PGCM S4 16 (FIN)

Risk Management and Insurance

(Finance Specialization)

SEMESTER - 4
MASTER OF COMMERCE
BLOCK - 2

KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

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MASTER OF COMMERCE

RISK MANAGEMENT AND INSURANCE

Block 2

DETAILED SYLLABUS

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(Finance Specialization)

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COURSE INTRODUCTION

Risk Management and Insurance is the forth Course of 4th Semester under *Finance Specialization* and overall the sixteenth Course of M.Com. Programme. Risk management is an important process as it empowers a business with the necessary tools so that it can adequately identify and deal with potential risks. Once a risk has been identified, it is then easy to mitigate it. Thus, risk management encompasses the identification, analysis, and response to risk factors that form part of the life of a business. Effective risk management means attempting to control, as much as possible, future outcomes by acting proactively rather than reactively and it offers the potential to reduce both the possibility of a risk occurring and its potential impact. Insurance is an arrangement by which an individual, a company or a state undertakes to provide a guarantee of compensation for specified loss, damage, illness, or death in return for payment of a specified premium.

This course which starts with the unit discussing the concept of risk consists of fourteen units. For the sake of convenience, this course has divided into two blocks.

Block 1 consists of introduction to risk and risk management, risk management applications, credit risk management, introduction to insurance, nature and scope of insurance and principles of insurance.

Block 2 encompasses with life and non-life insurance, function of insurer, insurance agent and salesmanship and regulation of insurance.

Each unit of these blocks includes some along-side boxes to help you know some of the difficult, unseen terms. Some “EXERCISES” have been included to help you apply your own thoughts. You may find some boxes marked with: “LET US KNOW”. These boxes will provide you with some additional interesting and relevant information. Again, you will get “CHECK YOUR PROGRESS” questions. These have been designed to self-check your progress of study. It will be helpful for you if you solve the problems put in these boxes immediately after you go through the sections of the units and then match your answers with “ANSWERS TO CHECK YOUR PROGRESS” given at the end of each unit. At the end of each section, you will get “CHECK YOUR PROGRESS” questions to check yourselves.

Unit 8: Life Insurance-I

UNIT STRUCTURE

8.1 Learning Objective

8.2 Introduction

8.3 Meaning of Life Insurance

8.4 Characteristics of Life Insurance

8.5 Advantages of Life Insurance

8.6 Classification of policies prevailing in market

8.7 Children Policies

8.8 Pension Plans

8.9 Group Insurance

8.10 Non Traditional Products

8.11 Postal Life Insurance

8.12 Let Us Sum Up

8.13 Answer to Check your Progress

8.14 Further Readings

8.15 Model Questions

8.1 LEARNING OBJECTIVE

- ❖ To understand the important aspects of the different types of policies available in the market.
- ❖ To know the significance of mortality tables in helping insurance agencies.
- ❖ To identify the role of Life Insurance Corporation of India in life insurance industry.

8.2 INTRODUCTION

Life is a roller coaster ride and is full of twists and turns. The whole idea of insurance has developed on the fact that human life is full of uncertainties and the life of a person itself is very uncertain. Eventualities cast their shadows, and therefore one has to equip oneself with possible means so as to

face the unforeseen. Insurance policies are a safeguard against the uncertainties of life. It is one of the important tools of risk management which ensures family's financial security.

In this unit we will discuss the life insurance, its advantages, disadvantages, different types of life insurance policies and postal life insurance.

8.3 MEANING OF LIFE INSURANCE

Life Insurance contract may be defined as the contract, whereby the insurer in consideration of a premium undertakes to pay a certain sum of money either on the death of the insured or on the expiry of a fixed period.

In simple words, it means an agreement in which one party agrees to pay a given sum of money upon the happening of a particular event contingent upon duration of human life in exchange of the payment of a consideration. The person who guarantees the payment is called Insurer, the amount given is called Policy Amount, the person on whose life the payment is guaranteed is called Insured or Assured. The particular event on which the payment is guaranteed to be given may be Death or Life. The consideration is called the Premium. The document evidencing the contract is called Policy.

Thus, the scheme of life insurance provides an assurance that if an unforeseen event happens, the person or his dependents would get financial assistance to bear the loss.

According to Sec 2(ii) of the Insurance Act, 1938 life insurance business means "a business of effecting contracts upon human life. It includes

a) Any contracts whereby the payment of money is assured upon death(except death by accident) or the happening of any contingency dependent on human life;

b) Any contract which is subject to the payment of premiums for a term dependent on human life;

c) Any contract which include the granting of disability and double or triple indemnity, accident benefits, the granting of annuities upon human life and the granting of superannuation allowances.

8.4 CHARACTERISTICS OF LIFE INSURANCE

The following are the characteristics of life insurance:

1. **Offer and acceptance:** The life insurance contract is the outcome of an offer made by the insured and its acceptance by the insurer.
2. **Maturity value:** The insurance company agrees to pay a certain sum of money either on the death of the insured or on the maturity of the policy, whichever is less. As such, in life insurance payment is must.
3. **Payment of premium:** In life insurance, the insured is under an obligation to pay periodically the amount of payment till the death of the insured or expiry of policy, whichever is earlier.
4. **Type of contract:** The contract of life insurance is not a contract of indemnity because financial loss caused by a death cannot be calculated in monetary value. Secondly payment of money cannot be a compensation for loss of one's life. In this only financial protection is granted to the insured if he survives up to the date of maturity of policy or to his claimant if insured dies before date of maturity of policy.
5. **Insurable interest:** In case of life insurance, the person taking out a life policy must have a pecuniary insurable interest in the life of the insured person at the time of taking of the policy.
6. **Financial protection:** Life insurance extends the hands of financial protection to the claimants in case of death of insured before the date of maturity and to the insured if he survives up to the death of maturity of policy.
7. **Habit of saving:** Under the life insurance contract, the insured has to pay a definite premium compulsory which leads to curbing of unnecessary expenses and create the habit of saving.
8. **Meet various needs:** A suitable insurance plan or a combination of different plans can be taken out as life insurance to meet the specific needs that are likely to arise in future such as children's education, medical needs, marriage provision, housing needs, etc.

8.5 ADVANTAGES OF LIFE INSURANCE

The following are the advantages of life insurance:

1. **Superior saving plan:** Life insurance is considered to be the best saving plan in comparison to other plans because it guarantees full protection against risk of death of the saver.
2. **Encourage savings habits:** Life insurance encourages saving habits.
3. **Social security tool:** It acts as a social security tool when the breadwinner dies, to that extent, the family's income dies.
4. **Suitable for raising loan:** Life insurance policy can be given as security to raise a loan without any delay.
5. **Protection against creditors:** The maturity value of life insurance policy can be protected against the claims of the creditors of the life assured by valid assignment of a policy.
6. **Tax relief:** The income tax relief is available for amounts paid by way of premium for life insurance subject to the income tax rates in force.
7. **Helpful to the government:** Life insurance provides long term funds to the government for different development schemes. This helps the government to develop infrastructure and serve the society.

8.6 CLASSIFICATION OF POLICIES PREVAILING IN MARKET

A. Policies according to duration:

The life insurance policies according to the duration may be

I. **Whole-life policies:** Whole-life policies are issued for life. It means that the policy amount will be paid at the death of the life assured. The life assured, thus, cannot get the policy amount during his life time; only his dependents will get the advantages of this policy.

Benefits of Whole Life Insurance Policy

a) **Cover for life**: The insured will get cover for his entire life unlike other life insurance plans that is fixed for a certain period.

b) **Assurance of coverage, periodic payments and tax benefits**: The survival benefits will be built over time which keeps increasing over time. One will get lifetime coverage along with guaranteed level premiums for a limited premium payment term. Tax benefits are also available to the insured under Section 80C and Section 10(10D) of the Income Tax Act, 1961.

c) **Serves as a source of cash**: A whole life plan serves as a source of cash to help fund certain expenses or meeting certain financial obligations at the end of the premium payment term.

d) **Loan option available**: The surrender value of the policy increases over time and one can avail a loan against the policy's surrender value at any time.

e) **Dependents benefitted**: The return will prove to be an additional financial source in the family. This plan is ideal for estate planning individuals who want to pass on their estate to their legal heir as it helps create wealth.

II. **Term Insurance policies:** Term insurance is a kind of life insurance plan that provides death coverage to policyholders for a specific time limit. That is, if the policyholder dies during the policy tenure, then the insurance amount is given as a lump sum to the nominee Term insurance policies are the cheapest policies.

It may be of the following types:

i. **Straight-Term (Temporary) Insurance*:*** The Corporation issues term insurance for two years, which is also called as two-year temporary assurance policy.

ii. **Renewable Term Policies:** These policies are renewable at the expiry of term for an additional period without medical examination; but the premium rate will be altered according to the age attained at the time of renewal.

iii. **Convertible Term Policy:** Under this policy, option to convert it into whole life or endowment policy is available.

Benefits of Term Life Insurance

a) **Term Insurance Plans are very simple to understand:** Simplicity is one of the reasons for the growing popularity of term insurance.

b) **Term insurance plans are supremely affordable:** The premium for a term life insurance plan is as low as 0.1 per cent of the total sum insured.

c) **Death benefit:** In the unfortunate event of death of life insured during policy term, the nominee shall receive the total pay-out as a lump sum amount or a combination of lump sum and monthly amount.

d) **Tax benefit:** Term plans come with a host of tax benefits.

e) **Critical illness coverage:** In case optional critical illness coverage is included in the term insurance plan, one will get a lump sum pay-out upon diagnosis of any critical illness that is covered in the plan.

f) **Accidental death benefit:** One can add the accidental death benefit rider to the term insurance plan. This will offer protection against any mishaps in the future.

III. Endowment Policies: An endowment policy is an insurance plan designed to offer protection with life coverage and the chance to grow wealth through systematic savings. It encourages the policy holder to save money regularly so that he may have a large corpus of money waiting for him in the future. There is also the prospect of capital growth over a long term.

The endowment policies can be several, of which important endowment policies are discussed below:

1. **Pure Endowment Policy:** A pure endowment policy is affected for a stipulated term of years, but under such contract no sum assured is payable if the life assured dies during the term

2. **Ordinary Endowment Policy:** This policy provides an ideal combination of both the family protection and investment. The sum assured is payable either on the life assured's death during the period or on his survival to the end of the period.

3. **Joint Life Endowment Policy:** This policy covers more than one life under a single policy. Sum assured is payable on the expiry of the term or on the death of one of the assured lives during the endowment period.
4. **Double Endowment Policy:** Under this policy, if the life assured dies during the endowment period, the basic sum assured is payable and if he survives to the end of the term, double of the sum assured is paid.
5. **Marriage Endowment Policy:** Under this policy, sum assured is paid in lump sum at the end of the term. If the death of the policy holder occurs earlier, then the policy will remain fully paid up but the premiums ceases.
6. **Educational Annuity Policy:** This policy is taken for the education needs of the children. The sum assured is payable in equal instalments over a period of five years, in half-yearly instalments.
7. **Triple-Benefit Policy:** This is a combination of the whole life limited payment and a pure endowment policy with guaranteed annual increase of sum assured during the endowment terms.
8. **Anticipated Endowment Policy:** The sum assured is paid at certain interval before death within maturity of the policy and balance of the sum assured is payable at maturity**.**
9. **Progressive Protection Policy with Profits:** The sum assured increases automatically by half the initial sum assured at the end of five years and again by half the initial sum assured at the end of 10 year without considering health of the policy holder at that time.
10. **Anticipated Whole Life Policy with Profits:** This policy provides two types of benefits under one policy-whole-life limited payment policy and anticipated payments at five years interval.

Benefit of Endowment Policy

a) **Incentive to save:** This is an effective plan to save compulsorily. Inspite of having good income, large section of people never saves. But through endowment insurance policy, they are bound to save in the form of payment of life insurance premium against the policy.

b) **Protection against contingencies:** The savings are protected by insurer against the contingency of the premature death of the policy holder. If after the payment of even first instalment of premium the policy holder dies, the full amount of sum assured is paid to his heirs.

c) **Helpful for old age:** The policy holder is to get the maturity value of the policy after the term of the policy expires. This sum to the policyholders is a kind of financial support for him at the old age.

d) **Build corpus:** Endowment policy not only provides financial protection to the family of the policyholder but also helps policyholder build corpus for the future.

e) **Avail additional riders:** Policyholder can take additional riders like critical illness and personal accident and disability benefit.

f) **Tax benefits:** Policyholder gets benefits under Section 80 C and Section 10 (10) D.

B. Policies according to premium of payment:

Life insurance policies can also be divided according to mode of payment of premium as follows:

1. **Single premium policy:** In this policy, the whole premium is paid at the beginning of the policy. It is costlier for the insured and can be afforded by only those who have got very high income and they do not expect to continue these returns in coming years. But it is not useful to the people because of chances of death where after the subsequent premiums are not required to be paid.

2. **Level premium policy:** In these type of policies, equal and regular payments are made at regular intervals. The premium is lesser than the single premium. The equal instalments may be made monthly, quarterly, half-yearly and annually. This, suits the requirement of different types of policyholders according to convenience.

C. Policies according to participation in profits:

1. **With Profit Policies:** Under these policies, the policyholders share the profit of the insurer. They do not share the loss. Policyholder gets the bonus only if there is profit. The amount of bonus depends

on the profit after deducting provision of taxes, etc. Thus the amount of bonus added to each year is not constant. They only follow the law that the company has to distribute 95 per cent of its profits among the policyholders.

2. **Without Profit Policies:** The holders of without profit policies are not entitled to share the profits of the insurer. These policyholders get only the sum assured and no bonus is given to them.

D. Policies according to number of persons insured:

On the basis of number of persons insured under a single policy, the policy may be divided into:

1. **Single Life Policies:** Under these policies, only one person is insured. It is not necessary that the policy should be issued on one's own life, it may be issued on other's life too. The policy amount is payable when the death of the life assured occurs.
2. **Multiple Life Policies:** These policies may further be divided into:
    a) **Joint Life Policy:** This policy is to cover the risk of life of two or more persons and the amount of policy is payable on the first death. This is taken by the married couple or by the partners of a firm.
    b) **Last Survivorship Policy:** Under this policy, amount is payable at the last death only and not as long as any one of the insured is alive.

E. Policies according to the method of payment of policy amount:

1. **Lump Sum Policies**: Lump sum policies are those policies in which the sum assured is paid in lump sum at the events insured against.
2. **In Instalments:** These policies are also called as Annuity Policies in which the policy amount is payable in instalments. It is beneficial for those whose earning capacities are reduced to minimum in old age. He may continue to get up to a fixed period or up to death or both.

8.7 CHILDREN POLICIES

Children policies provide financial security to manage the future requirements of the child. As part of the policy, the child gets a fixed amount of

money at certain intervals that helps meet various financial needs of the child like paying fees for higher education, etc. Thus, it helps to build capital for important events in a child's life.

Most child plans provide one time pay-out or annual payments after the child reaches 18 years of age. In case the parent passes away during the policy term, payment is made to the child or family. Some insurance companies waive off the premiums in case of death of the policyholder and make the payment after maturity period.

In these plans, risk on the life of the insured child will begin only when the child attains a specified age. Practices vary widely. The time gap between the date of commencement of the policy and the commencement of risk is called the 'Deferment Period'. If the child is 6 years old when the policy is taken and the insurance is to begin when the child is 15 years old, the deferment period is 9 years. The date on which the risk will commence at the end of the deferment period is called the 'Deferment Date'. The deferred date will be a policy anniversary. Ages are reckoned as next birthday, nearest birthday or last birthday, as per the practice of the insurer.

Examples: LIC's Jeevan Ankur, Bajaj Allianz Young Assure

8.7.1 Benefits of Children Policies

The key benefits of children plans are discussed below:

1. **Protection with waiver of premium:** A children insurance plan, like other life insurance policies provide life insurance coverage to dependents. In this case, the protection is meant for the child. The life insurance amount from the child plan can be used to meet the immediate and regular needs besides meeting future needs of the child in the event of the untimely demise of the insured parent.

2. **Providing for immediate needs:** To provide for the child's regular needs, the life insurance coverage from children plans provides the money to help the family meet regular expenses such as those related to school education.

3. **Addressing future needs:** A children future plan also provides money for higher education. In case of the untimely demise of the insured parent, many child plans have what is a called premium waiver feature that ensures that the child plan remains in force for the remaining part of the policy term. The policy premium is paid by

the life insurance company. The money invested so far, remains invested till the end of the policy term and then money is paid to the child which can take care of higher education expenses.

4. **Regular investment for child's higher education:** One can opt for a child investment plan in the unit linked insurance plan (ULIP) category where a portion of the premium is invested in buying units of a fund, money growth may well be high. This typically takes place when you invest in ULIP equity funds. Over the long tenure of the ULIP, the value of the units grow well since equity investments typically provide high returns over 8-10 years, or more.

5. **Tax benefits:** This is the icing on the cake. Besides the protection benefits and helping one save substantial amounts, a children education plan helps one to save tax.

8.8 PENSION PLANS

Pension plans are retirement oriented life insurance plans. They aim to create a retirement corpus and provide one with a source of regular income even after one have stopped working. A pension plan is a retirement plan that requires an employer to make contributions to a pool of funds set aside for a worker's future benefit. The pool of funds is invested on the employee's behalf, and the earnings on the investments generate income to the worker upon retirement.

In addition to an employer's required contributions, some pension plans have a voluntary investment component. A pension plan may allow a worker to contribute part of his current income from wages into an investment plan to help fund retirement. The employer may also match a portion of the worker's annual contributions, up to a specific percentage or dollar amount.

Pension or retirement plans offer the dual benefit of investment and insurance cover. By investing a certain amount regularly towards your pension plan, you will accumulate a considerable sum in a phase-by-phase manner. This will ensure a steady flow of funds once you retire. Public Provident Fund is one of the most popular retirement planning schemes in India.

8.8.1 Features of Pension Plans

1. **Guaranteed Pension/Income:** One can get a fixed and steady income after retiring (deferred plan) or immediately

after investing (immediate plan), based on investment. This ensures a financially independent life after retiring.

2. **Tax-Efficiency:** Some pension plans provide tax exemption specified under Section 80C. If one wish to invest in a pension plan, then the Income Tax Act, 1961, offers significant tax respite under Chapter VI-A. Section 80C, 80CCC and 80CCD specify them in detail. For instance, Atal Pension Yojana (APY) and National Pension Scheme (NPS) are subject to tax deductions under Section 80CCD.

3. **Liquidity:** Retirement plans are essentially a product of low liquidity. However, some plans allow withdrawal even during the accumulation stage. This will ensure funds to fall back on during emergencies without having to rely on bank loans or others for financial requirements.

4. **Accumulation Duration:** An investor can either choose to pay the premium in periodic intervals or at once as a lump sum investment. The wealth will simultaneously accumulate over time to build up a sizable corpus (investment + gains). For instance, if you start investing at the age of 30 and continue investing until one turn 60, the accumulation period will be 30 years. One's pension for the chosen period primarily comes from this corpus.

5. **Payment Period:** Investors often confuse this with the accumulation period. This is the period in which you receive the pension post-retirement. For example, if one receives a pension from the age of 60 years to 75 years, then the payment period will be 15 years. Most plans keep this separate from accumulation period, though some plans allow partial/full withdrawals during accumulation periods too.

8.8.2 Types of Pension Plans

There are various types of pension plans offered by a host of companies operating in the financial sector. Following are the various types of pension plans:

A. Traditional Pension Plan

This type of pension plan comes with four options – a regular pension plan, a pension plan with life cover, a pension plan with immediate annuity payments and a pension plan with deferred annuity payments.

- **The regular pension plan** invests all the money that is set aside and one get a corpus at the end of the term including interest earned. In this plan, if one does not survive the policy term, the nominee would receive the corpus along with interest earned until the time of the policyholder demise.

- **The pension plan with life cover** takes out a portion of the money set aside by the policyholder to pay a premium for covering his life through a term policy for a sum assured. Typically, the premium is low for term insurance. Thus, in this plan, the nominee would receive the sum assured in case of demise of the policyholder, before the end of the policy term. They would also be entitled to the sum accumulated from the start of the policy till the time of demise.

- **The pension plan with immediate annuity payments** allows the policyholder to start earning an income from the month following the month of investment. This is akin to earning monthly interest income from a fixed deposit in a bank.

- **The pension plan with deferred annuity payments** allows the policyholder to accumulate a corpus by paying premiums during the policy term. At the end of the term, the premiums paid and interest earned, together become a sizeable corpus. This allows the policyholder to buy an annuity and earn a regular pension. Typically, pension plans with deferred annuity payments come with a life insurance cover.

These pension plans are known as traditional pension plans because the premiums one pay are invested in conservative government and debt securities which are considered to be safe. These are offered by various life insurance companies.

B. Unit-Linked Pension Plans

Traditional pension plans invest the premiums received from the policyholder in safe investments such as government and debt securities. For those with a more aggressive outlook (high risk appetite), there are pension plans that invest a substantial portion of the premiums in high return-high risk investments such as money markets, non-government securities, bonds and stocks. These plans are known as Unit Linked Insurance

Plans (ULIP). The main feature of these plans is that the investment component is represented by investing the funds in equity instruments. These plans provide opportunities for policyholders with different risk profiles – low, medium and high. One can switch between plans during the policy term at one's discretion, subject to certain terms and conditions.

ULIPs do have a life assured component to cover the risk of premature death. The returns in these are not guaranteed, but one can expect a reasonable return consistent with the vagaries of the stock market.

