

Underwriting can be termed “assumption of liability”. It means signing an insurance policy and thereby becoming liable in the face of a specified loss. Underwriting involves the selection of policyholders after thoroughly evaluating all hazards, establishing prices and then determining the terms and conditions of the insurance policy. The underwriting framework of a company plays a major role in determining the company’s standing in the market. The underwriter must aim to generate profits and minimize losses through a well-balanced underwriting policy. One aspect that the underwriter must always bear in mind is that the underwriting must neither be too strict nor too lenient. If the acceptance criteria are very stringent, then the insurer will miss out on several acceptable businesses and may even face losses because of the expenses involved in cancelling business that the marketing person might have initially agreed to. This can be remedied by including enough conditions to make the risk acceptable. On the other hand, if the acceptance criteria are too liberal, the insurance company may face substantial losses and be forced to withdraw from a given line of business. Once the risk involved is deemed acceptable, underwriting then fixes the rate of premium, and subsequently, all other terms involved. There are certain guiding objectives and principles that the underwriter must follow.