

Insurance Company Operations



Purpose of the Module

- Give you an insight into the inner-workings of an insurance company
- Help you appreciate how secure insurance really is...and why...so you can reassure families that their preneed insurance dollars are safe with you and companies like Homesteaders



Competition in the Life Insurance Industry

- Competitive environment has dramatically changed in the past 25 years
 - Competition for life and annuity customers
- Many insurance markets are near saturation
 - Not the case with preneed insurance
 - We've barely scratched the surface



Gramm-Leach-Bliley Act of 1999

- GLB Act, also known as the *Financial Services Modernization Act*
 - Promotes integration among financial services providers
 - Allows banks, insurance companies, etc. to affiliate in a holding company structure
 - Holding Company may or may not have controlling interest in one or more other companies (subsidiaries)
 - Larger holding companies are also known as financial conglomerates

Regulation

- Most insurance laws can be classified into two broad categories
 - Solvency laws
 - Market conduct laws



U.S. Insurance Regulators

- Insurance regulation is divided between federal and state governments
- Insurance regulation is primarily governed by the states



The Bottom Line

- **Asset requirements** ensure that insurers invest sufficiently and wisely
- **Reserve requirements** ensure that companies set aside enough money to pay anticipated policy benefits
- **Minimum capital and surplus requirements** help guarantee that the amount of money each insurer has available comfortably exceeds what it owes to its customers

Ethics in Life Insurance

- Ethics
 - A system of accepted standards of conduct and moral judgment
- Combines the following elements
 - Honesty
 - Integrity
 - Fair treatment



Life Insurance

A Business Built on Trust

- Insurance is a long-term promise
- If a policy doesn't deliver on its promises, surviving loved ones will suffer financially



Ethics in Life Insurance

- Includes the following for insurers
 - Upholding promises to customers
 - Operating in a responsible manner
 - Treating customers equitably
 - Doing high-quality work in a timely fashion
 - Keeping private information confidential



Replacement

- Cashing in an insurance policy to help pay for a new policy
- Legal and ethical issue
- Agent has duty to disclose all pertinent information to the client and to the insurance company and to act in the client's best interest



Importance of Disclosure

- Completeness and accuracy of life insurance information is critical
- Provide proper disclosure...
then, let the client decide



Functional Areas of Life Insurance Companies

- Marketing
- Actuarial
- Underwriting
- Customer Service
- Claim Administration
- Annuity Administration
- Investments
- Accounting
- Information Technology
- Legal
- Compliance
- Human Resources



Product Pricing

- Results in setting a premium rate
 - Charge per unit of life insurance coverage
- Objectives:
 - Allow the company to pay all of the product's benefits and associated expenses
 - Return a modest profit



Underwriting Overview

- The process
 - Assess and classify the proposed insured's degree of risk
 - Make a decision to accept or decline the risk



Underwriting and Guaranteed Issue Products

- With guaranteed-issue products, such as Homesteaders, the underwriting is “built into” the product risk and its pricing
 - Does not take anti-selection into account
 - Relies on the agent to consider the insurance company’s interests before recommending the product to a high-risk, proposed insured
- The applicant satisfies the underwriting guidelines by meeting the product’s broad eligibility requirements



Who Are Our Customers?

- External customers
 - Policyowners & beneficiaries
 - Funeral homes
 - Agents
- Internal customers
 - Company employees
 - Company departments



Steps to Good Customer Service

- Delegate more authority and accountability to front-line employees (empower them)
- Provide employees with tools to do their job
 - Technology
 - Training
 - Education
- Create customer-oriented systems
- Measure customer satisfaction



E-Commerce

- Using the Internet and other computer networks...
 - To deliver commercial information
 - To facilitate business transactions
 - To facilitate the delivery of products and services
- Eliminates some of the limitations of traditional commerce
 - 24/7 availability
 - Instant Claim Processing at Homesteaders
 - Order processing



Insurance Financial Objectives

- Every life insurance company has two basic financial objectives:
 - **Solvency:** Being able to meet all of their financial obligations as they come due
 - **Profitability:** Attempting to maximize the value of the company for the benefit of the owners (policy or stock) by earning a profit
- Risk is an important consideration for setting solvency and profitability goals



Compliance: Other Issues

- Claim Administration
- Complaint Handling
- Consumer Privacy
- Market Conduct Exams