8.8.3 Benefits of Pension Plans

Pension plans promise the following benefits to policyholders –

a) They create an earmarked corpus for retirement savings which comes in handy after retirement.

b) Deferred pension plans are also offered as unit-linked insurance plans. Through these plans, a substantial retirement corpus can be created.

c) Premiums paid towards pension plans are allowed as a deduction under Section 80CCC of the Income Tax Act.

d) Immediate annuity plans pay guaranteed incomes lifelong to meet expenses after retirement.

e) Joint life annuities are also available under immediate annuity plans which pay annuities for self and spouse too.

f) Deferred annuity plans give 1/3rd of the accumulated corpus as cash when the plan matures.

8.9 GROUP INSURANCE

Group life insurance is offered by an employer or another large-scale entity, such as an association or labour organization, to its workers or members. It is fairly inexpensive, may even be free, and is pretty common nationwide. It has a relatively low coverage amount and is typically offered as a piece of a larger employer or membership benefit package.

Group life insurance is a single contract for life insurance coverage that extends to a group of people. By purchasing group life insurance policy coverage through an insurance provider on a wholesale basis for its mem-

bers, companies are able to secure costs for each individual employee that are much lower than if they were to purchase an individual policy.

That receiving group life insurance coverage may not have to pay anything out of pocket for policy benefits. People who choose to take more-advanced coverage alongside it may elect to have their portion of the premium payment deducted from their pay check. Just as with regular insurance policies, insured parties are required to list one or more beneficiaries before the policy comes into effect. Beneficiaries can be changed at any point during the coverage period.

The typical group policy is for term life insurance, often renewable each year with a company's open-enrolment process. This is in contrast to whole life insurance, which provides coverage no matter when you die. Whole life insurance policies are permanent, have higher premiums and death benefits, and constitute the most popular type of life insurance.

With group life insurance, the employer or organization purchasing the policy for its staff or members retains the master contract. Employees who elect coverage through the group policy usually receives a certificate of coverage, which is needed to provide to a subsequent insurance company in the event that an individual leaves the company or organization and terminates their coverage.

8.9.1 Requirements for Group Life Insurance

Group life insurance policies generally come with certain conditions. Some organizations require group members to participate for a minimum amount of time before they are granted coverage. For instance, an employee may need to pass a probationary period before being allowed to take part in employee health and life insurance benefits.

Coverage is normally only valid for as long as a member is part of the group. Once the member leaves, whether through resignation or firing, the coverage ends. Group life insurance policies remain intact until insured parties are terminated or leave the group.

8.9.2 Features of Group Insurance

The important features of Group Insurance are as under:

1) **Risk of individual lives:** The risk of individual lives is not assessed in a group insurance scheme. The insurer is not concerned with the health, morals or habits of any particular person in a group.

2) **Minimum Number:** The minimum number of individuals in a group should be at least 25 persons.

3) **Existence of a group:** The group should be in existence and no new groups have to be formed for obtaining insurance cover.

4) **Amount of cover:** The individual member does not have any choice about the amount of cover. The amount of insurance depends upon the terms and conditions of the scheme.

5) **Other considerations:** The amount of insurance is determined by a formula or a schedule. It also depends upon salary grade, designation or the length of service of the employees in a group.

8.9.3 Importance of Group Insurance

1. **Boost Employee Retention -** People value jobs that give them a sense of security. A group health insurance will not only give the employees and their families enough financial security, but an overall sense of satisfaction that their employer actually cares about them.

2. **Financial security during unusual circumstances**- Amid unusual circumstances like the pandemic, financial security has become of utmost importance given the downfall in the economy and increasing pay cuts across sectors. Protecting the employees from treatment expenses that could arise out of the virus is the least one can do to ensure they are both financially and medically secure.

3. **Strengthen Employee Motivation -** Happy employees make happy workspaces and evidently successful companies! It's no surprise that the safer and satisfied employees feel, the happier and more motivated they're likely to be!

4. **Protect them from Severe Health Conditions -** More than 61% of illness hospitalization and death in India are due to lifestyle-related diseases. Safeguard your employees from the same, amongst other diseases; the earlier these issues are diagnosed, the earlier they can be treated and resolved.

5. **Enhance their Mental Wellbeing -** Many employees are often affected by stress due to either financial pressure or other personal issues which can lead to lower productively levels at work too. Our group health insurance plan will not only safeguard their savings but, also enhance their overall mental wellbeing with the right support.



Check your progress

1. What is meant by Children Policies?

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2. What are Pension Plans?

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3. State the various types of pension plans.

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4. What is the full form of NPS?

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5. What is the full form of ULIPs?

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6. What is Group Insurance?

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8.10 NON TRADITIONAL PRODUCTS

Life insurers provide an array of plans for customers depending upon their specific requirements. These plans often vary a lot in terms of coverage offered, investment opportunities, policy term, benefits, etc. In the broad sense, life insurance policies can be categorised into traditional and non-traditional plans.

1. **Traditional life insurance:** Traditional products are low-risk insurance covers that offer guaranteed maturity returns for policyholders. These policies typically invest in bonds and other low-risk investment instruments to provide guaranteed maturity proceeds for policyholders.

Traditional insurance policies are of two types — participating and non-participating.

Participating policies are partially guaranteed policies that have some uncertainties. These policies offer guaranteed maturity proceeds along with additional bonuses and profits.

In a non-participating plan, the benefits are clearly guaranteed at the outset. For bonus, one should opt for a participating policy. Those who prioritize certainty should opt for a non-participating policy

2. **Non-traditional life insurance policies:** One of the major aspects of non-traditional life insurance coverage is the combination of insurance and investment under one single policy. These policies offer both components and appeal to customers who have the appetite for high-risk coverage. These plans invest in the market and there is a certain level of uncertainty associated with them. Due to the high-risk nature of these plans, there is a potential to earn higher returns from these plans as well. ULIPs are the most common form of non-traditional policies, and they are relatively new compared to other types of life insurance products. Most of the top companies in the market provide ULIPs to customers who look for high-risk, high-return insurance plans.

   Compared to other insurance products, ULIPs have various flexible options for policyholders. For instance, policyholders can decide what types of investments can be made with their fund based on the level of risk they are willing to take. This is not possible in other life insurance products available in the market. Insurance companies in the market offer different types of ULIPs based on the specific requirements of policyholders.

8.10.1 Traditional Vs. Non-traditional Life Insurance Policies

The major difference between traditional and non-traditional life insurance policies are listed as follows:

Features	Traditional plans	Non-traditional plans
1. Type of coverage	They are low-risk plans that offer insurance coverage and guaranteed maturity benefits.	They are high-risk plans that offer a combination of insurance as well as investment.
2. Maturity proceeds	The maturity proceeds are fixed at the predetermined sum assured amount. Additional bonuses and profits may vary from plan to plan.	The maturity proceeds are variable and they cannot be predetermined by the company. Any fluctuations in the market will have an impact on the fund value of these plans.
3. Flexibility	Investors cannot choose the specific funds in which their money is invested. Companies disclose the investment plan in the policy document and investments are made as per the company's discretion.	Investors can choose the avenues in which they can invest their funds. Based on their risk profile, investors can choose among debt, equity, or hybrid instruments in the market.
4. Transparency	Tracking individual portfolio is not possible in traditional plans. The accumulated fund value will be disclosed only at the end of the maturity term.	Investors can track and make changes to their portfolio anytime they want. If there are any fluctuations in the market, investors can transfer funds accordingly and prevent any losses to their funds.
5. Switching facility	Since investors do not have any control over the investments made under these plans, they cannot switch from one fund to another.	Since investors are allowed to track their funds, they can switch from one fund to another anytime.
6. Withdrawal	No partial withdrawal is allowed till the end of the lock-in period. The minimum policy term for most traditional policies is five years.	Most plans allow for partial withdrawal as long as the fund value does not drop below a certain minimum value.
7. Surrender	Endowment policies can be surrendered after three years of continuous premium payment. The surrender value obtained may differ based on the fund value and charges.	After the initial lock-in period, these plans can be surrendered anytime and the full fund value can be obtained by policyholders.

Traditional and non-traditional life insurance covers serve very different purposes based on the requirements of a person. Even within traditional plans, policies differ a lot based on their types. For instance, the coverage offered under a term plan is extremely different from that of an endowment policy. While the risk is evident in ULIPs, there is also a potential to get high returns that is not seen in other insurance plans. One thing that is common to both types of plans is that they offer tax relief to policyholders under Section 80C of the Income Tax Act.

8.11 POSTAL LIFE INSURANCE

Postal Life Insurance (PLI) was introduced on 1st February 1884 with the express approval of the Secretary of State (for India) to Her Majesty, the Queen Empress of India. It was essentially a scheme of State Insurance mooted by the then Director General of Post Offices, Mr F.R. Hogg in 1881 as a welfare scheme for the benefit of Postal employees and later extended to the employees of Telegraph department in 1888. In 1894, PLI extended insurance cover to female employees of P & T Department at a time when no other insurance company covered female lives. It is the oldest Life insurer in this country.

In the beginning, the upper limit of life insurance was only Rs. 4000/- which has now increased to Rs. 50 lacs (Rupees Fifty Lacs) and it will be effective as and when notified through a Gazette notification for all schemes combined - Endowment Assurance and Whole Life Assurance. Over the years, PLI has grown substantially from a few hundred policies in 1884 to more than 46 Lacs policies as on 31.03.2017. It now covers employees of Central and State Governments, Central and State Public Sector Undertakings, Universities, Government aided Educational institutions, Nationalized Banks, Local bodies, autonomous bodies, joint ventures having a minimum of 10% Govt./PSU stake, credit cooperative societies etc. PLI also extends the facility of insurance to the officers and staff of the Defence services and Paramilitary forces. Apart from single insurance policies, Postal Life Insurance also manages a Group Insurance scheme for the Extra Departmental Employees (Gramin Dak Sevaks) of the Department of Posts.

PLI is an exempted insurer under Section 118 (c) of the Insurance Act of 1938. It is also exempted under Section 44 (d) of LIC Act, 1956.

8.11.1 Benefits of Postal Life Insurance

1. PLI is the only insurer in the Indian Life Insurance market today which gives the higher return (bonus) with the low premium charged for any product in the market.

2. A PLI policy holder may also get following facilities :-

a) Change of nomination.

b) The insurant can take loan by pledging his/her policy to Heads of the Circle on behalf of President of India, provided the policy has completed 3 years in case of Endowment Assurance and 4 years in case of Whole Life Assurance. The facility of assignment is also available.

c) Assignment of Policy to any Financial Institution for taking loan.

d) Revival of his/her lapsed policy. Policy lapses after 6 unpaid premiums if it remained in force for less than 3 years and after 12 unpaid premiums if it remained in force for more than 3 years.

e) Issue of Duplicate Policy Bond in case the original Policy Bond is lost, burnt or torn/mutilated.

f) Conversion from Whole Life Assurance -Gram Suraksha to Endowment -Gram Santosh Assurance and from Endowment Assurance -Gram Santosh to other Endowment Assurance-Gram Santosh with reduced sum assured or reduced term as per rules.

8.11.2 Insurance Plans in Postal Life Insurance

Postal Life Insurance offers the following six types of policies:

1. Whole Life Assurance (Suraksha)

2. Endowment Assurance (Santosh)

3. Convertible Whole Life Assurance (Suvidha)

4. Anticipated Endowment Assurance (Sumangal)

5. Joint Life Assurance (Yugal Suraksha)

6. Children Policy (Bal Jeevan Bima)



Check your progress

7. What are traditional life insurance policies?

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8. What are non-traditional life insurance policies?

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9. Which is the most common form of non-traditional policies?

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8.12 LET US SUM UP

In this unit we have discussed about the life insurance as well as annuity. The main points discussed in this unit are:

- ❖ Life Insurance is a contract, whereby the insurer in consideration of a premium undertakes to pay a certain sum of money either on the death of the insured or on the expiry of a fixed period.
- ❖ A child insurance plan helps to build capital for important events in a child's life such as higher education, overseas studies, marriage, etc.
- ❖ Pension plans are retirement oriented life insurance plans aimed to create a retirement corpus and provide one with a source of regular income even after one have stopped working.
- ❖ NPS is a pension program implemented by the Government of India which acts as a social security scheme aiding employees of all sectors to the age of 60 years.
- ❖ ULIPs are pension plans that invest a substantial portion of the premiums in high return-high risk investments such as money markets, non-government securities, bonds and stocks.
- ❖ Group life insurance is a single contract for life insurance coverage that extends to a group of people.

- ❖ Postal Life Insurance (PLI) is the only insurer in the Indian Life Insurance market today which gives the higher return (bonus) with the low premium charged for any product in the market.



8.13 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No.1: Children policies provide financial security to manage the future requirements of the child.

Ans to Q No.2 : Pension plans are retirement oriented life insurance plans aimed to create a retirement corpus and provide one with a source of regular income even after one have stopped working.

Ans to Q No.3: The various types of pension plans are: National Pension Scheme, Traditional pension plan and Unit-linked pension plans.

Ans to Q No.4: National Pension Scheme

Ans to Q No.5: Unit-Linked Pension Plans

Ans to Q No.6: Group life insurance is a single contract for life insurance coverage that extends to a group of people.

Ans to Q No.7: Traditional products are low-risk insurance covers that offer guaranteed

maturity returns for policyholders.

Ans to Q.No.8: Non-traditional life insurance coverage is the combination of insurance

and investment under one single policy.

Ans to Q.No.9: ULIPs are the most common form of non-traditional policies.



8.14 FURTHER READING

1. Insurance: Principles and Practices
    - M.N.Mishra
    - Dr.S.B.Mishra
2. Principles and Practice of Insurance

- Ghanashyam Panda
- Monika Mahajan



8.15 MODEL QUESTIONS

1) Write down the definition and nature of life insurance.

2) What do you mean by life insurance? What are the advantages?

3) What are the various kinds of life insurance policies?

4) Describe the different types of endowment and term policies.

5) What is meant by non-traditional life insurance policies? State the difference between traditional and non-traditional life insurance policies.

6) What is Mortality Table? Discuss its sources and also briefly describe it.

(7) Discuss the Postal Life Insurance along with its benefits.

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Unit 9: Life Insurance-II

UNIT STRUCTURE

9.1 Learning Objective
9.2 Introduction
9.3 Concept of Annuity
9.4 Classification of Annuities
9.5 Difference between Annuity Contract and Life Insurance Policies
9.6 Mortality Tables-The Measurement of Mortality
9.7 Sources of Mortality Tables
9.8 Description of a Mortality Table
9.9 Life Insurance Corporation of India
9.10 Government Schemes for life insurance
9.11 Let Us Sum Up
9.12 Further Readings
9.13 Answers to Check Your Progress
9.14 Model Questions

9.1 LEARNING OBJECTIVE

After going through this unit, the learners will able to:

- Know the concept of annuity
- Know the different types of annuities
- Distinguished Annuity Contract and Life Insurance Policies
- Explain the concept Mortality Table
- Discuss the functions and objectives of Life Insurance Corporation of India
- Get an idea of Government Schemes for life insurance

9.2 INTRODUCTION

If you're worried about making your savings last throughout your entire retirement and think you may need more income you may want to consider purchasing an annuity. With discontinuation of pensions, annuities are filling the retirement income gap by allowing you to convert your savings into a stream of income guaranteed to last for the remainder of your lifetime. In

addition, some types of annuities offer a safe place for your money to grow, allowing you to avoid the downturns that come with investing in the stock market. In this unit we will discuss the annuity, mortality table and also about the LICI.

9.3 CONCEPT OF ANNUITY

It's a contract between an individual and an insurance company for which you pay a premium just like life or health insurance premiums to receive regular payments over a certain time frame, potentially the rest of your life. An annuity is an insurance-based retirement product that can create a stream of income in retirement, somewhat like a pension. Receiving an annuity payout as a series of periodic payments, as opposed to withdrawing one lump sum, is referred to as annuitization. The recipient is usually an annuitant. Not all annuity owners choose to annuitize their payments. Instead, they keep their money in an annuity for a lengthy accumulation, or growth, phase and eventually withdraw it as a lump sum. As insurance products, annuities protect against the biggest risk in retirement: outliving your savings. This insurance against living long is the mirror image of life insurance, which ensures that your dependents are financially compensated upon your death. With an annuity, your benefit is in living longer and receiving more payments.

Annuities are the best alternative to pensions, which are fast becoming a thing of the past. Many people have savings that are earmarked for retirement. Some or all of the money in these accounts can be turned into a steady stream of guaranteed income to supplement Social Security checks and ensure a comfortable retirement.

9.4 CLASSIFICATION OF ANNUITIES

The annuities can be classified as follows:

A. Annuities according to Commencement of Income

1. **Immediate Annuity:** This style of annuity features the payment of lump sum as premium in order to subscribe to the scheme. Once this lump sum payment is made, annuity pays outs to the subscriber start immediately as per the applicable pay out criteria.

2. **Deferred Annuity:** Unlike in case of immediate annuity, deferred annuity pay outs feature an interval between the time premium payments are initiated and the annuity pay outs begin. The period dur-

ing which the subscriber makes premium payments is termed as the accumulation phase of the scheme. On completion of the accumulation phase, the accrued amount is utilised for purchase of annuities which provides the future pay outs to the subscribers.

3. **Annuity Due:** Under this annuity, the payment of instalment starts from the time of contract. The first payment is made as soon as the contract is finalised. The premium is generally paid in single amount; but can be paid in instalments.

B. Annuities according to the Number of Lives

1. **Single Life Annuity:** Under this annuity one single person following is contractor. This annuity is most beneficial to those who have no dependent and want to use all this saving during his life-time.

2. **Multiple Life Annuities:** In this annuity more than one life is contracted. The annuity is also of two types:

    a. Joint Life Annuity where payment of annuity stops at the first death.

    b. Last survivor annuity where payment continues up to the death of the last person of the group.

C. Annuities according to Mode of Premium:

1. **Level Premium Annuities:** For availing the annuity, the annuitant can deposit some amounts periodically so that, at the end, he can get sufficient amount of annuity in equal instalments.

2. **Single Premium Annuities:** The annuity in this case is purchased by payment of a single premium. Generally, the life insurance amount is utilised for purchasing this annuity.

D. Annuities according to the disposition of proceeds

1. **Life Annuity:** This annuity offers a regular income to the annuitant throughout his life-time. No payment is made after his death. When the annuity dies before receiving all the amounts of the purchase price he is at loss. But, if he survives for a longer period than expected, he is benefitted by this annuity.

2. **Guaranteed Minimum Annuity:** Annuity payment up to a period is guaranteed by the insurer. If the annuitant dies before the specified

period, annuity will continue up to the unexpired period. This annuity may be of two types-

i. **Immediate Annuity with Guaranteed Payment:** To safe-guard the loss in case of early death of the annuitant, this annuity is issued where payment for a fixed number of years will continue, irrespective of death.

ii. **Deferred Annuity with Guaranteed Payment:** During the deferment period, there is no difference between this annuity and ordinary deferred annuity. After deferment period, the payment under this policy will continue for a fixed period and up to life thereafter.

3. **Temporary Life Annuity:** Under this plan, annuity payments cease at the end of a specified period or at the death whichever is earlier.

4. **Retirement Annuity Policy:** This annuity is useful for employees at the time of retirement. It promises lifetime guaranteed monthly or annual income for a retiree until their death.

9.5 DIFFERENCE BETWEEN ANNUITY CONTRACT AND LIFE INSURANCE POLICIES

Following are the differences between Annuity Contract and Life Insurance Policies:

Sl. No.	Basis	Annuity	Life Insurance
1.	Purpose	It is mainly for securing an income after one retires.	It is a plan for the future, to cater for what is not known.
2.	Payment of Benefits	Matured annuity is paid only when the policy holder is alive	A matured Life insurance can only be paid once the policy holder is dead.
3.	Mode of Payment	Benefits are paid in regular allotments for deferred annuity.	Whether term or whole life insurance, the benefits are paid out by the insurance company as a lump sum.
4.	Calculation of Premium	The premium in an annuity contract is calculated on the basis of longevity of the annuitant.	The premium in life insurance is based on the mortality of the policy-holder.
5.	Protection	An annuity is a protection against living too long.	The life insurance contract is protection against living too short.

6.	Accumultaion of Fund	The annuity contract liquidates gradually the accumulated funds.	The life insurance contract provides gradual accumulation of funds.

9.6 MORTALITY TABLES-THE MEASUREMENT OF MORTALITY

A mortality table is a diagram that shows the death rate for a defined population within a specific rate of time. Also known as a life table or an actuarial table, mortality tables are used in business by insurance companies to price insurance products and schemes for individuals.

Also, mortality tables can be used to develop complex mathematical models that represent the survival rates of different populations. They are also useful in the study of biology and medicine. The tables can help in the development of diagnostic criteria for certain drugs, as well as the type of treatment an individual should receive.

Mortality tables are based on characteristics, such as gender and age. A mortality table gives probabilities based on deaths per thousand, or the number of people per 1,000 living who are expected to die in a given year. Life insurance companies use mortality tables to help determine premiums and to make sure the insurance company remains solvent.

9.6.1 Types of Mortality Tables

There are two main types of mortality tables – the period life table and the cohort life table.

A) Period life table

The period life table determines mortality rates for a specific population during a defined period of time, such as a single year or a group of years. It also assumes that mortality rates apply throughout the remainder of a person's life, and as such, it does not take into consideration any future developments or changes to mortality rates.

B) Cohort life table

Also known as a generation life table, the cohort life table determines the overall mortality rate of a group of people with the same year of birth (a cohort). It shows the probability for an individual from the given cohort dying at each age over the course of their lifespan.

