

Basic Principles of Insurance

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Homework #1

1. What is an insurance company? 5 points



Ans: Insurance companies are financial intermediaries which offer direct insurance or reinsurance services, providing financial protection from possible hazards in the future. Under an insurance policy, the insurance company undertakes to compensate the policyholder for losses caused by a predefined event against a fee, or “premium”.

2. What is insurance? 5 points

Ans: Insurance is a contract, represented by a policy, in which an individual or entity receives financial protection or reimbursement against losses from an insurance company. The company pools clients' risks to make payments more affordable for the insured. Insurance policies are used to hedge against the risk of financial losses, both big and small, that may result from damage to the insured or her property, or from liability for damage or injury caused to a third party.

3. How does reinsurance work? 5 points

Ans: Reinsurance occurs when multiple insurance companies share risk by purchasing insurance policies from other insurers to limit their own total loss in case of disaster. By spreading risk, an insurance company takes on clients whose coverage would be too great of a burden for the single insurance company to handle alone. Premiums paid by the insured are typically shared by all of the insurance companies involved.

4. Who are the insurance intermediaries? 5 points

Ans: The insurance intermediaries are as follows:

- **Insurance Agent.** is a natural person or legal entity representing an insurer to introduce insurance sales, prepare insurance contracts, collect premiums, and prepare for indemnification, based on a clearly specified framework of the agreement between the insurer and the insured. The insurance agent receives commission from the insurer it represents.”

- **Insurance Broker.** is a legal entity working for the benefits of the insured, providing consultation service and information relating to types of insurance, terms and conditions, and premium of the insurance contract; negotiating and preparing insurance contract between the applicant and the insurer; and selling insurance contract by receiving a brokerage commission in a legal manner from the insure
- **Reinsurance Brokers.** are intermediaries and consultants to insurance companies (insurers) and reinsurance companies (reinsurers). Put simply, a reinsurance broker acts just like an insurance broker. But instead of working with members of the public selling them insurance, reinsurance brokers work with insurers to sell reinsurance. A reinsurance broker is an intermediary individual or firm who is paid a fee or commission to find and place new business on behalf of both the insured client and insurer. This can involve negotiating rates or contracts while sourcing the best-suited policies on the market. In the case of reinsurance, the insured client is an insurance company looking to acquire protection or reinsurance from another larger insurance company for a specific risk or class of risks.

5. Briefly describe the component of Reinsurance Market Structure. 5 points

Ans: Those components are:

Structure of Reinsurance Market

Buyers (Insured)	Intermediaries	Sellers
<ul style="list-style-type: none"> • Insurance Companies • Captive Insurance Companies 	<ul style="list-style-type: none"> • Reinsurance Brokers 	<ul style="list-style-type: none"> • Reinsurance Companies

Just like any other markets, the structure of the reinsurance market comprises buyers, middlemen (intermediaries), and sellers. Here, the buyers are captive*/insurance companies that are looking for potential insurance policies' deals from reinsurance companies via reinsurance brokers.

***Captive Insurance Companies.** Captive insurers are licensed to insure principally the risks of their parents and related companies. A "captive insurer" is generally defined as an insurance company that is wholly owned and controlled by its insureds; its primary purpose is to insure the risks of its owners, and its insureds benefit from the captive insurer's underwriting profits.

Homework #2

1. List down 10 general insurance products available in Cambodia and briefly explain what it covers.

Ans: 10 general insurance products in Cambodia are as follows:

#	Products	Coverage
I.	Forte's Automobile Insurance	<ul style="list-style-type: none"> • Basic Third Party Liability cover protects you should you cause bodily injury to others or damage their car or other property while driving. You are also entitled up to \$1,500 for the cost of legal fees. • Comprehensive A comprehensive policy is tailored to give you maximum protection if your vehicle suffers accidental loss or damage, as well as protecting you against claims from others. The extensive nature of a full Comprehensive policy can ensure against passenger liability, theft, fire, strike, riot, civil commotion, and even flood damage.
II.	Forte's Travellers Insurance	<ul style="list-style-type: none"> • Baggage and personal effects losses (\$1.5k-\$3k) • Expenses for overseas medical (\$50k-\$100k) • Loss of personal money (\$300-\$600) • Personal liability (\$250k-\$500k) • Hijack (\$1.5k-\$3k) • accidental death and permanent disablement (\$30k-\$60k) • Loss of deposits and cancellation charges (\$3k-\$6k)
III.	Forte's Fidelity Guarantee Insurance	Protect the company from the fraudulent or dishonest acts committed by employees.
IV.	Forte's Fire Insurance	<ul style="list-style-type: none"> • building / apartment / home • Machinery & equipment • Stock • Furniture • Permanent fixtures • Appliances • Personal effects
V.	Forte's Contractors Plant and Equipment Insurance	Protect construction plant, machinery, and equipment deployed at project sites, for instance: <ul style="list-style-type: none"> • Road rollers • Pavers for asphalt or concrete finishing • Cranes • Vibrators

