophic loss	
5. Calculable chance of loss	
6. Economically feasible premium	

1 Types of Private Insurance

- Life and Health
  - Life insurance pays death benefits to beneficiaries when the insured dies
  - Health insurance covers medical expenses because of sickness or injury
  - Other plans, e.g.
    - Disability plans pay income benefits during a period of disability
    - Long-term care covers care in nursing facilities

Types of Private Insurance

- Property and Liability (sometimes called P&C or non-life)
  - Property insurance indemnifies property owners against the loss or damage of real or personal property
  - Liability insurance covers the insured's legal liability arising out of property damage or bodily injury to others
  - Casualty insurance refers to insurance that covers whatever is not covered by property, liability, and life insurance

Types of Private Insurance

- Private insurance coverages can be grouped into two major categories
  - Personal lines: coverages that insure the real estate and personal property of individuals and families or provide protection against legal liability
  - Commercial lines: coverages for business firms, nonprofit organizations, and government agencies

Property and Casualty Insurance Coverages

1. Personal lines
   - Private passenger auto insurance
   - Homeowners insurance
   - Personal umbrella liability insurance
   - Earthquake insurance
   - Flood insurance
2. Commercial lines
   - Fire and allied lines insurance
   - Commercial multiple-peril insurance
   - General liability insurance
   - Products liability insurance
   - Workers compensation insurance
   - Commercial auto insurance
   - Accident and health insurance
   - Inland marine and ocean marine insurance
   - Professional liability insurance
   - Directors and officers liability insurance
   - Boiler and machinery insurance (also known as mechanical breakdown, equipment breakdown, or systems breakdown coverage)
   - Fidelity bonds and surety bonds
   - Crime insurance
   - Other coverages

② Types of Government Insurance

- Social Insurance Programs
  - Financed entirely or in large part by contributions from employers and/or employees e.g. social security (ประกันสังคม)
  - Benefits are heavily weighted in favor of low-income groups e.g. National Health Security Office (NHSO) (หลักประกันสุขภาพแห่งชาติ หรือ สปสช)
  - Eligibility and benefits are prescribed by statute (พรบ)
  - Examples: Social Security, Unemployment

Social Benefits of Insurance

- Indemnification for Loss
  - Permits individuals and families to maintain financial security after a loss occurs
  - Permits business firms to remain in business and employees to keep their jobs

- Reduction of Worry and Fear
  - Offers "peace of mind"

Social Benefits of Insurance

- Source of Investment Funds
  - Collected premiums will be invested in various assets esp. government bonds and private companies
  - The investments increase society's stock of capital goods promote economic growth, and employment
- Loss Prevention
  - This activity helps reduce both direct and consequential losses
- Enhancement of Credit
  - Insurance makes a borrower a better credit risk – e.g. MRTA, LRTA

Social Costs of Insurance

- Cost of Doing Business
  - An expense loading must be added to the pure premium
  - An expense loading is the amount needed to pay all expenses, including commissions, general administrative expenses, acquisition expenses, and an allowance for contingencies and profit

Social Costs of Insurance

- Inflated Claims
  - e.g. Insureds inflate the amount of damage, exaggerate the amount and value of property stolen/damaged
- Fraudulent Claims
  - e.g. auto accidents are faked, phony burglaries, kill the insured for sum insureds
- Higher premiums to cover additional losses reduce disposable income and consumption of other goods and services