The cohort life table is based on age-specific probabilities of one dying, which are determined using a combination of mortality data for the specific

cohort from past years long with estimates about mortality rates for the cohort in the future.

9.6.2 Uses of Mortality tables

A) Using Mortality Tables in Business: In business, mortality tables are generally used by insurance agencies to determine prices for insurance products. It requires a thorough process involving not only insurance agents but also actuaries who need to develop projections of future insured events, such as death, sickness, and disability.

Actuaries are responsible for developing mathematical models of the rates and timings of events, such as death or sickness, by studying historical data of the occurrence of such events in the past.

Actuaries also take into account how expectations will evolve, as well as age and other population characteristics to derive expected rates of deaths, sickness, and disability for the future. It enables them to form a comparison between people at risk of death and those that actually die to determine the probability of death at each age.

As mentioned previously, mortality tables play a significant role in helping insurance agencies determine the prices of various insurance products. The collection and accurate use of data are pivotal in developing such tables to be deployed in the insurance industry, as the more accurate data one can find, the stronger the actuarial structure of the insurance company will be.

B) Mortality Tables as Projections – Uses in Public Health: Mortality tables serve as actuarial resources to make projections on matters of public health, which are used to generate policy and epidemiological strategy. The mathematical tools help to determine disease and survival outcomes that help to better educate doctors and patients involving health concerns and diseases they may have contracted.

The tables lead to better-educated patients who can help make more informed decisions that determine professional care and treatment options. It is important, as often, individuals find themselves in positions where they have to make difficult decisions regarding which types of treatment they are to receive when they are unexpectedly diagnosed with a potentially life-threatening disease.

9.7 SOURCES OF MORTALITY TABLES

For construction of mortality table, number of living of the beginning of each age and the number of deaths during the age are required. The mortality table should be constructed to represent the past experience as accurately as possible. So the figures of mortality construction should be as accurate as possible and based on a large number of persons. The sources of mortality construction can be obtained either from (1) population statistics, and (2) records of life insurers.

1. **Population Statistics:** The insurer gets number of living at each age from the census records and the number of deaths from municipal and other death records. The population statistics will reveal how many persons have died at what age. So, with the radix of total number of persons at the beginning, it can be calculated how many died in a particular age. The calculation of mortality table on this basis is not very easy and correct.

2. **Records of Insurers:** The records of insurer give a correct figure because the death rates can be correctly recorded. No death will go unrecorded, correct number of persons living and dead for each age can be known. Collection of figures is done from the records of as many insurers as possible in large numbers but is not more than 10 years covering, favourable and unfavourable years. Generally, 10-year period may be quite sufficient. The abnormal years are excluded from the sample. Separate mortality tables may be prepared for standard lives, sub-standard lives, female and male lives. Subclassification according to sex, marital status, occupation, geographical area, class may be made and tables are constructed separately.

   Year wise aggregation of number of deaths and number of living persons is done from the information of all insurers. Mortality rate at every age will be counted by dividing the number of expired lives by number of exposed lives.

9.8 DESCRIPTION OF A MORTALITY TABLE

The amount of premium charged depends considerably upon the mortality assumption can be well explained by the following mortality table.

Age	Number living at age	Number dying during year following attainment of age	Number dying out of every 1,000
1	2	3	4
20	10,000	42	4.20
30	9,577	45	4.77
40	9,055	75	8.31
50	8,050	161	20.42
60	6,033	259	45.99
70	3,274	271	82.88
80	1,026	152	147.76
90	116	31	268.99

The second column given the number of persons living at the commencement of ages shown in column one, out of 10,000 starting at age 20; whereas the third column shows the number of persons dying out of those shown in second column, during one year after they attain the specified age. The fourth column shows the number of persons dying out of every 1000 within one year after they attain the specified age.

The above table can be used to compute the “premium” for a one-year policy at various ages. Assume that we insure each of the 9,577 persons living at age 30 for a sum of Rs.1, 000.Such out of this 45 will die during the year, the total claims we have to pay amount of Rs. 45000. The “premium “to be paid at the beginning of the year should be such as to divide these expected claims equally between the 9,577 insured. In other words, the premium will be 45,000/9,577=Rs.4.77. It will thus be seen that the last column of the Table also gives the premium for one-year term assurance for Rs.1, 000 at the respective ages. It will also be seen that the premium increases with age. The increase in premium is slow at early ages but accelerates with advancing age. This is the basic method of computing risk premiums under various types of policies. The premium rates will, of course, differ materially depending upon the mortality tables which are used.



Check your Progress

Q.1. What is an Annuity?

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Q.2. What is a mortality table?

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Q.3. What are the two sources of mortality tables?

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9.9 LIFE INSURANCE CORPORATION OF INDIA

Life Insurance Corporation of India (LIC) is the largest insurance company in India with an association of over 245 insurance companies and provident societies. It was incorporated in 1956 and has its headquarter in Mumbai, India. The company has completed 64 years and today, it stands proud of the fact that it has become what was envisioned way back at the time of its establishment.

The Life Insurance Corporation of India came into being on 1st September, 1956 and nationalized on 19th January, 1956 to carry on life business in India with capital of Rs.5 crores contributed by the Central Government.

The Corporation is a body corporate having perpetual succession with a common seal with powers to acquire, hold and dispose of property and may by its name sue and be sued. The functions of the Corporation shall be to carry on and develop life insurance business to the best advantage of the community.

9.9.1 Role/Functions of LIC

1. To carry on capital redemption business, annuity certain business or reinsurance business in so far as such reinsurance business relating to life insurance business;
2. To invest the funds of the Corporation in such manner as the Corporation may think fit and to take all such steps as may be necessary or expedient for the protection or realisation of any investment; including the taking over of and administering any property offered as security for the investment until a suitable opportunity arises for its disposal;
3. To acquire, hold and dispose of any property for the purpose of its business;

4. To transfer the whole or any part of the life insurance business carried on outside India to any other person or persons, if in the interest of the Corporation it is expedient so to do;
5. To advance or lend money upon the security of any movable or immovable property or otherwise;
6. To borrow or raise any money in such manner and upon such security as the Corporation may think fit;
7. To carry on either by itself or through any subsidiary any other business in any case where such other business was being carried on by a subsidiary of an insurer whose controlled business has been transferred to and vested in the Corporation by this act;
8. To carry on any other business which may seem to the Corporation to be capable of being conveniently carried on in connection with its business and calculated directly or indirectly to render profitable the business of the Corporation; and
9. To do all such things as may be incidental or conducive to the proper exercise of any of the powers of the Corporation.
10. In the discharge of any of its functions the Corporation shall act so far as may be on business principles.

9.9.2 Objectives of LIC

1. Spread Life Insurance widely and in particular to the rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.
2. Maximize mobilization of people's savings by making insurance-linked savings adequately attractive.
3. Bear in mind, in the investment of funds, the primary obligation to its policyholders, whose money it holds in trust, without losing sight of the interest of the community as a whole; the funds to be deployed to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return.
4. Conduct business with utmost economy and with the full realization that the moneys belong to the policyholders.

5. Act as trustees of the insured public in their individual and collective capacities.
6. Meet the various life insurance needs of the community that would arise in the changing social and economic environment.
7. Involve all people working in the Corporation to the best of their capability in furthering the interests of the insured public by providing efficient service with courtesy.
8. Promote amongst all agents and employees of the Corporation a sense of participation, pride and job satisfaction through discharge of their duties with dedication towards achievement of Corporate Objective.

9.10 GOVERNMENT SCHEMES FOR LIFE INSURANCE

Governments all over the world work towards providing good quality healthcare for their people. Whether it is creating awareness about health issues, ensuring strong infrastructure, and promoting health insurance are productive activities conducted by the authorities for people's welfare. In recent time, the Indian Government also undertakes such measures from time to time. Below a few of such measures and initiatives taken by the Government has been listed down.

1. Ayushman Bharat Yojana: The Pradhan Mantri Jan Arogya Yojana (PMJAY) popularly known as Ayushman Bharat Yojana Scheme is the flagship scheme by the Government of India. It was launched in September 2018 providing health insurance coverage of a maximum sum insured amount of Rs.5 lakh. It is essentially a health insurance scheme to cater to the poor, lower section of the society and the vulnerable population making quality healthcare accessible to the poorest of poor families in India. The scheme offers financial protection in case of hospitalization due to medical emergencies this plan came into existence because of recommendations made by the National Health Policy. Ayushman Bharat Yojana is designed keeping in mind Universal Health Coverage. Benefits of this scheme are portable across the country and a beneficiary covered under this scheme will be allowed to take cashless benefits from any public/private empanelled hospital across the country.

2. PMJAY Scheme Awaz Health Insurance Schemes: This is a health insurance cover initiated by the Government of Kerala and covers migrant workers. This is a first of its kind scheme intended for migrant labourers working in a state in India. It also offers insurance for death by accident for

labourers. The scheme was launched in the year 2017 and targeted 5 lakh inter-state migrant labourers working in Kerala. This scheme provides coverage of INR 15000, while the cover for death is INR 2 lakh. This policy can be obtained by labourers between the ages of 18 to 60 years. They shall be provided with an awaz Health Insurance card, post submitting and processing of enrolment details pertaining to biometric information and other worker related health insurance.

3. Aam Aadmi Bima Yojana: The Aam Admi Bima Yojana was launched on 2nd October 2007. It is a social security scheme that is targeted toward the low-income families of India. The Aam Aadmi Yojana is meant for people who are involved in certain vocations such as carpentry, fishing, handloom weaving, etc. There are 48 such defined vocations. The premium to be charged under this scheme will be INR 200 per annum per member for a cover of INR 30000, out of which 50% will be subsidized from the Social Security Fund. The member buying this insurance should be the head of the family or one earning member of the Below Poverty Line (BPL) family or marginally above the poverty line under identified vocational group/rural landless households.

4. Central Government Health scheme: The Central Government Health Scheme (CGHS) was started in 1954 with the objective of providing comprehensive medical care to the Central Government employees, both existing and former employees of the Central Government of India. The medical facilities are provided through Wellness centres (previously referred to as CGHS Dispensaries)/polyclinics under allopathic, Ayurveda, Yoga, Unani, Sidha, and Homeopathic systems of medicines.

5. Chief Minister's Comprehensive Insurance Scheme: The Chief Minister's Comprehensive Health Insurance Scheme Tamil Nadu (CMCHISTN) is a health insurance scheme designed for the underprivileged residents of Tamil Nadu. The scheme was launched in 2012 in Tamil Nadu, to provide health insurance benefits to economically backward sections of the society. It is a family floater plan for quality health care where the coverage limits are applicable on a floater basis. Spouse, dependent parents, and dependents children can be covered under the floater plan cover. One can claim for hospitalization expenses up to INR 5 lakhs under this scheme.

6. Employees State Insurance Scheme (ESIS): *ESIC scheme* was inaugurated *in* Kanpur on 24th February 1952 (*ESIC Day*) by then Prime Minister Pandit Jawaharlal Nehru. The promulgation of *Employees' State Insurance Act,* 1948 (*ESI Act*), by the Parliament was the first major legislation on social Security for workers *in* independent India. It is a self-financ-

ing social security and health insurance scheme for Indian workers to protect against the impact of incidences of sickness, maternity, disablement due to employment injury and to provide medical care to the insured person and their families. Contributions are raised from covered employees and their employers as a fixed percentage of wages. The State Governments, as per the provisions of the Act, contribute 1/8th of the expenditure of medical benefit within a per capita ceiling of INR 1500 per person per annum.

7. Pradhan Mantri Suraksha Bima Yojana: The *Pradhan Mantri Suraksha Bima Yojana launched* in 2015, is a one-year accidental death and disability cover which could be renewed annually. It is also known as the PM Rs. 12 Insurance Scheme. This social security scheme is to be administered through both public and private sector insurance companies in tie-up with scheduled commercial banks, regional rural banks and cooperative banks. The scheme is designed to ensure that people with permanent total as well as impartial disability could avail the benefits of this particular insurance coverage. The insurance premium of Rs 12 for the policy shall be deducted from the registered bank account of the policyholder. People in the age group of 18 to 70 can avail the benefits of PMSBY by providing their Aadhaar card as a Know Your Customer (KYC) document.

8. Rashtryia Swashthya Bima Yojana: It is a government-run health insurance programme for the Indian poor. The scheme aims to provide health insurance coverage to the unrecognised sector workers belonging to the BPL category and their family members shall be beneficiaries under this scheme. It provides for cashless insurance for hospitalisation in public as well as private hospitals. The scheme started enrolling on April 1, 2008 and has been implemented in 25 states of India.



Check your progress

4. What is LICI?

……

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5. When was LICI incorporated?

……

6. When was LICI nationalised?

……

7. Name few government schemes for life insurance.

……

……



9.11 LET US SUM UP

- An annuity is a contract aimed at generating steady income during retirement, where in lump sum payment is made by an individual to obtain certain amounts immediately or at some point of future.
- A mortality table is a diagram that shows the death rate for a defined population within a specific rate of time.
- The Life Insurance Corporation of India came into being on 1st September, 1956 and nationalized on 19th January, 1956 to carry on life business in India.
- Certain schemes and initiatives taken by the Government of India for promoting quality healthcare to the people are Ayushman Bharat Yojana, Awaz Health Insurance Schemes, Aam Aadmi Bima Yojana, Central Government Health scheme, etc.



9.12 FURTHER READINGS

1. Insurance: Principles and Practices
    - M.N.Mishra
    - Dr.S.B.Mishra
2. Principles and Practice of Insurance
    - Ghanashyam Panda
    - Monika Mahajan



9.13 Answer to check your progress:

Ans to Q.No.1: An annuity is a contract aimed at generating steady income during retirement, where in lump sum payment is made by an individual to obtain certain amounts immediately or at some point of future.

Ans to Q. No.2: A mortality table is a diagram that shows the death rate for a defined population within a specific rate of time.

Ans to Q.No.3: The sources of mortality construction can be obtained either from (1) population statistics, and (2) records of life insurers.

Ans to Q No.4: Life Insurance Corporation of India (LICI) is the largest insurance company in India.

Ans to Q No.5: LICI was incorporated in 1st September 1956.

Ans to Q.No.6: LICI was nationalized in1956.

Ans to Q No.7: Ayushman Bharat Yojana, Awaz Health Insurance Schemes, Aam Aadmi

Bima Yojana, Central Government Health scheme, etc. are some of the government schemes for life insurance.



9.14 Model Questions

1) What is Annuity? State the differences between annuity contracts and life insurance policies.
2) State the classification of Annuities.
3) Discuss the functions of Life Insurance Corporation of India.
4) Discuss the objectives of Life Insurance Corporation of India.
5) Elaborate the government schemes for life insurance by the Government of India.

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UNIT 10: NON-LIFE INSURANCE-I

UNIT STRUCTURE

10.1 Learning Objective

10.2 Introduction

10.3 Meaning of Non-Life Insurance

10.4 Importance of Non-Life Insurance

10.5 Fire Insurance

10.6 Marine Insurance

10.7 Burglary Insurance

10.8 Motor Insurance

10.9 Transit Insurance

10.10 Health Insurance

10.11 Let Us Sum Up

10.12 Further Readings

10.13 Answers to Check Your Progress

10.14 Possible Questions

10.1 LEARNING OBJECTIVE

After going through this unit, the learners will able to:

- know the various non-life insurance available in the market.
- discuss the fire insurance
- discuss marine insurance
- get the concept of Burglary Insurance
- know the motor insurance and transit insurance
- discuss health insurance

10.2 INTRODUCTION

In today's age of consumerism, insurance requirements have expanded to keep pace with the increasing risks. Today we have a wide assortment of risk coverage commencing from health insurance to transit insurance to burglary insurance. With affluence and spending capacity on the surge there

is a growing trend to fulfil needs, deal with responsibilities and secure one's possession. General insurance companies have willingly catered to these increasing demands and have offered a plethora of insurance covers.

10.3 MEANING OF NON-LIFE INSURANCE

Non-Life Insurance is a policy that provides compensation for losses incurred from a specific financial event. This type of policy is also known as general insurance, or property and casualty insurance. Examples of non-life insurance policies include automobile policies, home-owners policies, damage cover from fire, marine accidents, travel, theft and any catastrophe etc. Since the probability of occurrence of these risks is very difficult to ascertain, it thereby is an extremely difficult task to measure the amount of damage they would do, on their incidence.

10.4 IMPORTANCE OF NON-LIFE INSURANCE

Insurance has become synonymous with safeguarding the interest of people and property from loss and uncertainty. A suitable non-life insurance cover is an absolute essential for every family. This is a necessity to overcome uncertainties and risks prevalent in life. Insurance is very important for businesses as they provide compensation for lost or damaged property. Property insurance in India provides safety against most risks such as Fire, theft and certain types of weather damage. Besides minimizing losses, insurance helps in industrial development as the premium which is collected is utilized for the economic development of the country.

10.5 FIRE INSURANCE

Fire Insurance is a device to compensate for the loss consequent upon destruction by fire. It is an agreement between an insurance company and an individual or company where the insurer agrees to compensate the policyholder in case of loss or damage due to fire. The policy holder can be an individual or a company. The policy holder pays premiums to the insurance company on a regular basis for certain period of time in exchange for compensation in the event of loss of property due to a fire.

Thus the fire insurer shifts the burden of fire losses from their actual victims over to all the members of the society. It is a cooperative device to share the loss. It relieves the insured from the horror of the fire losses to which he is exposed.

10.5.1 Fire Insurance Contract

Fire insurance contract may be defined as “an agreement, whereby one party in return for a consideration undertakes to indemnify the other party against financial loss which the latter may sustain by reason of certain defined subject-matter being damaged or destroyed by fire or other defined perils up to an agreed amount”. The party responsible to indemnify the loss is called the insurer, the party who is to be indemnified is called the insured, the consideration for the contract is termed ‘the premium’, the defined subject-matter is termed ‘the property insured’, the sum set forth in the contract is called the assured sum and the document containing the terms and conditions of the contract is known as ‘the policy’.

10.5.2 Features of Fire Insurance Contract

1. **Indemnity:** The contract of fire insurance is a contract of indemnity in which the insured will be compensated for the loss up to a certain limit subject to the maximum sum insured.
2. **Offer and Acceptance:** The contract of insurance is the outcome of offer made by the insured and acceptance by insurer or insurance company. As such the contract of fire insurance is the result of an offer made by insured and its acceptance by insured.
3. **Consideration:** Fire insurance policy is issued for a lawful consideration i.e. premium.
4. **Insurable Interest:** In case of fire insurance, the insured must have insurable interest in goods or properties insured against fire, both at the time when policy is taken and also at the time when loss occurs and the claim is filed for compensation.
5. **Policy Tenure:** Fire insurance policies come with one year tenure. The policy lapses automatically after one year unless it is renewed.
6. **Scrap value**: The scrap or whatever is left of goods or properties after damages or destroyed by the automatically fall to the hands of insurer after the payment of claim under fire insurance.

10.5.3 Principles of Fire Insurance Contract

1. **Insurable Interest:** In fire insurance, the insured must have insurable interest in the subject matter of the insurance. Without insurable interest the contract of insurance is void. In case of fire insurance,

unlike life insurance insurable interest must be present both at the time of insurance and at the time of loss. For Example, a person has insurable interest in the property he owns, a businessman has insurable interest in his stock, plant, machinery and building, an agent has an insurable interest in the property of his principal, a partner has an insurable interest in the property of a partnership firm and a mortgagee has insurable interest in the property which is mortgaged.

2. **Utmost Good Faith:** In fire insurance contracts, the legal doctrine of utmost good faith applies. The insured has the duty to disclose all material facts, which have a bearing on the insurance. A breach of this duty may make the contract void or voidable. The duty of disclosure continues throughout the policy period. The fire proposal form also includes a declaration by the insured saying that the statements declared by him are true, and that they can form the basis of the insurance contract. These principles also expect the insured to act as if he is uninsured all the time, and takes care and safeguards his assets from the perils. Following a loss, he is then expected to salvage as much of the property as possible. Thus, the utmost good faith in fire insurance has two aspects-first, disclosure of material facts and second, preservation of the property insured.

3. **Indemnity:** The principle of indemnity means the insured is indemnified only to the extent of his loss, no profit or undue benefit is extended. The indemnity is subject to the sum insured and other terms of the policy. The sum insured can be fixed on the basis of Reinstatement Value or Market Value.

4. **Doctrine of Subrogation:** Subrogation means the right of one person to stand in the place of another and to avail himself of the latter's rights and remedies**.** The principal of subrogation is the corollary of the principle of indemnity. If the loss suffered by the insured can be recovered from third parties who are responsible for the loss, the insured's rights of recovery are transferred or subrogated to the insurers, when they indemnify the loss.

5. **Warranties:** Warranty is that by which the assured undertakes that some particular thing shall or shall not be done, or that some conditions shall be fulfilled or whereby he affirms or negatives the existence of a particular state of facts. Warranties which are mentioned in the policy are called express warranties and those warranties which are not mentioned in the policy are called implied warranties.

6. **Proximate Cause:** It is the primary cause of a loss or injury. The insurer always takes the proximate cause while paying the claim. Proximate cause produces particular, foreseeable consequences without the intervention of any independent or unforeseeable cause. It is the active, direct, and efficient cause of loss in insurance that sets in motion an unbroken chain of events which bring about damage, destruction, or injury without the intervention of a new and independent force. It is also called legal or direct cause.