		<ul style="list-style-type: none"> Chain blocks, pulley blocks Site power-generating plant Mobile mixing plant Hauling equipment Excavators and loaders Bulldozer
VI.	Forte's Money Insurance	<p>Provide indemnity for loss of money whilst being:</p> <ul style="list-style-type: none"> transported kept inside safes, vaults, and or strongroom Kept in Automatic Teller Machines (ATM) <p>Or:</p> <ul style="list-style-type: none"> Loss from burglary after and during business hours Damage to company premises, safe, strongroom, and ATM
VII.	Forte's Property All Risks Insurance	<ul style="list-style-type: none"> physical damage: Indemnity against all risks of accidental physical loss of or damage to the property insured except as specifically excluded in the policy. Business interruption: Indemnity against interruption or interference of insured's business activities as a result of loss or damage to property insured under section 1.
VIII.	Forte's Burglary Insurance	<ul style="list-style-type: none"> all property of every description including stock items belonging to the insured or held by them in trust or on commission for which they are responsible while contained in the premises.
IX.	Manulife Education Protector	<ul style="list-style-type: none"> ensure child's future education Minimum coverage amount \$5k Child is insured up to 600% of coverage amount Policy owner is insured up to 1,200% of the coverage amount 100% coverage amount paid out to the child annually (25%/year) for 4 years Child is covered for death or critical illnesses Policy owner is covered for death, total disability, critical illnesses, and hospitalization
X.	Manulife MediCash	<ul style="list-style-type: none"> hospitalization due to illnesses or accident with: <ul style="list-style-type: none"> \$200/day, min 6h stay for ordinary hospitalization \$400/day for treatment in ICU

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2. Research and discuss the factors that influence people's attitude toward risks? Give at least 10 factors.

Ans: The factors that influence people's attitude toward risks are as follows:

- I. **Personality Traits.** Based on a research study which used the [Big Five Personality Traits](#) as the indicator had found out that **extraversion**, as well as being **openness** to (cognitive) experience, typically seeking adventure, and creativity and tending to be more risk tolerant. On the other hand, **neurotic** people are more pessimistic and anxious, as well as **conscientious**, diligent and careful, and accept less risk. This also seems to be the case for **agreeableness**, where people are usually described as warm, tactful and friendly, in association with efforts to build harmonious interpersonal relationships and team spirit, which can be an obstacle in making difficult or risky decisions.
 - II. **Age.** The older people get the less likely they lean toward risks. In contrast, people who are younger are more likely to take riskier decisions in their life i.e. change careers, buy crypto/NFTs.
 - III. **Gender.** Research has found out that males are more of a risk taker than the females counterpart.
 - IV. **Income.** People with a higher income are better able to insure themselves against possible losses, hence they are more willing to undertake riskier decisions than those who have lower income.
 - V. **Education.** There is a positive correlation between higher education level and risk taking behavior. For instance, a study conducted on estimating the effect of education on stock market participation and risky asset holding concludes that an extra year of education increases stock market participation by about 2% for men but there is no evidence of any positive effect for women. More education also leads men to hold a greater proportion of their financial assets in stocks and other risky financial assets.
 - VI. **Occupation.** Although people from all walks of life have to make decisions that involve various degrees of risk and uncertainty, it is plausible that their risk preferences differ depending on their occupational backgrounds. For instance, a research paper pointed out that participants with "high-risk" occupations (i.e. Doctor) were more risk-averse than participants with "white-collar" occupations (i.e. Financial Analyst).
 - VII. **Dependent.** The level of risk tolerance is also impacted by the level of dependency. For example, an individual tends to be risk averse if he/she is the sole earning member of the family. Whereas, an individual with a working spouse and no dependents inclines to take more risk.
 - VIII. **Personal Debt Arrears.** A study had observed that people who have never had debt arrears are more risk-averse. Whereas those who have ever had debt arrears rated themselves higher in terms of being a risk-taker and more open to risk than other people and when asked to give someone advice on investment they were more likely to choose the risky option.
 - IX. **Economics Condition.** When considering whether to take a risky decision or not, people also consider the current economic situation. If the country is doing well, so do the foreseeable future investment, hence we could conclude that the more stable an economy is, the more likely people are willing to take risks.
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- X. **Emotional Intelligence.** The study has implications for addiction, as individuals with higher emotional intelligence engage in less risk taking when in a negative mood, whereas individuals with lower emotional intelligence are prone to risky behaviors.
 - XI. **Need for Achievement.** A published paper shown that people who have high need for achievement (i.e. Entrepreneur) were more willing to take risks than were people with low need for achievement.
 - XII. **Family Background.** Parental education seems to play a role in determining risk attitudes, indicating a positive correlation between parental education and willingness to take risks.
 - XIII. **Height.** Appears to be a relevant determinant of risk attitudes, with taller individuals of both genders being more willing to take risks.

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