10.5.4 Types of Policies

Under fire insurance there are different types of fire insurance policies which are discussed below:

1. **Valued Policy:** Under this policy the policy holder can only recover a fixed amount of money that is agreed upon at the time the insurance policy is taken. This means that only a fixed amount of money is compensated for in the event of a loss regardless of the actual amount lost. . Valued policy is taken for those goods whose value becomes difficult to calculate in case of loss by fire. This types of policy can be taken for art work, paintings, etc. where the value of the damaged articles become difficult to assess/measure.
2. **Valuable Policy:** The valuable policy is that policy where the claim amount is to be determined at the market price of the damaged property. The amount of loss is not determined at the time of commencement of risk but is determined at the time and place of loss. This policy is truly representing the doctrine of indemnity.
3. **Specific Policy:** According to this policy, the property is insured for a definite sum irrespective of the market value. If there is a loss, the stated amount will have to be paid to the policy holder. The actual value of the property is not taken into consideration when determining indemnity.
4. **Comprehensive Policy:** Comprehensive policy undertakes full protection not only against the risk of fire but combining within the risk against burglary, riot, civil commotion, theft, damage from pest, lightning. This policy is also termed as all-in-one policy.
5. **Floating policy:** A floating policy is a fire insurance policy that covers properties or goods located in different places or godowns or warehouses. Since the quantity of goods lying at different places fluctuate from time - to time, it becomes difficult for the owner to

take specific policy so businessmen and traders take floating policy. Such a policy is usually taken for one sum and one premium for goods lying at different places but under the same name and premiums. Such a policy is always subject to average clause.

6. **Replacement or Re – instatement policy:** In this type of policy, the insurance company chooses either to pay cash for any property lost by fire or reinstate it. By reinstating, the insurer pays for the replacement of the property lost or destroyed by fire. The rate of premium is higher in Reinstatement Policy.

7. **Average Policy**: It is a policy which contains an average clause. If the subject matter is not insured as per the exact market value or undervalued, then the insurer is liable to pay that percentage of the loss for which it is insured. e.g. If a policy is taken for Rs 50,000 against the market value of Rs 100,000, the loss incurred due to re is Rs 40,000, then the insurance company will pay Rs 20,000 (50% of Rs 40,000).

8. **Excess Policy**: Excess policy is taken when the value of the stock in the market constantly fluctuates. In such an instance it is not advisable to take one policy of certain sum, but instead two policies can be taken.

   (a) One policy is for a minimum amount below which value of the stock never falls known as First Loss Policy.

   (b) Another policy known as Excess Policy for a difference/excess amount (for a maximum amount of stock) by which price fluctuates. E. g. if the value of stock ranges between Rs 100,000 and Rs 130,000, then one policy is taken for Rs 100,000 and another policy for excess amounti.e.Rs.30, 000.

9. **Blanket Policy**: Blanket Policy covers all fixed and current assets of the assured in one policy. Under this policy all the assets lying at different places are covered under one premium and one policy.

10. **Declaration Policy:** Under the declaration policy, the insured takes out insurance for the maximum amount that he considers would be at risk during the period of the policy. On a fixed date of every month or a specific period, the insured furnishes a declaration of the amount. The premium is provisionally paid to 75% of the annual premium amount.

11. **Adjustable Policy:** This policy is nothing but an ordinary policy on the stock of the businessman with the liberty to the insured to vary

in his opinion; the premium is adjustable pro-rata according to the variation of the stock. In the case of declaration policy, since the excess premium is refundable at the end of the year, the insured may put fire to the property. This danger is avoidable in an 'Adjustable Policy'. This is issued for a definite term on the existing stock.

10.5.5 Importance of Fire Insurance

The most popular form of property insurance in India is Fire insurance. It is a form of insurance coverage to protect assets from losses occurring due to fire. Fire Insurance aids business men to feel secure and carry on their businesses with confidence as fire accidents are unexpected and cause massive destruction which can bring a flourishing business to an impasse. Fire insurance protects enterprises in the following ways:

1. Covers the cost of the property damage due to fire.

2. Provides medical expenses to employees who sustained injuries from the fire incident.

3. Provides compensation for loss of life as well.

Apart from businesses, personal assets can also be insured against fire damage under a fire insurance policy. It provides monetary compensation in case of loss or damage to personal property such as flats, furnishings, clothes etc. It also provides maintenance price for the electronic items which are damaged by fire like television, computer, air coolers etc. Modern technologies like smoke detectors and alarms do alert in and provide the time to run back to safety, but as far as safeguarding of property is concerned they can do little as fire spreads at a rapid pace. Hence fire insurance is a critical protective measure which one cannot ignore at any cost.

10.5.6 Procedure of Effecting a Fire Insurance Policy

The following procedure is adopted whenever a person wants to get his property insured against the risk of fire:

1. **Proposal Form:** An intending person must fill up the printed proposal form which is distributed by the insurance company free of cost. The proposal form solicits, in addition to the name and address of the proposer, other particulars concerning the object to be insured and the physical and moral hazards involved in it.

2. **Proof of Respectability:** Evidence of respectability is required if necessary, as the insurance policy covers a high degree of moral hazards.
3. **Assessing of the Proposal**: On receipt of the proposal, the underwriter assesses the possible loss involved in the proposal. A surveyor may be sent to assess the proposal if the subject matter is of very high value.
4. **Acceptance:** The insurance company accepts the proposal of the risks deem insurable after the assessment of the survey report and the evidence of respectability. Accordingly, a letter of acceptance is written to the proposer instructing him to pay the premium.
5. **Cover Note:** Sometimes a cover note is issued immediately and the policy is sent later on. A cover note binds the insurer to indemnify the risk. The risk coverage starts on the payment of premium.
6. **Insurance Policy:** The insurance company prepares and issues a legal and formal document of insurance along with the terms and conditions after the issuer of cover note. This policy serves as evidence of insurance between the insured and the insurer.

10.5.7 Procedure for Settlement of Claims

The following procedure is adopted while claiming the compensation of fire loss:

1. **Notice of Fire:** As soon as the occurrence of fire, the insured must send a notice of loss in writing to the insurance company. If possible, the evidences of loss and the evidence done to mitigate the loss must be provided along with the notice. If deliberate person is suspected, an FIR must be lodged with the police and a copy of FIR must be submitted along with the notice.
2. **Receipt of claim intimation:** On receipt of a claim intimation the insurance company takes the following steps:
    a. The policy is in the force.
    b. The items of goods affected are the same as covered under the policy.
    c. The location involved is the same as covered in the insurance policy.

3. **Entering in the Claim Register:** The claim is registered after verification of the policy along with the allotment of a claim number for future reference.
4. **Claim Form:** Once the claim has been registered, the insurance company sends a claim form to the insured. The insured should carefully fill the form as the details given in the form can affect the amount of the claim. Any wrong information can result in the refusal of the claim.
5. **Survey:** The insurance company will appoint a surveyor for scrutiny of the situation if the amount of loss is large.
6. **Discharge Voucher:** A discharge voucher is sent to the insured for his acceptance and on return of the same; a cheque in settlement is sent.
7. **Recording:** The payment is recorded in the claim register before the release of the cheque.

10.6 MARINE INSURANCE

Marine Insurance insures all types of risks which can occur during transit. It is a contract whereby the insurer undertakes to indemnify the assured, in a manner and to the extent thereby agreed, against marine losses.

Section 2(13) of the Insurance Act 1938,defines marine insurance as “marine insurance business means the business of effecting contracts of insurance upon vessels of any description, including cargoes, freights and other interests which may be legally insured, in or in relation to such vessels, cargoes and freights, goods, wares, merchandise and property of whatever description insured for any transit by land or water, or both, and whether or not including warehouse risks or similar risks in addition, or as incidental to such transit, and includes any other risks customarily included among the risks insured against in marine insurance policies”.

Marine insurance has been designed to provide coverage for the transportation of goods either on the ocean or by land as well as damage to the waterborne instrument of conveyance and to the liability for third parties arising out of the process. The two branches of marine insurance are ocean marine (primarily water-based exposures) and inland marine (primarily land-based exposures).

10.6.1 Features of Marine Insurance

1. **Offer & Acceptance:** It is a prerequisite to any contract. Similarly, the goods under marine (transit) insurance will be insured after the offer is accepted by the insurance company.
2. **Payment of premium:** An owner must ensure that the premium is paid well in advance so that the risk can be covered.
3. **Period of marine Insurance:** The period of insurance in the policy is for the normal time taken for a transit. Generally, the period of open marine insurance will not exceed one year.
4. **Deliberate Act:** If goods are damaged or loss occurs during transit because of deliberate act of an owner then that damage or loss will not be covered under the policy.
5. **Claims:** To get the compensation under marine insurance the owner must inform the insurance company immediately so that the insurance company can take necessary steps to determine the loss.

10.6.2 Elements of Marine Insurance Contract

1. **Insurable Interest:** Marine insurance is based on the insurable interest in the property. It is not essential for the insured to have an insurable interest at the time of affecting the insurance. Instead, he/she should have such an interest in due course of time otherwise; he will not become entitled to indemnification. Thus a marine insurance will be valid if the person is having insurable interest at the time of loss.

2. Utmost good faith: According to this principle, both the parties to the insurance contract must disclose all facts material to the risk voluntarily to each other. Any breach of this duty shall render the contract voidable at the option of the aggrieved party, i.e., the party who has suffered as a result of this breach.

3. Contract of Indemnity: Marine insurance is an agreement whereby the insurer undertakes to indemnify the assured in the manner and the extent agreed upon. Under no circumstances, an insured is allowed to make a profit out of a claim the insurance company. It is liable only to the extent of actual loss suffered.

4. Contribution: If a person insures his goods with two insurance companies, then in case of marine loss both the insurance companies will pay the loss to the owner proportionately.

5. Warranties: The principle of warranties applies to a marine insurance contract. Warranties are the statements according to which insured persons promises to do or not to do a particular thing or to fulfil or not to fulfil a certain condition. It may be expressed or implied.

6. Proximate Cause: The fundamental principle underlying every contract of marine insurance is that a loss must be one which was proximately caused by a peril insured against Proximate cause is used to examine how loss occurred and how many may have played a role in causing the loss. It refers to the initial action that caused a loss. The starting point in the chain of events that led to a loss.

10.6.3 Subject Matter of Marine Insurance

There are four types of marine insurance that provide different protections:

1. **Hull Insurance:** The hull insurance offers protection for physical damages to the boat or vessel along with its operating equipment, including machinery. It covers the applicant from any mishap to the ship and is generally taken by ship owners.
2. **Cargo Insurance:** Cargo owners are exposed to the risk of mishandling of the cargo at the terminal and during the voyage of the ship. It might get damaged, lost or misplaced. Hence, to protect the cargo owner from the financial losses arising out of such cases, marine cargo insurance is issued against appropriate premium payment. It comes with a third-party liability insurance which covers any damage done to the port, railway track, ship, other cargo or humans due to the cargo.

3. Liability Insurance: The ship may be exposed to crash, collision or piracy attack. Under such situations, the valuable cargo is exposed to a high risk. Moreover, the life of crew members and others on the ship is also in danger. The appropriate liability insurance indemnifies the ship owners out of any such liabilities due to events not under his control.

4. Freight Insurance: This section covers the loss of freight. In case the freight is lost or damaged or the ship is lost, the shipping company will not have to bear the loss. They can be compensated for the loss through this insurance.

10.6.4 Types of Marine Insurance Policies

1. **Voyage Policy:** The validity of the insurance policy is limited to the specified voyage; hence, such policy is also known as voyage policy.
2. **Time Policy**: Many a times, customers want coverage for a particular period. Such coverage is called time policy.
3. **Mix Policy:** When the marine insurance policy extends the insurance cover for a particular voyage and for the desired duration of time, it is called mix policy. It gives flexibility to customers to handle various uncertainties related to the movement of the ship and the cargo inside the ship.
4. **Single Vessel Policy:** For ship owners who own only one ship, this policy is ideal, considering the cost and coverage. For ship-owners having a fleet of ships, single vessel policy for each ship is not cost effective.
5. **Fleet Policy:** If the ship-owners have multiple ships (fleet of ships), the fleet policy is cost effective and easy to administer.
6. **Floating Policy:** The floating policy is issued to the shipping line on an on-going basis. The only specified detail is the maximum sum insured in the policy. All other details are informed to the insurance company when the ship starts its voyage. For regular cargo owners, who need frequent transportation of goods through shipping line, this is the best policy, to save time and money.
7. **Unvalued Policy:** The value of the cargo is usually mentioned while taking the marine cargo policy. However, when the value of the goods and consignment is not defined before uploading the cargo, the unvalued policy is issued. It is also called open policy. The value is mentioned in case of claim after due verification and validation of the facts related to the consignment under the claim.
8. **Valued Policy:** When there is no ambiguity regarding the value of the consignment, it is mentioned during issuance of the cargo marine policy. In case of any claim, the amount of reimbursement is limited to value mentioned in the policy, subject to other terms and conditions of the policy.
9. **Block Policy:** This policy also comes under maritime insurance to protect the cargo owner against damage or loss of cargo in all modes of transport through which his/her cargo is carried i.e. covering all the risks of rail, road, and sea transport.

10.6.5 Importance of Marine Insurance

The importance of marine insurance is manifold. The development of international trade is closely linked with marine insurance. Increase in the volume of trade is also closely linked with marine insurance as it assures to indemnify the insured against loss, damages and expenses occasioned in connection with ship, cargo and freight. Marine insurance is not like fire insurance in which only one risk of fire is covered. It covers many perils of sea which may include sinking of ship, fire, collusion, etc. It protects all the parties engaged in the business like ship owner, cargo owners and the shipping company.

Through marine insurance, ship owners and transporters can be sure of claiming damages especially considering the mode of transportation used. Of the four modes of transport – road, rail, air and water – it is the latter most which causes a lot of worry to the transporters not only because there are natural occurrences which have the potential to harm the cargo and the vessel but also other incidents and attributes which could cause a huge loss in the financial casket of the transporter and the shipping corporation.

Incidents like piracy and possibilities like cross-border shoot-outs also pose a major threat when it comes to water transportation and therefore in order to avoid any loss because of such events and happenings, in the interest of the corporation and the transporter, it is always beneficial to have a back-up like a marine insurance.

Another important aspect of having marine insurance is that a transporter can choose the insurance plan as per the size of his ship, the routes that are taken by his ship to transport the cargo and many such minor points which could go a great length in affecting the transporter majorly.

10.6.6 Marine Losses and its Classification

During voyage there are number of perils in the sea. If the loss takes place on account of any of the perils insured against with the insurer, the insurer will be liable for it and shall have to make good the losses to the assured.

Marine losses may be divided into two broad categories:

A. Total Loss

B. Partial Loss

A. Total Loss: When the subject matter of the insured material is completely destroyed or lost is known as total loss. It can be either of the following:

a) **Actual Total Loss:** When the subject matter is completely destroyed or damaged that it ceases to be a thing of a kind insured or when the insured is deprived of the possession of the subject matter which cannot be recovered, such loss is called the actual total loss. Example, a ship is entirely destroyed by fire, foodstuff badly damaged by sea water became unfit for human consumption, where a ship is missing for a very long time and no news of her is received after the lapse of a reasonable time, etc.

b) **Constructive Total Loss:** A constructive total loss occurs when the ship or cargo is abandoned for certain reasons because its actual total loss seems unavoidable or when its subject matter cannot be preserved from its total loss by incurring more expenditure, which would be more than its actual value. Example, suppose a ship has to run on a rock and is badly damaged. If arrangements are made to send other ship to save and bring it back and repair it, the total expenses involved will be greater than the value of the ship so damaged. In this case the ship may be justifiably abandoned and will be deemed as a constructive loss.

B. **Partial Loss** When the subject matter of the kind insured is partially destroyed or damaged or lost, it will be case of partial loss. Partial loss is of two types:

a) **Particular Average Loss:** Particular average loss is partial and unforeseen loss which is accidentally incurred by sea perils. It is not caused voluntarily. Example, if some of the tins of refined oil are shipped and few of the tins are destroyed by sea water in the course of voyage.

b) **General Average Loss:** A general average loss is one in which is caused by an extraordinary sacrifice or expenditure voluntarily and reasonably made or incurred under special circumstances for the only purpose of preserving the common interest from impending peril. Example, if a ship is sinking and some of the cargo is thrown out in the sea with a purpose to save the ship.

10.6.7 Procedure to insure under marine insurance

The following is the procedure for obtaining marine insurance policy:

1. **Selecting the Insurance Company:** General insurance business in India is the monopoly of General Insurance Corporation (GIC) of India and its four subsidiaries. However, if an exporter intends to insure with a foreign company, then prior permission of the RBI must be obtained.

2. **Deciding Appropriate Type of Policy:** There are various types of marine insurance policies issued by the GIC to suit the requirements of exporters. The exporter should decide the appropriate type of policy as per his requirements.

3. **Application to the Insurance Company:** When the goods are ready for despatch the exporter should apply to the insurance company in the prescribed 'Declaration Form' giving the following details:

    a) Address of the exporter and importer.

    b) Description of goods;

    c) Marks, numbers and kind of packages.

    d) Value of packages.

    e) Transportation from the warehouse to its final destination.

    f) Risk to be covered for insurance.

4. **Payment of Premium:** The insurance premium charges may vary from company to company and country to country. Payment on marine insurance policy can be made in rupees provided exporter certifies that insurance charges on the shipment in question have to be borne by him.

5. **Issue of the Insurance Policy:** After the completion of all the formalities, the exporter has to produce the Bill of Lading and the name of the ship to the insurance company. The insurance company issues the insurance certificate (in triplicate) as per the declaration given by the exporter. The policy generally contains the following details:

    a) Name and address of the exporter.

    b) Type of policy and description of the risks covered.

    c) Description of the goods insured.

    d) Amount of sum assured and premium paid.

    e) Date of issue and the period of policy.

    f) Special conditions and warranties.

g) Special instructions regarding procedure to be followed in the event of loss.

6. **Processing of the Policy:** The exporter submits the original policy to the bank with his other documents. The second copy of the policy is sent to the importer and the third copy is retained by the exporter for his own information.

10.6.8 Steps involved in filing marine insurance claim

Following procedure should be followed in the event of occurrence of marine loss:

1. **Intimation of Loss**: Intimating insurance company about the loss or damage of goods is the first step to be taken by the insured under claim of marine insurance. In the event of claim arising, the marine insurance company or its nearest office or its overseas agent as mentioned in the policy should be intimated about the loss without delay. The claim on carriers, customs and bales should be filed within the prescribed time limit under registered post with an acknowledgement due.
2. **Appointment of the Surveyor:** On receiving the intimation, the insurance company appoints a surveyor to determine the cause and extent of loss. The following details are necessary in the Survey Report:
    a) Whether the packing was sufficient? If not,
    b) What improvements are recommended?
    c) How claim could have been minimised?
    d) Was there failure of insured to protect interest by not taking measures to avoid or minimise loss or not protecting the rights of recovery from carriers/ Port, etc.?
3. **Landing Remarks:** The insured should also obtain landing remarks from the Port Authorities.
4. **Submission of Claim:** The insured should submit the following documents to finalise claim properly:
    a) Original insurance policy
    b) Original invoice and packing list.

    The following documents, inter alia, are required to be submitted by the exporter to the insurance company:

a. Claim bill in duplicate.

b. Original Insurance policy duly discharged.

c. Original Invoice.

d. Copy of Bill of Lading.

e. Copy of packing list showing weight specification.

f. Ship Survey Report.

g. Insurance Survey Report.

h. Port Trust Landing Remark Certificate.

i. Copy of claim lodged with carriers, customs and bales.

j. Reply received from carriers or Port Trust Authorities and/or correspondence exchanged.

k. Any other documents required by the Insurance Company.

5. **Finalisation of the Claim:** On verification, if the insurer is satisfied with the claim, it pays the amount of claim to the insured or the person authorised to receive the claim as per the policy. If the claimant is of Indian origin, the claim is paid in Indian rupees irrespective of the currency in which relative policies have been issued. Where the clamant is not the resident of India, the may settle the claim in foreign currency.



Check your Progress

1. What is Non-Life Insurance?

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2. What is Fire Insurance?

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3. What is Valued Policy under a fire insurance contract?

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4. What is Marine Insurance?

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5. State the meaning of Hull Insurance.

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10.7 BURGLARY INSURANCE

Burglary is defined as an act of forceful entry into the house or business premises with an illegal intention of theft. The term burglary represents the act of entering any property illegally or unlawfully with the purpose of committing a crime and this might not always involve theft.

Lloyds Association introduced the scheme of burglary insurance in 1887 for the first time. The first company to issue policies was the 'Mercantile Accident and Guarantee Company of Glasgow.

Under the burglary insurance, the insurance company agrees to indemnify the financial losses caused to property and valuable items due to theft, dacoit, burglary, house-breaking, etc. during a certain period of time, as may be determined under the contract of insurance. The insured is required to pay a certain amount periodically or in lump sum by way of premium

Burglary Insurance is an add-on to other insurance policies. The policy is specifically designed to cover the losses arising as a result of burglary. The burglary or housebreaking insurance policies are meticulously designed to provide monetary reimbursement in case of loss or damage to a property in the premises by acts of housebreaking and or burglary.

10.7.1 Features of burglary insurance

Burglary insurance policies have the following salient features –

1. They can be bought by homeowners, tenants as well as business organisations to cover the financial loss suffered due to burglary
2. A burglary insurance policy can also cover theft and robbery. That is why the plans are also called burglary and theft insurance plans.
3. There are different types of burglary insurance plans available in the market
4. One can avail different types of burglary insurance policies for covering different types of assets which are exposed to the risk of theft.

5. A standard burglary insurance policy can be extended to cover losses suffered due to burglaries committed during riots, strikes, fire, etc.

10.7.2 Importance of Burglary Insurance

Every one of us stock up valuable goods and or documents at our home and office premise. If somebody breaks into your house and steals your expensive gems, jewellery, or stones you will have no other way left but to face a financial loss. Similarly, you will go helpless if an intruder manages to enter your office premise unlawfully and steal your important data or business plan. We'll have no option in our hands if somebody steals all that.

As a result of which, the financial loss we will have to suffer would add up to our anguish. But you need not worry since there is a simple, convenient and hassle-free way by which you can safeguard the security of your property. And the all-in-one solution is to buy burglary insurance. Burglary insurance policies are generally formulated to shield you against such losses or damages. A burglary insurance policy provides you with monetary support in the event where you face hard and tough times as mentioned above.

10.7.3 Types of Burglary Insurance

There are basically three types of burglary insurance policies.

1. **Stock Declaration Insurance:** This plan is the best and perfect when a large number of stocks often vary during a financial year. The Sum Insured is fixed at the highest stock value that is projected by the policyholder.
2. **First Loss Insurance:** In the event of an implausibility of total loss, this plan provides a policyholder to select a percentage of the stocks that can be insured.
3. **Full Value Insurance:** This plan offers full value of the insured property.

10.7.4 Exclusions under Home Burglary Insurance

The insurer will not accept burglary insurance claim under the following circumstances:

1. Loss or damage where the burglary happened due to the involvement of the insured's family member or any of the business staff or any

other person that was lawfully present on the premises where the burglary took place.

2. Any loss or damage involving bonds, deeds, promissory notes, bills of exchange, cash, cheques, treasury, bank notes, books of accounts, securities for money, stamp collections, stamps, manuscripts, medals, coins, documents of any type unless specially mentioned in the policy documents.
3. Any damage resulting due to weapons, nuclear bombs, etc.
4. Any damage due to the invasion, war, the act of foreign enemy, etc.
5. Any loss or damage incurred due to confiscation by government authorities and nationalisation.
6. Any type of consequential loss or damage is also not covered.
7. Any damage caused by riots, strikes, civil, commotion, etc.

10.7.5 Types of burglary insurance policies

Burglary insurance policies can be of different types based on the type of coverage as well as the assets that they cover. Here are some of the commonly found burglary insurance policies in India –

1. **Money in Transit Insurance**: Under this policy, the insurance company agrees to indemnify the losses of cash, postal orders, bank drafts, cheques, money orders, stamps and bills of exchange of the insured while in transit. As such, it secures the insured against the risks of theft, dacoit, robbery and burglary, etc. relating to money or other forms of money in transit. The policy is relevant for businesses where the movement of physical cash is involved.
2. **Business Premises Insurance**: This policy covers the risk of burglary and theft in the place of business. The following properties or goods are covered under business premises burglary policy:
    a) Personal assets and properties, etc. of the insured.
    b) Articles of decoration and displays installed in the business premises.
    c) Goods or properties kept under the contract of bailment, trust or in consideration of payment of commission or rent, etc.
    d) Valuable and cash kept in the locked safe or security boxes or strong rooms, etc.

e) Stock-in-trade lying in the business premises or godowns of the business premises.

3. **Dwelling Insurance:** Insurance companies provide burglary insurance policies especially for residential buildings under which owner's or occupier's personal belongings, personal effects, property articles, jewellery, ornaments, etc. are secured against the risks of theft, dacoits, burglary and house-breaking, etc. Under this policy, the residential house is covered against burglary and theft.

4. **Jewellery and Valuable Policy**: This policy specifically covers precious jewellery, valuable, works of art and other valuables against burglary.

5. **Cash in Safe Policy**: This burglary insurance policy covers the risk of theft of the cash which is kept in a safe at the house or at the business premises.

10.7.6 Procedure of claiming Burglary Insurance

1. **Police Complaint:** All losses are required to be reported to the police authorities through formal written complaint, a copy of which has to be given to the insurer along with F.I.R. No. /Diary Entry No.by which police registers the case.

2. **Intimation to the insurance company:** The insured must give immediate written notice of the loss to the insurance company.

3. **Registration of claim:** The claim is then registered by the insurance company and a claim form is issued to the insured to be filled by him. Claim form includes:

   a) The description and value of the property stolen.

   b) Allowances have to be made for depreciation and wear and tear to arrive at the amount of the claim.

   c) Details are required in respect of date and time of loss.

4. **Furnish claim form:** The claim form must be duly completed by the insurer and submitted to the insurance company.

5. **Evidence:** There must be evidence of a broken lock, broken window, broken roof, etc.to substantiate the claim. These would be violent and forcible entry.

6. **Scrutiny:** The claim is processed on the basis of the claim form, survey report, the policies report and the various vouchers, proof of

ownership and other evidence submitted by the insured. The same are scrutinised by the insurer to decide upon the admissibility of the claim and the amount payable.

7. **Finalisation of claim**: Burglary claim up to Rs.2500 are generally settled by the insurer on the basis of the completed claim form and copy of the First Information Report, provided the insurer is satisfied about the genuineness of the claim. Burglary claim over Rs.2500 are required to be surveyed by an independent surveyor. If need arises the matter may also be entrusted to a professional investigator for a thorough investigation.
8. **Payment of claim**: On payment of the claim, the sum insured gets automatically reduced by the amount of claim paid. The sum insured may be reinstated on payment of pro-rata additional premium on the amount to be reinstated.

10.8 MOTOR INSURANCE

Motor Insurance is a type of insurance policy which covers one's vehicles from potential risks financially. It is a contract by which the insurer assumes the risk of any loss the owner or operator of a car may incur through damage to property or persons as the result of an accident. It is generally a combined insurance which insures the damage to the motor vehicle and its accessories, liability for damage to property, death of, or injury to the assured himself or spouse and it also insures the motor vehicle against the risk of liability for injury to, or the death of third parties caused by the drivers' negligence.

Thus, the policyholder is provided financial security against damages arising out of accidents and other threats. There are many specific forms of motor vehicle insurance, varying not only in the kinds of risk that they cover but also in the legal principles underlying them.

The major benefit of having one is that it ensures higher level of protection against losses incurred due to road accidents. It also protects us against complications arising from third party liability. It acts as a financial cushion in case the vehicle is damaged due to accident, earthquake, lightning, floods, etc. Also, vehicle insurance reimburses expenses incurred in suffering of bodily injuries because of an accident. In other words, it compensates for hospitalisation expenses due to an accident involving one's vehicle.

10.8.1 Types of Motor Insurance Policies

1. Third Party Policy: The Motor Vehicles Act make mandatory to avail a third party insurance policy failing which would result in a penalty and/or fine. This policy indemnifies the insured against his legal liability in respect of damage to property of third parties. It covers injury or death caused to a third person by one's vehicle along with damage caused to a property.

2. Own Damage Car Insurance Policy: Own damage is any kind of damage that is caused to the insured car. The cause of damage can be of multiple types; thus own damage is not limited to accidents. This policyhelps one stay covered against the damages caused to the car due to natural calamities, accidents like fire, theft, etc.

3. Comprehensive Policy: Comprehensive Policy is an extensive motor insurance plan that covers the insured person against both, own damages and any third party liabilities. It offers complete protection to both the parties involved in an accident. So, the damages to self, car, as well as the other party involved in the accident are covered by the comprehensive policy, up to the maximum coverage amount. Comprehensive insurance covers a number of perils such as vandalism, fire damage, floods, damage due to natural calamities like tornado, wind storm etc., glass breakage (e.g. windshield), and damage due to falling objects like trees and so on.

10.8.2 Importance of Motor Insurance

Vehicle insurance is an integral part of vehicle ownership and getting it insured will protect this investment thus making motor insurance policy a must for every car owner in India. . Motor vehicle insurance is perhaps the most important amongst the General Insurance and its importance is increasing immensely as road transport hazards and risks are also increasing day by day.

1. **Takes care of third-party liability:** It takes care of third-party liability arising due to damages suffered by a third party involving one's vehicle, thus protecting from legal litigations.
2. **Mandatory by law:** Any vehicle running on Indian roads has to have motor insurance, especially third-party liability cover. Not having insurance cover can lead to a severe penalty. On the other hand, having a motor insurance gives the peace of mind as it acts as a backup in case the vehicle sustains damages of any kind.
3. **Coverage in case of death:** Death is perhaps the worst possible outcome after an accident. In case of the sole breadwinner of the

family, untimely demise can throw the family in a financial insecurity. However, the pay-out from a motor insurance policy can help the family stay financially independent and take care of its day-to-day expenses.

4. **Add-ons:** One can enhance the protection by opting for Add-on covers to insure for risks that are not covered under a standard policy. Some of the common add-on covers include zero depreciation, no-claim bonus protection, accidental hospitalization, etc.

10.8.3 Motor Policy Conditions

The usual conditions incorporated in the motor policy are as follows:

1. **Notice of Accident:** Immediately after occurrence of accident, the same has to be brought to the knowledge of the insurer by serving a notice of accident.
2. **Supply of data:** The insured should provide all necessary information to the insurer whenever needed.
3. **Inspection:** It is the duty on the part of the insured to keep his vehicle in good condition and permit the insurer to inspect the vehicle at any time.
4. **Cooperation of insured and subrogation:** The insured cannot pay damages to the third party without consent of the insurer.
5. **Cancellation of Policy:** The insured may cancel the policy at seven days' notice and demand the return of the proportionate premium, provided that no claim has arisen during the then current period of insurance.
6. **Renewal of policy:** When a policy is renewed, bonus in the form of reduction of renewal premium will be allowed, provided that there was no claim under that policy in the previous year.

10.8.4 Procedure for effecting Motor Vehicle Insurance

The following procedure is followed for effect ting motor vehicle insurance:

1. **Filling and submission of proposal form:** First of all, the person who is interested in taking a motor policy known as proposer will have to submit a proposal form with the insurer. Proposal form covers information required to be furnished by the insured relating to motor vehicle and occupier or owner of the vehicle such as

registration number of vehicle, model, chaises, c.c. power, year of manufacture or make, etc.

2. **Determining the rate of premium:** After having received the proposal form, the insurer evaluates the volume of hazards before deciding consideration (rate of premium) and acceptance. While considering proposal, generally model of the vehicle, position and history of past claims, accidents and information about the proposer are examined.

3. **Cover Note, Certificate of Insurance and Policy:** As soon as the amount of premium to be charged on the proposer is determined, the same will be conveyed to the proposed by the insurer. On receipt of the letter from the insurer, the proposer will pay the amount of premium and the insurer will, after receiving the premium, issue a cover note along with a certificate of insurance. The cover not serves as an evidence of the acceptance of the risk by the insurer till the final policy is issued. The certificate of insurance can be produced before the Regional Transport Authority as a proof of insurance.

4. **Insurance Policy:** Finally, the insurer prepares the motor policy (to replace the cover note) and sends the same to the insured. The motor policy is generally issued for one year. In case, the insured wants to sell his insured motor vehicle and replace it by a new one, the policy can be transferred to the new vehicle. The amount of premium, if necessary, can be adjusted proportionately.

10.8.5 Procedure of Claiming Motor Insurance

The following procedure is adopted for the settlement of claim under motor vehicle insurance

1. **Receipt of claim intimation:** A notice of claim must be filed with the insurer as soon as the occurrence of damages. On receiving the claim intimation, insurance company checks the main contents of insurance policy.

2. **Entering it in the Claim Register:** On verification of the insurance policy, the claim is registered in the claim register along with a claim number.

3. **Letter to Motor Accident Claims Tribunal (MCAT):** If claim is received from MCAT, a letter is issued to MCAT to get details of the claim information necessary for the case.

4. **Claim Form:** Next, the claim form is sent to the insured person or claimant for completing and returns it to the insurance company. Information like name of the insured, policy number, address of the insured, details regarding loss, etc. needs to be mentioned.
5. **Additional information:** Additional information like driver's statement and statement of witness, driver's record of past prosecutions, charges, etc. is needed to determine the liability of the insured and liability under policy to insurer.
6. **Quantum of damages**: Certain factors are taken into consideration for determining the amount of damages for death/injury.
7. **Advocates opinion:** The opinion of advocate is obtained and files a written statement.
8. **Inspection of claims:** After the receipt of claim form, the insurance company investigates the relevant facts to determine its liability.
9. **Settlement of claims:** On the basis of investigation, the insurance company determines the extent of its liability and loss is indemnified.

10.9 TRANSIT INSURANCE

Transit insurance or transportation insurance policy is a safe and secured way of covering the risk arising due to loss or damage caused to goods or personal belongings while in transit. Transit insurance is an insurance plan which covers the risks faced by goods when they are being transported from one place to another. The policy covers being transported by air, water, road or rail.

A transit insurance policy is suitable for businesses and individuals who are involved in regular transportation of goods. The policy can be bought by the following types of parties:

1. Manufacturers of goods
2. Importers and exporters of goods
3. Custom house agents
4. Traders
5. Transporters or aggregators

10.9.1 Transit Insurance Coverage

Transit insurance coverage includes common perils which might cause damage to the goods which are being transported. These perils against which transit insurance protects the goods are as follows:

1. Earthquakes
2. Explosion
3. Fire
4. Lightning
5. Any type of natural or man-made calamity
6. Overturning of the transport vessel
7. The collision of the vessel which damages the goods contained therein
8. The derailment of the vessel
9. The sinking of the vessel
10. Risks faced while loading and unloading the goods
11. Risks faced in packing and unpacking of goods
12. Accidental damages
13. Malicious damages
14. Impact damage
15. Theft, etc.

10.9.2 Types of Transit Insurance for Goods

Transit insurance policies can be offered in multiple variants. These variants are as follows –

1. **Single transit policy**: This policy covers one particular journey and is suitable for businesses that do not transport their goods frequently. The policy would cover the goods which are being transported on a particular journey only.
2. **Customised policy**: This policy is a flexible transit insurance policy which can be customised for businesses to suit their coverage requirements.
3. **Open policy:** This policy covers multiple transits occurring within a given period of time which is, usually, one year. So, if businesses

transport their goods frequently, they can buy this policy and ensure coverage for multiple trips without buying a different policy for each one.

4. **Overnight vehicles' insurance policy:** If the goods are to be stored overnight in a vehicle, this policy is suitable as it covers the goods in such cases.
5. **Goods in transit (carrier's) cover:** If the goods are transported using the transport vessel of a third party carrier, the carrier might not undertake the risks of damage to the goods. Therefore, this policy helps to cover the damages when the goods are being transported using another carrier service.
6. **Goods in transit (own vehicle) cover**: If one's own vehicle is being used for transporting the goods, this cover would insure the goods against possible damages.
7. **Multiple vehicles cover**: If multiple vessels are used in the transportation of goods, this policy can be taken to cover the goods being transported through different vehicles. The policy would cover multiple vehicles under a single plan.

10.9.3 Importance of Transit Policy

A transit insurance policy proves to be a boon for businesses because of the various benefits it provides. Here are some of the benefits of transit insurance policies which make them a must-buy –

1. Coverage under transit insurance plans is provided on globally standard terms. Thus, in the event of transporting the goods internationally, one can meet the coverage requirements of the country to which the goods are headed.
2. Transit insurance coverage provides financial support to businesses which might face considerable losses if their goods are damaged during transit. The policy, therefore, helps keep the business finances stable even after a loss.
3. Since any possible loss is covered under the transit insurance policy, businesses can also maintain their profitability even when any contingency damages their goods. This profitability also helps businesses maintain their solvency and their market value

4. The policy can be customised as per the requirements of the business and is, therefore, suitable for all types of businesses

10.10 HEALTH INSURANCE

Health insurance has been realised as an instrument for the health of the economy. If the people of the country are healthy, they can contribute significantly in the economic development of the country. The health insurance industry would provide protection to social development. Health insurance is a type of insurance coverage that covers the cost of an insured individual's medical and surgical expenses. It is the coverage that provides for the payments of benefits as a result of sickness or injury. It includes insurance for losses from accident, medical expense, disability, or accidental death and dismemberment.

10.10.1 Benefits of Health Insurance

1. **Ambulance expenses:** One of the benefits of having health insurance by side is that it covers for ambulance expenses incurred on the transportation of insured. Thus, the need for arranging a vehicle during an emergency situation gets eliminated.
2. **Cashless Benefits:** Today all the health insurance organization are tied up with network of hospitals or nursing homes. These plans make work easier during crucial period with no hassle for claim resolution and documentation. There is no cash payment in such benefits. By filling the policy number with valid documents the work on behalf of insured person is completed and rest will be taken care by the insurer up to the coverage amount. If the expenses go beyond the sub-limit or are not mentioned by the insurance company, then the coverage will have to be settled by the individuals directly in the hospital. The person should consider the point of not getting treatment in any other hospital that is not a part of their hospital network for cashless benefit.
3. **Wellness Care:** This facility provided by the health insurance make a lot of additional benefit to the insured. The wellness care section provides with regular health check-ups. Some firm also provide free medical check-up provided one has no claim bonus in record in his past history.
4. **No Claim Bonus (NCB) :** NCB is an advantage for the insured who have previous claim free year and no break in policy. The person

will be subjected to a cumulative bonus or a discount in the cost. This privilege is provided to the insured during next renewal period.

5. **Pre & Post Hospitalization:** Health insurance policies provide coverage for pre & post hospitalization expenses for a specific number of days depending on plan of purchase.
6. **Hospitalization Medical Expenses:** - The health insurance policy also provides reasonable and customary charges for medical expenses that are incurred during the hospitalisation of the insured person for medically necessary treatment required due to an illness or injury sustained by the insured person during the policy period.
7. **Tax-Benefit from health insurance:** Health Insurance provides a tax benefits under section 80D of income tax act, 1961. The premium an insurer pay towards health plan for self or family get a tax rebate. The tax benefit one offered from health insurance is subjected to which age group the insurer belongs to.

10.10.2 Types of Health Insurance Policies in India:

1. **Individual Health Plan:** The health insurance plan for individuals suffering from illness and are offers with advantages like cashless benefits and add –on. This facility is provided to the insured depending upon the age at entry.
2. **Family Floater Health plan:** This Health insurance policy covers or includes the entire family member against diseases under one roof. In family benefit, the sum as specified can be availed by ay one or all the members for one or more claims during the tenure of the policy.
3. **Plan for Critical Illness:** This policy is used for the treatment of various critical illnesses such as heart attack, paralysis, open heart surgery etc. These policies provide a lump-sum benefit if a person get diagnosed by any critical illness.
4. **Cancer Care plan:** Health Companies todays provide special cancer care coverage plan. Cancer treatment requires lots of medication treatment and the plan covers lots of benefit for such critical illness.

5. **Health plan For Senior Citizen:** This health insurance plan is specifically for age group above 60years, and offering maximum health benefits plan during old age.



Check your Progress

6. What is Burglary Insurance?

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7. What is Motor Insurance?

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8. What are the three types of Motor Insurance Policies?

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9. Name the parties who can purchase a Transit Insurance.

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10.11 LET US SUM UP

In this unit we have discussed about the different non-life insurance available in the market to suit the requirements of varied number of people. The main points discussed are:

- Non-Life Insurance is a policy that provides compensation for losses incurred from a specific financial event and this type of policy is also known as general insurance, or property and casualty insurance.
- Fire Insurance is a device to compensate for the loss consequent upon destruction by fire. It is an agreement between an insurance company and an individual or company where the insurer agrees to compensate the policyholder in case of loss or damage due to fire.
- Marine Insurance insures all types of risks which can occur during transit.

- Marine losses may be divided into two broad categories: Total Loss and Partial Loss.
- Burglary insurance policies can be of different types based on the type of coverage as well as the assets that they cover like Money in Transit Insurance, Business Premises Insurance, Dwelling Insurance, etc.
- Ambulance expenses, cashless banefits, wellness care, No Claim Bonus, pre and post hospitalisation, hospitalisation medical expenses and tax deductions are some of the benefits of health insurance.
- Crop insurance is a device under which the insurance company agrees to indemnify the loss caused due to the occurrence of uncertain events, to the standing of crops of the farmers.
- The objective of National Agriculture Insurance Scheme (NAIS) was to protect the farmers against the crop losses suffered on account of natural calamities, such as, drought, flood, hailstorm, cyclone, pests and diseases.
- Weather Based Crop Insurance Scheme (WBCIS) was launched in 2007.
- Protection of low income people, low premium, low coverage limits are some of the characteristics of micro insurance.



10.12 FURTHER READING:

1. Insurance: Principles and Practices
    - M.N.Mishra
    - Dr.S.B.Mishra
2. Principles and Practice of Insurance
    - Ghanashyam Panda
    - Monika Mahajan
3. Fundamentals of Insurance
    - Inderjit Singh
    - Rakesh Katyal
    - Surjeet Kaur
    - Sanjay Arora



10.13 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No.1 Non-Life Insurance is a policy that provides compensation for losses incurred from a specific financial event.

Ans to Q No.2 Fire Insurance is a device to compensate for the loss consequent upon destruction by fire.

Ans to Q No.3 Under the valued policy the policy holder can only recover a fixed amount of money that is agreed upon at the time the insurance policy is taken.

Ans to Q No.4 Marine Insurance is a contract whereby the insurer undertakes to indemnify the assured, in a manner and to the extent thereby agreed, against marine losses.

Ans to Q No.5 The hull insurance offers protection for physical damages to the boat or vessel along with its operating equipment, including machinery.

Ans to Q No.6: Burglary Insurance indemnifies the financial losses caused to property and valuable items due to theft, dacoit, burglary, house-breaking, etc. during a certain period of time.

Ans to Q No.7: Motor Insurance is a type of insurance policy which covers one's vehicles from potential risks financially.

Ans to Q No.8: The three types of Motor Insurance policies are:

(a) Third Party Policy (b) Own Damage Car Policy and (c)Comprehensive Policy

Ans to Q No.9: The parties who can purchase a Transit Insurance are:

1. Manufacturers of goods
2. Importers and exporters of goods
3. Custom house agents
4. Traders
5. Transporters or aggregators



10.14 MODEL QUESTIONS

1. Explain the different types of fire insurance policies.
2. Discuss the procedure of effecting and settlement of a claim under a fire insurance policy.
3. Define the marine insurance and explain its features.
4. Discuss the procedure for making any marine insurance claim.
5. Discuss the various types of burglary policies and the procedure of claiming money under burglary policy.
6. What is Health Insurance? Discuss the products of health insurance.
7. Discuss the types and significance of Transit Policy.
8. Discuss the growth and status of Crop Insurance in India.
9. Discuss the development of Micro Insurance in India.

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UNIT 11- NON-LIFE INSURANCE-II

UNIT STRUCTURE

11.1 Learning Objective

11.2 Introduction

11.3 Crop Insurance

11.4 Micro Insurance

11.5 Let Us Sum Up

11.6 Further Readings

11.7 Answers to Check Your Progress

11.8 Possible Questions

11.1 LEARNING OBJECTIVE

After going through this unit, you will be able to

- know the importance and objectives of crop insurance.
- discuss various crop insurance schemes
- know the evolution of crop insurance in India
- discuss importance and objectives of micro insurance

11.2 INTRODUCTION

Agriculture remains the primary sector of the Indian economy. While it accounts for merely 16 percent of the country's GDP, approximately 43.9 percent of the population depends on it for their livelihood. Agricultural is varied, diversified and prone to variety of risks like natural disasters such as drought, floods, cyclone, storm, landslide, earthquakes. Susceptibility of agriculture to these disasters is compounded by the outbreak of epidemics and man-made disasters such as fire, sale of spurious seeds, fertilizers and pesticides, price crashes, etc. All these events severely affect farmers through loss in production and farm income, and are beyond the control of farmers as most of them are small and marginal farmers.

Government of India focused on crop insurance as a mechanism to mitigate risks on natural perils on farm production. Crop insurance was intended to provide farmers with insurance coverage and financial support against failure of any notified crop as a result of agricultural calamities.

On the other hand, a huge section of population living in the society remains untapped and undeserved by mainstream commercial and social insurance schemes and, hence, the importance of micro insurance is undeniable.

In this unit we will discuss crop insurance and micro insurance

11.3 CROP INSURANCE

Crop insurance is a device under which the insurance company agrees to indemnify the loss caused due to the occurrence of uncertain events, to the standing of crops of the farmers. Such a measure proves to be a great boost to the farmers in case natural calamities destroy their standing crops. It is a type of protection policy that covers agricultural producers against unexpected loss of projected crop yields or profits from produce sales at market

Crop insurance is divided into two categories: crop-yield and crop-revenue. Crop-yield insurance protects the expected revenue due to unexpected yields, which is the volume of a crop's harvest. Crop-revenue insurance covers expected revenue from loss owing to market fluctuations of crop selling prices. Both types of insurance are a means to aid in disaster recovery for producers due to unexpected events.

Some of the insurance companies offering crop insurance in India are:

- Agricultural Insurance Company of Indian Ltd.,
- ICICI Lombard General Insurance Company Ltd.,
- IFFCO Tokio General Insurance Company Ltd.,
- Reliance General Insurance Company Ltd.,
- Royal Sundaram Alliance Ltd.,
- Tata AIG General Insurance Ltd.,
- Cholamandalam MS General Insurance
- HDFC ERGO General Insurance
- Future Genrali Indian Insurance Company Ltd.,
- L&T General Insurance Company Ltd.

11.4 NEED OF CROP INSURANCE

Every year, in one part of India or the other food crops are affected by natural calamities. The need for protecting the farmer from natural hazards arises for the following reasons**:**

1. Farming is more hazardous than any other enterprise. The weather can make all the difference between success and failure. The fickleness of weather conditions in different parts of the country upsets the whole agricultural economy making one part bountiful while the other part starves. Nature has always been moody.
2. Besides droughts and floods, locusts, plant diseases have always been a serious enemy to our agriculture by destroying standing crops and thereby reducing farmers' income.
3. Majority of the holdings are tiny, form which the farmers get marginal surplus in good years and incur heavy deficits in the bad ones.
4. Many farmers, particularly the small ones, feel shy of adopting new techniques.

11.5 CROP INSURANCE COVERAGE

Following stages of the crop loss are covered under crop insurance:

1. **Localised calamities:** It covers localised calamities and risks like hailstorm, landslide affecting isolated farms in the notified area
2. **Sowing/Planting/Germination risk**: Any problem in planting or sowing because of deficit rainfall or adverse seasonal conditions
3. **Standing crop loss:** Comprehensive risk insurance to cover yield losses because of non-preventable risks, such as dry spells, flood, hailstorm, cyclone, typhoon.
4. **Post-harvest losses**: It covers losses for up to a maximum period of two weeks from harvesting.

11.6 IMPORTANCE OF CROP INSURANCE

Crop insurance is the primary risk management tool farmers use to financially recover from natural disasters and volatile market fluctuations. It is a way to reduce farmers distress and to promote their welfare. The significance of crop insurance has been discussed below:

1. **Stability in Income:** It protects the farmers against losses caused by crop failure. It acts like a tool that allows farmers to manage their yield and price risks.
2. **Minimal Debts:** It minimizes the problem of rural indebtedness, which is traceable to the frequent failure of crops. Farmers are able to repay their loans even during the time of crop failure with the support of the right insurance partner.
3. **Technological Advancement:** Insurance companies work along with Agri platforms that use IOT to enhance agriculture practices and reduce farmers' losses. This helps farmers to understand latest technological advancement and improve their crop production.
4. **Yield Protection:** Crop Insurance protects farmers against production loss for crops. It also offers preventive planting and replant security.
5. **Provides Awareness:** Insurance companies provide awareness campaigns to help farmers understand the effect of natural calamities and also protect their farms.
6. **Reduces Government Expenditure:** It also reduces, to some extent, government expenditure incurred on relief measures extended to meet the havoc caused by natural calamities.

11.7 SCHEMES OF CROP INSURANCE

1. **National Agricultural Insurance Scheme (NAIS):** The Scheme was introduced during Rabi 1999-2000 season replacing Comprehensive Crop Insurance Scheme (CCIS). The main objective of the Scheme was to protect the farmers against the crop losses suffered on account of natural calamities, such as, drought, flood, hailstorm, cyclone, pests and diseases. The Scheme was implemented by the Agriculture Insurance Company of India Ltd. (AIC). The Scheme was available to all the farmers both, loaner and non-loaner irrespective of the size of their holding. The Scheme envisages coverage of all crops including cereals, millets, pulses, oilseeds and annual commercial and horticultural crops in respect of which past yield data is available.
2. **Modified National Agriculture Insurance Scheme (MNAIS):** The Scheme before incorporation in NCIP was piloted from Rabi 2010-11 to Kharif 2013. The modified version has many improvements

viz., Insurance Unit for major crops are village Panchayat or other equivalent unit; in case of prevented / failed sowing claims up to 25% of the sum insured is payable, post-harvest losses caused by cyclonic rains are assessed at farm level for the crop harvested and left in 'cut & spread' condition up to a period of 2 weeks in coastal areas; individual farm level assessment of losses in case of localized calamities, like hailstorm and landslide; on-account payment up to 25% of likely claim as advance, for providing immediate relief to farmers in case of severe calamities; threshold yield based on average yield of past seven years, excluding up to two years of declared natural calamities; minimum indemnity level of 80% is available (instead of 60% in NAIS); and premium rates are actuarial supported by up-front subsidy in premium, which ranges from 40% to 75%, equally shared by Centre and States. To improve further and make the Scheme easier and more farmer friendly, a proposal on Modified National Agricultural Insurance Scheme (MNAIS) was prepared and was approved by Government of India for implementation on pilot basis in 50 districts from Rabi2010-11 season.

3. **Weather Based Crop Insurance(WBCIS):** With the objective to bring more farmers under the fold of Crop Insurance, a Pilot Weather Based Crop Insurance Scheme (WBCIS) was launched in 20 States in 2007.Apart from Agriculture Insurance Company of India, some private companies have also been allowed to implement the Scheme. The WBCIS is intended to provide insurance protection to the farmers against adverse weather incidences, such as deficit and excess rainfall, high or low temperature, humidity etc. which are deemed to impact adversely the crop production. It has the advantage to settle the claims within shortest possible time. The WBCIS is based on actuarial rates of premium but to make the Scheme attractive, premium actually charged from farmers has been restricted at par with NAIS.

   Weather Based Crop Insurance that was introduced in 2011-12 on a pilot basis with an aim to make it more convenient for the farmers to avail crop insurance appeared to have received good response from the farmers.

4. **Pradhan Mantri Fasal Bima Yojana (PMFBY):** Pradhan Mantri Fasal Bima Yojana promises to take care of the loopholes of earlier schemes. It was launched in 2016 and replaces all the prevailing

yield insurance schemes in India. The scheme has been launched with an impetus on crop sector. It was implemented to ensure transparency, availability of real-time data and an accurate assessment of yield loss. The scheme has extended coverage under localized risks, post-harvest losses etc. and aims at adoption of technology for the purpose of yield estimation. Through increased farmer awareness and low farmer premium rates the scheme aims at increasing the crop insurance penetration in India.

Features of the PMFBY:

The following are the features of the scheme:

1. *Coverage of Farmers:* The scheme covers loanee farmers (those who have taken a loan), non-loanee farmers (on a voluntary basis), tenant farmers, and sharecroppers.
2. *Coverage of Crops:* Every state has notified crops (major crops) for the Rabi and Kharif seasons. The premium rates differ across seasons.
3. *Premium Rates:* The PMFBY fixes a uniform premium of two percent of the sum insured, to be paid by farmers for all Kharif crops, 1.5 percent of the sum insured for all Rabi crops, and five percent of sum insured for annual commercial and horticultural crops or actuarial rate, whichever is less, with no limit on government premium subsidy.
4. *Area-based Insurance Unit:* The PMFBY operates on an area approach. Thus, all farmers in a particular area must pay the same premium and have the same claim payments. The area approach reduces the risk of moral hazard and adverse selection.
5. *Coverage of Risks:* It aims to prevent sowing/planting risks, loss to standing crop, post-harvest losses and localised calamities. The sum insured is equal to the cost of cultivation per hectare, multiplied by the area of the notified crop proposed by the farmer for insurance.
6. *Innovative Technology Use:* It recommends the use of technology in agriculture. For example, using drones to reduce the use of crop cutting experiments (CCEs), which are traditionally used to estimate crop loss; and using mobile phones to reduce delays in claim settlements by uploading crop-cutting data on apps/online.

7. *Cluster Approach for Insurance Companies:* It encourages L1 bidding amongst insurance companies before being allocated to a district to ensure fair competition. A functional insurance office will be established at the local level for grievance redressed, in addition to a crop insurance portal for all online administration processes.

Objective of Pradhan Mantri Fasal Bima Yojana (PMFBY)

PMFBY aims at supporting sustainable production in agriculture sector by way of:

1. Providing financial support to farmers suffering crop loss/ damage arising out of unforeseen events
2. Stabilizing the income of farmers to ensure their continuance in farming
3. Encouraging farmers to adopt innovative and modern agricultural practices
4. Ensuring flow of credit to the agriculture sector; which will contribute to food security, crop diversification and enhancing growth and competitiveness of agriculture sector besides protecting farmers from production risks?

11.8 EVOLUTION AND STATUS OF CROP INSURANCE IN INDIA

After the attainment of Independence in 1947, crop insurance gradually started to find mention more often. The Central Legislature discussed the subject in 1947 and the then Minister of Food and Agriculture, Dr. Rajendra Prasad gave an assurance that the government would examine the possibility of crop and cattle insurance, and a special study was commissioned for this purpose in 1947-48.

The study reported in favour of a 'homogenous area' approach, as various agro-climatically homogenous areas treated as a single unit and the individual farmers in such cases pay the same rate of premium and receive the same benefits, irrespective of their individual fortunes. The Ministry of Agriculture circulated the scheme, for adoption by the State governments, but the States did not accept.

In October 1965 the Government of India decided to introduce a Crop Insurance Bill and a Model Scheme of Crop Insurance in order to enable the States to introduce crop insurance if they so desired. In 1970, the draft Bill

and the Model Scheme were referred to an Expert Committee headed by Dr. Dharm Narain.

First ever Crop Insurance scheme - 1972

From beginning of the seventy's decade, different experiments on crop insurance were undertaken on a limited, ad-hoc and scattered scale. The first crop insurance program was introduced in 1972-73 by the 'General Insurance' Department of Life Insurance Corporation of India on H-4 cotton in Gujarat. Later, the newly set up General Insurance Corporation of India took over the experimental scheme and subsequently included Groundnut, Wheat and Potato and implemented in the states of Gujarat, Maharashtra, Tamil Nadu, Andhra Pradesh, Karnataka and West Bengal.

This experimental scheme was based on "Individual Approach". It continued upto 1978-79 and covered only 3110 farmers for a premium of Rs 4.54 lakhs against claims of Rs 37.88 lakh.

It was realized that crop insurance programs based on the individual farm approach would not be viable and sustainable in this country.

Pilot Crop Insurance Scheme (PCIS) - 1979

Professor V. M. Dandekar, often referred to as the "Father of Crop Insurance in India", suggested an alternate "Homogeneous Area approach" for crop insurance in the mid-seventies.

Based on this Area approach, the General Insurance Corporation of India (GIC) introduced a Pilot Crop Insurance Scheme (PCIS) from 1979. Participation by the State Govts. was voluntary. The scheme covered cereals, millets, oilseeds, cotton, potato, gram and barley. The risk was shared by GIC and the respective State Govt. in the ratio of 2:1. The insurance Premium ranged from 5 to 10 per cent of the Sum Insured.

This PCIS ran till 1984-85 by which 13 States had participated. The scheme covered 6.27 lakh farmers for a Premium of Rs 1.97 crore against Claims of Rs 1.57 crore.

Comprehensive Crop Insurance Scheme (CCIS) - 1985

Based on the learnings from PCIS, the Comprehensive Crop Insurance Scheme (CCIS) was introduced with effect from 1st April 1985 by the Government of India with the active participation of State Governments. The Scheme was optional for the State Governments. The CCIS was implemented on Homogeneous Area approach and was linked to short-term crop credit, that is, all crop loans given for notified crops in notified areas were compulsorily covered under the CCIS.

The salient features of the Scheme were:

1. It covered farmers availing crop loans from Financial Institutions for growing food crops & oilseeds on compulsory basis. The coverage was restricted to 100% of crop loan subject to a maximum of ‘ 10,000/- per farmer.

2. The Premium rates were 2% for Cereals and Millets and 1% for Pulses and Oil seeds. 50% of the Premium payable by Small & Marginal farmers was subsidized by Central and State Governments in equal proportion.

3. Premium & Claims were shared by Central & State Government in 2:1 ratio.

4. The Scheme was optional to State Governments.

5. The maximum Sum Insured was 100% of the crop loan, which was later increased to 150%.

6. CCIS was a multi-agency scheme, involving Government of India, Departments of State Governments, Banking Institutions and GIC.

   15 States and 2 UTs had participated in the CCIS during its tenure from Kharif 1985 to Kharif 1999. These were Andhra Pradesh, Assam, Bihar, Goa, Gujarat, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Meghalaya, Orissa, Tamil Nadu, Tripura, West Bengal, Andaman & Nicobar Islands and Pondicherry. The States of Rajasthan, Uttar Pradesh, Jammu & Kashmir, Manipur and Delhi had initially joined the Scheme but opted out after few year

   In this entire period, the Scheme covered 7.63 crore farmers under an area of 12.76 crore hectares, for a Sum Insured of Rs 24,949 crore at a premium of Rs 403.56 crore. Correspondingly, the total claims outgo was Rs 2303.45 crore, thus having a Claim Ratio of 1 : 5.71. About Rs 59.78 lakh farmers were benefitted, and the majority of the claims were paid in the States of Gujarat - Rs 1086 crore (47%); Andhra Pradesh - Rs 482 Crores (21%); Maharashtra - Rs 213 Crores (9%); & Orissa - Rs 181 Crores (8%).

   CCIS was eventually discontinued after Kharif 1999, to be replaced by the improved and expanded “National Agriculture Insurance Scheme” (NAIS), which is being continued till date.

Experimental Crop Insurance Scheme (ECIS) - 1997

While the CCIS was being implemented, attempts were made to modify the existing CCIS from time to time as demanded by the States. During the

Rabi 1997-98 season, a new scheme, viz. Experimental Crop Insurance Scheme (ECIS) was introduced in 14 districts of 5 States. The Scheme was similar to CCIS, except that it was meant only for all small / marginal farmers with 100% subsidy on Premium. The Premium subsidy and Claims were shared by the Central and respective State Governments in the ratio of 4 : 1. The Scheme was discontinued after one season due to its many administrative and financial difficulties.

During its one season, the ECIS covered 4,54,555 farmers for a Sum Insured of Rs 168.11 crore at a Premium of Rs 2.84 crore against which the Claims paid were Rs 37.80 crore.

Pilot Scheme on Seed Crop Insurance (PSSCI) - 2000

A Pilot Scheme on Seed Crop Insurance (PSSCI) was introduced in Kharif 2000 season in 11 States to provide financial security & income stability to the Seed Growers in the event of failure of seed crop.

It was also the objective to provide stability to the infrastructure established by the State owned Seed Corporations and State Farms, and to give a boost to the modern seed industry by bringing it under scientific principles.

All seed-producing organizations, under Govt. or private control, producing certain classes of seed for identified Crops/States/Areas were eligible. All farmers growing the Foundation & Certified seed crops in the identified States /Areas, who had offered the seed crop for certification and had got registered with the concerned Certification Agency were eligible for coverage.

Farm Income Insurance Scheme (FIIS) - 2003

NAIS protects the farmers only against the yield fluctuations. The price fluctuations are outside the purview of this scheme. Farmers' income is a cumulative function of yield and market prices. In other words, a bumper harvest tends to bring down the market prices of grains and vice versa.

Therefore, despite normal production, farmers often fail to maintain their income level due to fluctuations in market prices. To take care of variability in both the yield and market price, the government introduced a pilot project, viz. Farm Income Insurance Scheme (FIIS) during Rabi 2003-04 season.

The objective of the scheme was to protect not only the income of the farmer, but also to reduce the government expenditure on procurement at Minimum Support Price (MSP).

FIIS was implemented on the basis of 'homogeneous area' approach in respect of rice and wheat crops only. The scheme was compulsory for

loanee farmers and voluntary for non-loanee farmers. The premium rates were actuarial, determined for each State at the District level, to be subsidised by the Govt. of India.

The Scheme was implemented during 2 seasons only, viz. Rabi 2003-04 season in 18 Districts of 11 States for wheat/rice, and Kharif 2004 season in 19 Districts of 4 States for rice alone. In all, the scheme covered Rs 4.15 lakh farmers for an area of 4.02 lakh hectares for a Sum Insured (i.e. guaranteed income) of Rs 420 crore, collecting a premium of Rs 28.5 crore and paid claims of Rs 28.75 crore.

Parallelly, the implementation and administration of crop insurance schemes, which were being done by General Insurance Corporation of India (GIC), was taken over by Agriculture Insurance Company of India Ltd. (AIC) since its commencement of business from 1st April 2003. Agriculture Insurance Company of India Ltd. (AIC) was incorporated on 20 December 2002 as a government owned agricultural insurance company and development financial institution. The AIC offers yield-based and weather-based crop insurance programs in almost 500 districts of India covering almost 20 million farmers.

11.9 MICRO INSURANCE

The term “micro insurance” typically refers to insurance services offered primarily to clients with low income and limited access to mainstream insurance services and other means of effectively coping with risk.

Micro insurance is specifically designed for the protection of low-income people, with affordable insurance products to help them cope with and recover from common risks. It is a market-based mechanism that promises to support sustainable livelihoods by empowering people to adapt and withstand stress.

The principal distinction from traditional insurance is in the targeting of low income people, which leads to distinct characteristics and objectives, including addressing the particular risks of low income people, affordability and inclusiveness, simplicity and clarity in documentation, accessible processes, and building trust among target clients.

Micro insurance is a highly diversified sector, in terms of:

1. **Stakeholders**: Micro insurance is developed and offered by commercial insurers, mutual funds, microfinance institutions, NGOs, governments or semi-public bodies. Micro insurance ventures are

often joint efforts among several of these stakeholders, who can play roles ranging from market research and product design to selling, delivering, and servicing claims.

2. **Products**: Micro insurance products can cover any insurable risk, including death, illness, accident, property damage, unemployment, crop failure, or loss of livestock.
3. **Portfolio size**: Micro insurance can operate at any scale; a micro insurer may cover dozens of policyholders, or millions.

The death of a breadwinner, especially in a low-income household transcends into a financial catastrophe for the family and in some cases no food on the table. Therefore, the social need to provide insurance to this sector becomes even more critical. With a large percentage of the country's population living in the rural parts, micro-insurance makes insurance affordable and accessible. Many individuals in such households opt for loans from micro-finance institutions. It ensures protection to the family from financial liabilities in case something happens to the breadwinner or the life insured, reducing their chances of falling into extreme poverty.

Thus, the micro insurance serves as an important tool to reduce risks for the already vulnerable population. It is a shelter against the hazards of low-income people in exchange of a premium in proportion with the possibility and cost of risk associated. A micro-insurance policy may be a general or a life insurance and done through Non-Government organizations, Self-help groups and Micro-finance institutions.

11.9.1 Importance of Micro Insurance

A high proportion of socially and economically underprivileged sections of the society are concentrated in informal economic activities, and that the high levels of growth of the Indian economy during the past two decades are accompanied by increasing informalisation. This huge workforce in the informal sector remains untapped and undeserved by mainstream commercial and social insurance schemes and, hence, the importance of micro insurance is undeniable.

Micro insurance provides a critical safety net; preventing households from falling into poverty. It provides poor and low-income households with the means to protect themselves against the effects of risk. The role of micro insurance must therefore be viewed alongside government provision of basic health services, employment and education, etc., all of which go towards

alleviating poverty. Micro insurance can deliver many other benefits to low-income households like:

1. **Access to vital services:** Insurance can allow low-income people to access vital services like health care and agricultural services
2. **More productive decisions:** Evidence has shown that low-income workers invest more in their livelihoods, and get higher returns, if they are protected by insurance;
3. **Tangible benefits:** Insurance often also provides important tangible benefits, such as a hot line for medical advice or health camps that provide vaccinations;
4. **Reduced risk:** Insurers can play a critical role in reducing risk, since they have an incentive to prevent risks from occurring.

Micro insurance can also be a tool to extend social protection in the context of providing security to populations in developing countries and contributing to poverty alleviation. Overall, strategies and mechanisms should ensure that micro insurance is not approached in isolation, thereby maximising impact.

11.9.2 Characteristics of Micro Insurance

The main characteristics of micro-insurance are discussed below:

1. **Protection of low income people:** Micro insurance is the protection of low-income people against specific perils in exchange for regular premium payment proportionate to the likelihood and cost of the risks involved.
2. **Low premium:** The insured people pay considerably smaller premiums. The premium is very much affordable.
3. **Low coverage limits:** The coverage limits are typically low in micro insurance.
4. **Guaranteed of coverage:** It offers full guaranteed financial compensation for a number of risks, in line with a pre-defined benefits package.
5. **Product Design:** Microfinance providers in particular, in working with insurance companies to develop successful micro insurance products for the low-income market which are very simple and easy to understand.
6. **Physically accessible:** Through micro financing small loans are produced and accessible.

7. **Group micro insurance schemes:** It provides a comprehensive protection to the socially and weaker sections of the society by providing security to them and their families in case of any unfortunate event. It also provides flexibility in choosing cover options as per the needs and requirements of the members.

8. **Mechanism for women empowerment:** Two-thirds of human beings suffering in the most extreme poverty are women. They earn less than men, have less control of property, and face higher levels of physical vulnerability and violence. They are often caregivers, homemakers, and, increasingly, household resource managers and income earners. Considering this combination of vulnerability and responsibility for the welfare of their families, women have a unique and pressing need to manage risk. Micro Insurance can help poor women manage risks related to health, income generation, old age and death.

11.9.3 Development of Micro Insurance in India

In India development of micro insurance sector and related policy discussions has started few years back. For a long time, the poor, because of their economic circumstance, were considered non-bankable. However, the "micro-credit phenomenon" has shown that the poor can be made creditworthy if they are organized in small groups. This clearly has profound implications not just from a finance perspective but, more importantly, from the perspective of poverty alleviation. Within very short period, the sector has drawn attention of policy makers due to its importance both at household level and the economy as a whole.

Micro-credit in India really started in a big way in the early 90s with the recognition of self-help groups as conduit for providing credit to the poor. In the late 90s, numerous agencies involved in micro-credit operations in India started adding other financial services, including micro-insurance to its micro-credit operations. A few micro-insurance schemes were initiated, either by non-governmental organizations (NGO) due to the felt need in the communities in which these organizations were involved or by the trust hospitals. These schemes have now gathered momentum partly due to the development of micro-finance activity, and partly due to the regulation that makes it mandatory for all formal insurance companies to extend their activities to rural and well-identified social sector in the country (IRDA 2000). As a result, increasingly, micro-finance institutions (MFIs) and NGOs are negotiating with the for-profit insurers for the purchase of customized group

or standardized individual insurance schemes for the low-income people. Although the reach of such schemes is still very limited their potential is viewed to be considerable.

India has the most dynamic micro insurance sector in the world. Liberalization of the economy and the insurance sector has created new opportunities for insurance to reach the vast majority of the poor, including those working in the informal sector. Even so, market penetration is largely driven by supply, not demand. Micro insurance in India has valuable lessons for rest of the world, particularly in the regulation of the industry. In India, though government plays a proactive role in providing insurance cover to the poor through subsidized insurance schemes and other programmes. The size and potential of micro insurance market is enormous due a sizeable portion of poor and low-income population who live without any formal insurance.

The micro insurance business in India has made a continuous progress in both the sectors whether it is public sector companies or private sector companies. During the year, many life and group operations and new policies have been launched. Significantly, these policies of the distribution system have also been reinforced. Also, the micro insurance business has shown a satisfactory growth even though the corpus is still very low and indicates that there is a vast scope for Micro Insurance sector in India:

- As per the 2015 release of the Ministry of Finance, around 42% households in India are devoid of banking facilities.
- Around 45% of the rural households and 33% of urban households do not have accounts in banks.
- In the market the insurance infiltration in urban areas is around 65% but is less in the low-income areas where there is no banking segment.
- In the banking segment in rural areas, the life insurance dispersion is valued at 40%, and is on the edge in the non-banking sector.

India is one amid those countries who are developing and has a unique Micro Insurance Act. It is obligatory for the insurance company to devote a percentage of their business to the rural area and other diminished groups as per the Micro Insurance Regulation Act. Many micro insurance innovative products are emerged from India as there is a large market as well as large portion of individuals living in rural areas that needs to be educated about the benefits. Risk mitigation becomes an important aspect to the

poor people as their income is limited and their livelihood is equally dependent on their health as well as their future life being the recipients of majority of risk in life. Hence, a saving solution is directed towards the low income group with moderate premium. There are innumerable issues and challenges for a sustainable growth of micro insurance in India but yet the insurance sector is finding new methods in order to cover those rural people who still live amidst the poverty line.

Some challenges which the policy holder's faces are:

The most noticed inadequacy in the execution of a micro insurance plan is that:

1. Funds for the scheme depend upon the intensity of the risk which makes it difficult to decide the actual price of the products.
2. As most micro insurance schemes are state led, the insurance company and MFI's joins as partnership wherein the insurance company assumes the risks that arise and the MFI's acts as an intermediary.
3. Uncertainty of cash flow results to loss of income to the rural people and inability to adopt a micro insurance policy.
4. Non awareness of the benefits of government schemes that a rural household can avail.
5. Uncertainty of income due to disasters, fluctuations in the market which causes a threat to the rural people.
6. Employment remains unstable in certain areas leading to instability of income to the family.

Currently India has a huge protection gap, the impact of which is strongly felt in the lower income group that is the mass or rural market. Insurance Regulatory and Development Authority of India (IRDAI) and the insurance industry has taken cognisance of the same and is committed towards providing protection to the stratum of society that is financially most vulnerable. Thereby, both the regulator as well as the industry has a lot of interest in making micro-insurance a success.

In a bid to popularise the much-needed product, the regulator has prescribed a product design that is simple, pricing of which is very affordable and a conducive distribution structure to encourage sales and purchase of micro-insurance covers. The industry is also very keen and most of the big life insurers offer micro-insurance products. They have tied up with several micro-finance institutions to promote life insurance and cover the popula-

tion in that segment. If large insurance companies can adapt to the regional sensitivities and also provide awareness through the various schemes introduced by the Government to the poor section and also educate them about the benefits and premium payment, micro insurance will thus, aid and offer a huge opportunity for the insurers to penetrate into the new markets and also build a more flexible and better economy.



Check your Progress

1. What is Crop Insurance?

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.....

2. Name some schemes of Crop Insurance.

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3. In which year the PMFBY was launched?

.....

.....

4. What is Micro Insurance?

.....

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11.10 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No.1: Crop insurance is a device under which the insurance company agrees to indemnify the loss caused due to the occurrence of uncertain events, to the standing of crops of the farmers.

Ans to Q No.2: Some schemes of Crop Insurance are:

i. National Agricultural Insurance Scheme (NAIS)

ii. Modified National Agriculture Insurance Scheme (MNAIS)

iii. Weather Based Crop Insurance(WBCIS)

iv. Pradhan Mantri Fasal Bima Yojana (PMFBY)

Ans to Q No.3: The PMFBY was launched in the year 2016.

Ans to Q No.4: Micro insurance is specifically designed for the protection of low-income people, with affordable insurance products to help them cope with and recover from common risks.



11.11 LET US SUM UP

In this unit we have discussed about the different non-life insurance available in the market to suit the requirements of varied number of people. The main points discussed are:

- Non-Life Insurance is a policy that provides compensation for losses incurred from a specific financial event and this type of policy is also known as general insurance, or property and casualty insurance.
- Fire Insurance is a device to compensate for the loss consequent upon destruction by fire. It is an agreement between an insurance company and an individual or company where the insurer agrees to compensate the policyholder in case of loss or damage due to fire.
- Marine Insurance insures all types of risks which can occur during transit.
- Marine losses may be divided into two broad categories: Total Loss and Partial Loss.
- Burglary insurance policies can be of different types based on the type of coverage as well as the assets that they cover like Money in Transit Insurance, Business Premises Insurance, Dwelling Insurance, etc.
- Ambulance expenses, cashless banefits, wellness care, No Claim Bonus,pre and post hospitalisation, hospitalisation medical expenses and tax deductions are some of the benefits of health insurance.
- Crop insurance is a device under which the insurance company agrees to indemnify the loss caused due to the occurrence of uncertain events, to the standing of crops of the farmers.
- The objective of National Agriculture Insurance Scheme (NAIS) was to protect the farmers against the crop losses suffered on account of natural calamities, such as, drought, flood, hailstorm, cyclone, pests and diseases.
- Weather Based Crop Insurance Scheme (WBCIS) was launched in 2007.

- ❖ Protection of low income people, low premium, low coverage limits are some of the characteristics of micro insurance.



11.12 FURTHER READING:

1. Insurance

   Principles and Practices

   - M.N.Mishra
   - Dr.S.B.Mishra

2. Principles and Practice of Insurance

   - Ghanashyam Panda
   - Monika Mahajan

3. Fundamentals of Insurance

   - Inderjit Singh
   - Rakesh Katyal
   - Surjeet Kaur
   - Sanjay Arora



11.13 MODEL QUESTIONS

1. Explain the different types of fire insurance policies.
2. Discuss the procedure of effecting and settlement of a claim under a fire insurance policy.
3. Define the marine insurance and explain its features.
4. Discuss the procedure for making any marine insurance claim.
5. Discuss the various types of burglary policies and the procedure of claiming money under burglary policy.
6. What is Health Insurance? Discuss the products of health insurance.
7. Discuss the types and significance of Transit Policy.
8. Discuss the growth and status of Crop Insurance in India.
9. Discuss the development of Micro Insurance in India.

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Unit- 12 FUNCTION OF INSURER

UNIT STRUCTURE

12.1 Learning Objectives

12.2 Introduction

12.3 Function of Insurer

12.4 Ratemaking

12.5 Production

12.6 Underwriting

12.7 Loss Adjustment

12.8 Reinsurance

12.9 The Investment Function

12.10 Let Us Sum Up

12.11 Further Readings

12.12 Answers to Check Your Progress

12.13 Possible Questions

12.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- Know various functions of insurer
- Discuss the ratemaking function of insurer
- Know about ratemaking
- Know about production and underwriting
- Discuss about loss adjustment
- Know about reinsurance and investment function of insurer

12.2 INTRODUCTION

When we talk about functions of insurance one thing comes to our mind that after purchasing an insurance policy we need not to worry about our future. This is a wrong concept. Every insurance policy is subject to the

terms and conditions contained in the insurance agreement and therefore any insurance serves a limited purpose as agreed to between two parties the Insurer and the Insured.

Beside selling insurance products insurer perform some other related functions which are unique and do not exist in other business. In this unit we will examine some of the specialized activities of insurance companies.

12.3 FUNCTION OF INSURER

Although there are definite operational differences between life insurance companies and general insurance companies the major activities of all insurers may be classified as follows: Ratemaking, Production, Underwriting, Loss Adjustment, Investment Function and Reinsurance.

12.4 RATEMAKING

An insurance rate is the price per unit of insurance. Like any other price, it is a function of the cost of production. However, in insurance, unlike in other industries, the cost of production is not known when the contract is sold, and it will not be known until sometime in the future, when the policy has expired. One fundamental difference between insurance pricing and the pricing function in other industries is that the price for insurance must be based on a prediction. The process of predicting future losses and future expenses and allocating these costs among the various classes of insureds is called *ratemaking*.

A second important difference between the pricing of insurance and pricing in other industries

arises from the fact that insurance rates are subject to government regulation and virtually all states impose statutory restraints on insurance rates. State laws require that insurance rates must not be excessive, must be adequate, and may not be unfairly discriminatory. Depending on the manner in which the state laws are administered, they impose differing limits on an insurer's freedom to price its products. The ratemaking function in a life insurance company is performed by the actuarial department or in smaller companies, by an actuarial consulting firm. In the property and liability field, advisory organizations accumulate loss statistics and compute loss costs for use by insurers in computing final rates, although some large insurers maintain their own loss statistics. In the field of marine insurance and in-

land marine insurance, rates are often made by the underwriter on a judgment basis.

Actuary is a professional person trained in the technical aspects in insurance and related fields, particularly in mathematics of insurance

In addition to the statutory requirements that rates must be adequate, not excessive, and not unfairly discriminatory, there are certain other characteristics considered desirable. To the extent possible, for example, rates should be relatively stable over time, so that the public is not subjected to wide variations in cost from year to year. At the same time, rates should be sufficiently responsive to changing conditions to avoid inadequacies in the event of deteriorating loss experience. Finally, whenever possible, the rate should provide some incentive for the insured to prevent loss.

Actuary is a professional person trained in the technical aspects in insurance and related fields, particularly in mathematics of insurance

Regardless of the type of insurance, the premium income of the insurer must be sufficient to cover losses and expenses. To obtain this premium income, the insurer must predict the claims and expenses and then allocate these anticipated costs among the various classes of policyholders. The premium that the insured pays is called the gross premium. The gross premium is composed of two parts, one to provide for payment of losses is called pure premium (net premium) and a second called a loading to cover expenses of operation like- commission, administrative expenses, taxes, profit of insurer etc. Rates and premiums are determined by an actuary, using the company's past loss experience and industry statistics.

In general, the pure premium is determined by dividing expected losses by the number of exposure units. For example, if 100,000 automobiles generate 30000000 losses, the pure premium will be Rs=300, which is calculated as-

Losses

Exposure Units

30,000,000

100,000

= Rs. 300

12.5 PRODUCTION

The production department of an insurance company, sometimes called the *agency department*, is its sales or marketing division. This department supervises the external portion of the sales effort, which is conducted by

the agents or salaried representatives of the company. The internal portion of the production function is carried on by the production (or agency) department. It is the responsibility of this department to select and appoint agents and assist in sales. In general, it renders assistance to agents in technical matters. *Special agents,* or people in the field, assist the agent directly in marketing problems. The special agent is a technician who calls on agents, acting as an intermediary between the production department and the agent. This person renders assistance when needed on rating and programming insurance coverages and also attempts to encourage the producers.

With few exceptions, the marketing mechanism in the insurance industry revolves around the agent; however, his or her role varies in different lines of insurance. In the field of property and liability insurance, the *agent* is "an individual authorized to create, terminate, and modify contracts of insurance." In the area of life insurance, however, the agent's power is somewhat more limited. Life insurance agents are appointed with the authorization to solicit and deliver contracts of insurance; however, they cannot, as can the property and liability agent, "bind" the insurance company to risk. The insurance agent is first and foremost the representative of the insurance company. An insurance *broker,* in contrast, is a representative of the insured. Although serving as the agent of the insured, the broker normally receives compensation in the form of a commission from the company. The fact that the broker is not an agent of the insurer means that he or she does not have the power to bind the company. The broker merely solicits business from clients and then places the business with an insurer. Brokers represent an important segment of the insurance marketing mechanism, particularly in large cities, where they control large segments of the market. In some instances, agents also act as brokers, placing coverage through the agents of companies they do not represent. Historically, brokers rarely operated in the life insurance field, because most life insurers accepted business only from their own appointed agents. Today, there are many life insurance producers who operate as brokers, placing life insurance with a variety of insurers, rather than with a single company. Although life insurance agents do not have binding authority, the distinction between an agent and a broker can still be important in the life insurance field. Any information given to the agent of an insurance company is considered to have been given to the insurer, and the insurer is presumed to have knowledge of relevant facts known to its agent. This may have relevance in situations in which there is a question regarding the insured's disclosure of information pertinent to the underwriting decision. Because the broker is a

representative of the insured rather than the company, information provided to the broker is not imputed to the company.



Check your progress

Q. No. 1: What is ratemaking?

Q. No. 2: Can an *agent of* property and liability insurance create, terminate, and modify contracts of insurance?

12.6 UNDERWRITING

Underwriting is the process of selecting and classifying exposures. It is an essential element in the operation of any insurance program, for unless the company selects from among its applicants, the inevitable result will be selection adverse to the company. There must be the same proportion of good and bad risks in the group insured as there were in the one from which the basic statistics were taken. The tendency of the poorer-than-average risks to seek insurance to a greater extent than the average or better-than-average risks must be blocked. The main responsibility of the underwriter is to guard against adverse selection. It is important to understand that the goal of underwriting is not the selection of risks that will not have losses. It is to avoid a disproportionate number of bad risks, thereby equalizing the actual losses with the expected ones. In addition to this goal, there are certain other objectives. While attempting to avoid adverse selection through rejection of undesirable risks the underwriter must secure an adequate volume of exposures in each class. In addition, he or she must guard against congestion or concentration of exposures that might result in a catastrophe. Few factors are as important to the success of the insurance operation as the underwriting function, for it is directly connected with the adequacy of rates. Actuaries compute the rates. The underwriter must determine into which of the classes, if any, each exposure unit should go. Poor underwriting may wipe out the efforts of the actuary, rendering a good rate inadequate. For this reason, those who perform the underwriting function must develop a keen sense of judgment and a thorough knowledge of the hazards associated with various types of coverage. The underwriting process often involves more than acceptance or rejection. In some instances, an exposure that is unacceptable at one rate maybe written at a different rate. In the life insurance field, for example, applicants may be classified as standard, preferred, substandard, and uninsurable.

Standard risks are persons who, according to the company's underwriting standards, are entitled to insurance without a rating surcharge or policy restrictions. The *preferred-risk* classification includes those whose mortality experience, as a group, is expected to be above average, and to whom the insurer offers a lower-than-standard rate. The most common preferred class today consists of non-smokers, for whom many insurers now offer a preferred risk rate. *Substandard risks* are persons who, because of a physical condition, occupation, or other factors, cannot be expected, on average, to live as long as people who are not subject to these hazards. Substandard applicants are insurable, but not at standard rates. Policies issued to substandard applicants are referred to as *rated policies* (or *extra risk policies*) and require a higher-than-standard premium rate to cover the extra risk when, for example, the insured has impaired health or a hazardous occupation. Usually, substandard risks will pay a percentage surcharge, a flat additional premium, or in some cases receive a policy subject to restrictions not included in the policies for standard risks. Most life insurers use a numerical rating system under which a point value is assigned for each type of physical disability or negative influence. The total of all points represents the expected mortality increase over that which is expected for standard or normal risks. The surcharge may apply only for a period of time and then disappear, or it may continue throughout the policy. In some situations, the policies issued to substandard risks may limit the death benefit during the first few years to the premiums paid. Finally, there are some applicants who are simply *uninsurable.* The applicant may be uninsurable because of high physical or moral hazard, or if he or she suffers from a rare disease or has a situation unique for which the insurer does not have the experience to derive a proper premium.

12.7 LOSS ADJUSTMENT

One basic purpose of insurance is to provide for the indemnification of those members of the group who suffer losses. This is accomplished in the loss settlement process, but it is sometimes a great deal more complicated than just passing out money. The payment of losses that have occurred is the function of the claims department. Life insurance companies refer to employees who settle losses as *claim representatives* or *benefit representatives*. The nature of the difficulties frequently encountered in the property and liability field is evidenced by the fact that employees of the claims department in this field are called *adjusters*. It is obviously important that the insurance company pay its claims fairly and promptly, but it is equally important that the company resist unjust claims and avoid overpayment of

them. The view is rapidly increasing among insurers that prompt, courteous, and fair claim service is one of the most effective competitive tools available to a company.

12.7.1 Adjusters

Broadly speaking, an *adjuster* is an individual who investigates losses. He or she determines the liability and the amount of payment to be made. Adjusters include agents as well as staff, bureau, independent, and public adjusters. It is quite common for the agent to function as an adjuster in the case of small property losses. Many agents have been granted *draft authority* by their companies, which mean that they are authorized to issue company checks in payment of losses up to some stipulated amount. Even in cases in which the amount of the loss exceeds the draft authority, the agent may handle the settlement of the loss. Most insurers employ adjusters who are salaried representatives of the company. The use of a company staff adjuster in a given area is dictated by the amount of work available. In a locality where the company has a large volume of claims, it will use salaried staff adjuster in preference to an adjustment bureau or an independent adjuster. If the volume of claims is too small to support a full-time adjuster, the company will contract for adjusting service. It is not economically feasible to maintain an adjuster in every area in which the company writes insurance. Likewise, it would be too expensive to send an adjuster into a distant area simply for the purpose of adjusting one loss. As an alternative, the company may hire an *independent adjuster,* who does not work for a company but instead contracts services directly to the insurance company. These adjusters normally do not handle claims for a single company but work for any firm that is involved in the community and does not have a staff adjuster or adjusting bureau. The independent adjuster bills each company directly for the expense of adjustment.

12.7.2 Responsibilities of Loss Adjuster

Where a loss adjuster's report is required, the report must be obtained from a loss adjuster licensed by the Insurance Regulatory and Development Authority (IRDA). As part of the licensing procedure and in view of the statutory monopoly given to the loss adjusting profession, the loss adjuster assumes certain obligations. The adjuster must:

"*investigate, manage, quantify, validate and deal with losses (whether insured or not) arising from any contingency, and report thereon, and carry out the work with competence, objectivity and professional integrity by strictly*

adhering to the code of conduct expected of such surveyors and loss assessors."

This obligation covers insured and uninsured losses as part of the loss adjuster's overall obligation to manage losses.

In discharging his obligations, the loss adjuster must act "ethically, with integrity and objectivity and impartially". This includes declaring any specific interest in the loss. Following on from the requirement to act impartially, the loss adjuster must address questions raised by the insured and the insurer.

If a loss adjuster does not conduct himself or herself as expected, the IRDA may refuse to grant or renew a licence or may suspend or cancel an existing licence. This was recognized in *Ravindra Nath Fruit Canning Industries v United India Insurance* (National Commission, 2006).

If a loss adjuster is to be appointed, the IRDA requires him or her to be appointed within 72 hours of the notification of the loss and requires the loss adjuster to produce his or her report within 30 days of appointment (this timeframe may be extended up to a maximum of six months). If an insurer requires more information, this must be requested within 15 days of the first report and any additional report must be produced within three weeks thereafter.

The timing of the production of the loss adjuster's report is important because it ties in with the provisions regulating the settlement of claims. An insurer must offer settlement or reject a claim within 30 days of the loss adjuster's final report, as emphasized in *New India Assurance v Uppalati Veeraswamy* (2005).

12.7.3 Appointing a Second Loss Adjuster

In recent years the courts have had to deal with a number of issues arising out of the statutory requirement for a loss adjuster's report and, as a result, it is possible to discern rules relating to circumstances in which an insurer can instruct a second loss adjuster if it is unhappy with the first loss adjuster's report. In a line of cases commencing with *National Insurance Co Ltd v New Patiala Traders* (2002), the courts have stated that an insurer cannot instruct a second loss adjuster as a matter of course in the hope that the second loss adjuster's findings will be more in line with the insurer's views on the claim.

As a loss adjuster is duty bound to give an accurate report and the insurer is not bound by the loss adjuster's recommendations, the appointment of a second loss adjuster should be the exception rather than the rule, as was confirmed in *Bright Vision Pvt Ltd v National Insurance* (2006).

Before appointing a second loss adjuster, the insurer should explain to the first loss adjuster which aspects of the report were found wanting and the first loss adjuster should be given the opportunity to substantiate his or her findings. In *United India Insurance v Sanjay Kumar* (2006) the National Commission reiterated this process in a case where the insurer had consecutively appointed five loss adjusters in response to a $5,000 theft claim. The police investigated and confirmed there had been a theft. The first and second loss adjusters appointed by the insurer confirmed there had been a theft. However, the third, fourth and fifth loss adjusters were less certain and the insurer repudiated liability on the strength of the latter loss adjusters' reports. The commission held that whenever an insurer appoints a second loss adjuster, this necessarily reflects badly on the first loss adjuster appointed.

A sense of the frustration felt by the courts when dealing with such cases is apparent from the National Commission judgment of February 23 2007 in *Mullangie Spintex v New India*. This case involved a fire claim in which the insurer immediately appointed a loss adjuster who reported on the fire and provided an estimate of loss in line with the insured's expectations. The insurer then appointed a second loss adjuster and offered the insured just over 10% of the claim value on the strength of the second loss adjuster's report. The commission noted that the offer was made in circumstances where the insured had been placed in financial difficulties by the fire and described the offer as "nothing but exploitation of the situation by the insurance company". The commission set aside the second loss adjuster's report and relied on the first loss adjuster's report to assess quantum.

The courts have also had to consider whether an insurer can take account of the findings of professionals other than licensed loss adjusters. In *National Harjeet Rice Mills* (2005 6 SCC 45) the Supreme Court ruled in the insurer's favour. The insurer believed that the fire claimed for was caused by arson, while the loss adjuster concluded that the fire was caused by a short circuit. The insurer obtained a private investigator's report confirming arson and relied on this to reject the claim. The lower court held that as the private investigator was not a licensed loss adjuster, his report was inadmissible. The Supreme Court disagreed, although it did so on the grounds that the

statutory requirement for a loss adjuster's report could not be an obstacle to uncovering a fraudulent claim. It is unclear whether this decision is a green light to rely on reports other than those from licensed loss adjusters, although for the moment it is being treated as such.

The loss adjuster's obligation to provide a correct report has also been used by insureds to bypass insurers that they suspect have delayed settling claims on the grounds that the loss adjuster's report was unavailable. The regulations allow loss adjusters to represent insurers and insureds, which is consistent with the loss adjuster's obligation to act impartially. In *Shri Krishna Woolen Mills Ltd v United India* (2006) the loss adjuster appointed by insurers had not assessed the loss, citing insufficient documentation. The insured instructed a licensed loss adjuster to assess loss and submitted that the court should accept the recommendations of the insured's loss adjuster. The court agreed.

12.7.4 Adjustment Process

In determining whether to pay or contest a claim, the adjuster follows a relatively set settlement procedure with four main steps: (1) notice of loss, (2) investigation, (3) proof of loss, and (4) payment or denial of the claim. The details of these steps vary with the type of insurance.

Notice of loss

The first step in the claim process is the notice by the insured to the company that a loss has occurred. The requirements differ from one policy to another, but in most cases the contract requires that the notice be given "immediately" or "as soon as practicable."Some contracts stipulate that notice be given in writing, but even in these, the requirement is not strictly enforced. Normally, the insured gives notice that a loss has occurred by informing the agent, and this satisfies the contract.

Investigation

The investigation is designed to determine if there was actually a loss covered by the policy and, if so, the amount of the loss. In deciding whether there was a covered loss, the adjuster must determine first that there was in fact a loss and then whether the loss is covered by the policy. Determination as to whether there was a loss is the simpler of the two. There are, of course, instances in which the claimant attempts to defraud the insurer, and in some instances payment is undoubtedly made where there has not in fact been a loss. Once it has been determined that a loss has occurred, the adjuster must determine whether the loss is covered under the policy.

First, was the policy in effect at the time of the loss? If the policy is newly issued, did the loss take place before the policy became effective? Or at the other end of the time spectrum, did the policy expire before the loss took place? Once it has been established that the loss took place during the policy period, there is still the possibility that the insured might have violated a condition that caused the suspension or voidance of the contract. If it appears that the policy was in effect at the time of the event and there was a loss, was the peril causing the loss insured against in the policy? In the case of property insurance, does the property damaged or lost meet the definition of the property insured? The location of the property is still another question, because some contracts cover property only at a specific location or are applicable only in certain jurisdictions. Finally, the adjuster must decide if the person making the claim is entitled to payment under the terms of the policy. If the answer to all these questions is yes, the loss is covered. Yet to be determined is the amount of the loss, which in most cases can be far more complicated than the determination of whether coverage applied.

Proof of Loss

Within a specified time after giving notice, the insured is required to file a proof of loss. This is a sworn statement that the loss has taken place and gives the amount of the claim and the circumstances surrounding the loss. The adjuster normally assists the insured in the preparation of this document.

Payment or Denial If all goes well, the insurance company draws a draft reimbursing the insured for the loss. If not, it denies the claim. The claim maybe disallowed because there was no loss, the policy did not cover the loss, or the adjuster feels that the amount of the claim is unreasonable.



Check your progress

Q. No. 3: Who is a claim representative?

Q. No. 4: Who is an adjuster?

12.8 REINSURANCE

Reinsurance is an integral function of the insurance sector. Under this practice, the insurance companies are going to transfer a part of their portfolio to other companies. Doing this has allowed insurers to cede a portion of the risk they assumed to other companies and thereby reducing their overall liability and risk.

This has also provided them with a means to stay solvent even when they are liable to pay out a huge sum as a part of a claim filed by an insurer. Furthermore, insurers will maintain premiums lower for their customers or policyholders and thereby luring more individuals to avail their services.

By spreading risk, the insurance company takes on the client's premium whose coverage is too burdensome to handle for a single insurance company. Premiums paid by the policyholder will be shared by all the insurance companies involved in that process.

If one company assumes the risk on its own, then the cost would ruin financially, then the insurance company possibly will not cover the loss which the company has paid the insurance premium.

Insurers purchase reinsurance for the following four reasons:

1. To limit the liability on a specific risk
2. To stabilize loss experience
3. To increase capacity
4. To protect themselves and the insured



Check your progress

Q. No. 5: What is main objective of reinsurance?

12.9 THE INVESTMENT FUNCTION

As a result of their operations, insurance companies accumulate large amounts of money for the payment of claims in the future. It would be a costly waste to permit these funds to remain idle, and it is the responsibility of the insurer's finance department or a finance committee to see that they are properly invested. Because a portion of their invested funds must go to meet future claims, the primary requisite of insurance company investments is safety of principal. In addition, the return earned on investment is an important variable in the rating process: life insurance companies assume some minimum rate of interest earnings in their premium computations. Increasingly, property and liability insurers are also required to include investment income in their rate calculations. It may be argued that even when investment income is not explicitly recognized, it subsidizes the underwriting experience and is therefore a factor in ratemaking in this field as well.



12.10 LET US SUM UP

- An insurance rate is the price per unit of insurance.
- The production department of an insurance company, sometimes called the *agency department*, is its sales or marketing division.
- The main responsibility of the underwriter is to guard against adverse selection.
- The payment of losses that have occurred is the function of the claims department.
- In reinsurance the insurance companies are going to transfer a part of their portfolio to other companies.



12.11 FURTHER READINGS

1. Insurance: Principles and Practices
    - M.N.Mishra
    - Dr.S.B.Mishra
1. Principles and Practice of Insurance
    - Ghanashyam Panda
    - Monika Mahajan



12.12 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q. No.1. The process of predicting future losses and future expenses and allocating these costs among the various classes of insureds is called ratemaking.

Ans to Q. No. 2. Yes

Ans to Q. No.3. Life insurance companies refer to employees who settle losses as claim representatives.

Ans to Q. No.4. An adjuster is an individual who investigates losses

Ans to Q. No.5. transfer a part of risk and liability of the insurer



12.13 POSSIBLE QUESTIONS

1. What is ratemaking? Explain with example.
2. Discuss the process of performing production function by an insurer.
3. How underwriting helps insurer?
4. What is loss adjustment?
5. Discuss the process of loss adjustment.
6. Why reinsurance is important?

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Unit 13: INSURANCE AGENT AND SALESMANSHIP

UNIT STRUCTURE

13.1 Learning Objectives

13.2 Introduction

13.3 Reasons for Selling of Insurance

13.4 Essentials of Insurance Salesman

13.5 Insurance Agent

- 13.5.1 Definition of Insurance Agent
- 13.5.2 Qualifications of an Insurance Agent
- 13.5.3 Training of an Insurance Agent
- 13.5.4 Appointment of an Insurance Agent
- 13.5.5 Functions and Duties of an Insurance Agent
- 13.5.6 Minimum Amount of Business to Be Secured by an Insurance Agent
- 13.5.7 Disqualification of Insurance Agent
- 13.5.8 Rights of an Insurance Agent
- 13.5.9 Termination of Insurance Agency

13.6 Ombudsman

- 13.6.1 Institution of Insurance Ombudsman
- 13.6.2 Appointment of Ombudsman
- 13.6.3 Eligibility
- 13.6.4 Term of Office
- 13.6.5 Territorial Jurisdiction
- 13.6.6 Power and Functions of Insurance Ombudsman
- 13.6.7 Manner of Lodging Complaint
- 13.6.8 Recommendation of The Ombudsman
- 13.6.9 Award

13.7 Let Us Sum Up

13.8 Further Readings

13.9 Check Your Progress

13.10 Answers to Check Your Progress

13.11 Possible Questions

13.1 LEARNING OBJECTIVES

After going through this unit, the learners will able to:

- ***State the reasons for selling of insurance***
- ***Explain the essentials of insurance salesman***
- ***Know the meaning and definition of an insurance agent***
- ***Know the qualifications of an insurance agent***
- ***Discuss the need and procedure of training of an insurance agent***
- ***Know the appointment procedure of an insurance agent***
- ***Explain the functions and duties of an insurance agent***
- ***Understand the minimum amount of business to be secured by an insurance agent***
- ***Elaborate the disqualification of insurance agent***
- ***Explain the rights of an insurance agent***
- ***Discuss the procedure of termination of insurance agency***
- ***Know about the appointment, eligibility, area of jurisdiction of an Ombudsman***
- ***Explain the power and functions of insurance Ombudsman***

13.2 INTRODUCTION

Salesmanship is an art of persuading people to buy goods or services. Insurance salesmanship is similar to other salesmanship but it requires extra efforts to pursue prospective customer to buy insurance services. A salesman in a grocery shop does not require much efforts and persuasion in comparison to a salesman selling insurance services. It is rightly said that ‘Insurance must be sold’. It means that in an insurance business prospective customer will not come to your shop or office and if you wish to sell, you will have to approach him to pursue and satisfy. Thus, insurance agent has to find out the prospective buyer first and then persuade him to take insurance policy. Insurance has to be sold as people are not likely to come forward to buy insurance on their own.

13.3 REASONS FOR SELLING OF INSURANCE

An insurance salesman (agent) should know that why insurance is necessary. He should be ready to answer this first question in selling insurance. The following are the main reasons for selling of insurance:

1. **Hazards:** There is no guarantee of life, fire or other casualties. Any day may be a dark day when dreams of happy future may fail completely. Insurance provide safety against such unexpected happenings.
2. **Savings:** Insurance bring about compulsory savings. Life insurance proves to be a great saving tool as it not only fulfils the need for savings but it also provides protection to our loved ones during uncertainties.
3. **Government Rules:** In some cases, Government rules and regulations make it essential on the part of the insured to take insurance policy. For example, in the case of motor vehicle it is essential under the Motor Vehicle Act, 1939, for the vehicle owner to take insurance policy.
4. **Insurance protects mortgaged property:** A very easy way to provide for repayment of mortgage loan is life insurance. It assists an individual to keep other assets of the family intact.
5. **Insurance is a profitable investment:** Insurance is a profitable investment as it carries the elements of the investment namely regular saving, capital formation and return of capital. In India, insurance policies carry a special exemption from Income Tax and Estate Duty etc.
6. **Insurance serves as a source of savings:** Systematic savings is possible through paying regular and compulsory premium. Unlike bank deposits the deposited insurance cannot be withdrawn.
7. **Insurance reduces uncertainty of business losses:** Insurance reduces the uncertainty of facing losses or damages by fire, theft, accidents or other perils.
8. **Insurance provides financial help:** Insurance companies also provide financial help to the businessmen. They finance various capital projects such as building, plant and machinery etc. in the form of equity participation and by granting loans and advances to the business people.

9. **Security of employees:** Insurance runs various schemes like 'Employees State Insurance', 'Life Policies', 'Old Aged Pension' et. to provide security to the employees.

10. **Beneficial to trade and industry:** Insurance is a key of industrial and commercial development. Insurance policies cover almost all types of business and trade risks like net profit, wages, taxes, work force etc.

13.4 ESSENTIALS OF INSURANCE SALESMAN

The personal quality of a successful salesman may be grouped various categories: a) Physical, b) Mental, c) Social, and d) Vocational.

1. **Physical Characteristics:** An insurance salesman should have various physical characteristics such as, personal appearance, manners, way of addressing, posture, voice, demeanour etc. for handling his/her customer freely and carefully.

2. **Mental Characteristics:** An insurance salesman should have mental qualities which include presence of mind, imagination, judgement, self-confidence, memory and general intelligence. While persuading the insurance prospects, a salesman should be very alert, attentive and active so that he/she may be able to answer all the questions put to him/her.

3. **Social Characteristics:** Insurance salesman has constantly to deal with all types of people and influence their minds. Tact is needed for the accomplishment of this task effectively. Different types of insurance prospects need different treatments and the insurance salesman must be able to provide it. An insurance salesman should be possessing and cultivate social traits such as being frank, straightforward, sincere. Earnest, and honest in his approach.

4. **Vocational Characteristics:** Salesmanship is highly skilled vocation demanding a special discipline. It is to be distinguished from routine, mechanical, centrally directed and controlled jobs. This demands a quality of leadership, imagination, creative and constructive thinking. It requires the desire and capacity to mix among people, understand and appreciate their feelings and help them in their efforts. A successful salesman is never contended with the present alone, he/she always strives and exerts for improvement. He/she aims high and works for it. Success in salesman also depends to great

extents upon training in effective sales methods. A well-trained insurance salesman will always be able to make a mark.



CHECK YOUR PROGRESS

Q. 1. What do you understand by insurance sales-manship?

Q. 2. Discuss the essentials of an insurance salesman.

13.5 INSURANCE AGENT

Agent is a person or organization who/that is authorized to act on behalf of another. An insurance agent is a person or organization who/that solicits, negotiates, or instigates insurance contracts on behalf of an insurer and can be independent or an employee of the insurer. Insurance agents are the legal representatives of insurers. Insurance agents work for the insurance companies and sell the insurance products of those companies. Insurance agents meet the prospective customers and motivate them to take insurance policies. An important aspect of working with an agent is that he/she sells insurance products of **one company only**. Typically, an insurance agent receives a salary paid by an insurance company, and he/she can also receive a sales-based commission or bonus. The role of insurance agent is very important in life insurance business. The success of insurance mainly depends on the performance of the agents. Agents are paid commission in consideration of their services.

13.5.1 Definition of Insurance Agent

According to section 182 of Indian Contract Act, 1872, “An agent is a person employed to do any act for another or to represent others in dealing with third person.”

According to section 2 (10) of Insurance Act, 1938, “insurance agent means an agent licensed under section 42who receives or agrees to re-ceive payment by way of commission or other remunera-tion in consider-ation of his soliciting or procuring insurance business including business relating to the continuance, renewal or revival of policies of insurance.”

13.5.2 Qualifications of An Insurance Agent

The following are the qualifications of an Insurance agent:

1. A person cannot be appointed as agent unless:

a) He has attained the age of 18 years.

b) He has obtained a valid insurance licence under section 42 of the Insurance Act, 1983.

c) The applicant shall possess the minimum qualification of a pass in 12th Standard or equivalent examination conducted by any recognised Board/Institution, where the applicant resides in a place with a population of five thousand or more as per the last census, and a pass in 10th Standard or equivalent examination conducted by any recognised Board/Institution if the applicant resides in any other place.

2. Any Society, Association, Panchayat or other body may be appointed as an agent if it holds a licence to act as an agent under section 42 of the Insurance Act.

3. An employee of the Corporation may also be appointed as an agent subject to the provision of LIC Staff Regulation Act, 1960.

13.5.3 Training of An Insurance Agent

According to Insurance Regulatory and Development Authority (Licensing of Insurance Agents) Regulations, 2000-

a) The applicant shall have completed from an approved institution, at least, one hundred hours practical training in life or general insurance business, as the case may be, which may be spread over three to four weeks, where such applicant is seeking licence for the first time to act as an insurance agent.

b) Provided that the applicant shall have completed from an approved institution, at least, one hundred fifty hours practical training in life or general insurance business, as the case may be, which may be spread over six to eight weeks, where such applicant is seeking licence for the first time to act as a composite insurance agent.

c) An applicant, who has been granted a licence after the commencement of these regulations, before seeking renewal of licence to act as an insurance agent, shall have completed, at least twenty-five hours practical training in life or general insurance business, as the case may be, from an approved institution.

13.5.4 Appointment of an Insurance Agent

Agents may be appointed in any place within India for the purpose of soliciting or procuring life insurance business including business relating to the continuance, renewal or revival of policies of insurance for the Corporation. In view of the promulgation of the Insurance Laws (Amendment) Ordinance, 2014 inter alia amending Section 42 of the Insurance Act, 1938, the following guidelines are exercise relating to appointment of Insurance Agents by an insurer:

1. An applicant seeking appointment as an Insurance Agent of an Insurer shall submit an application in Form I-A to the Designated Official of the Insurer
2. The Designated Official of the insurer, on receipt of the application, shall satisfy himself that the applicant:
   a) has furnished the Agency Application in Form I-A complete in all respects;
   b) has submitted the PAN details along with the Agency Application Form;
   c) has passed the insurance examination;
   d) does not suffer from any of the disqualifications;
   e) has the requisite knowledge to solicit and procure insurance business; and
   f) capable of providing the necessary service to the policyholders;
3. The Designated Official shall exercise due diligence in verifying the agency application and ascertaining that the applicant does not hold agency appointment for more than one life insurer, one general insurer, one health insurer and one of each of the mono-line insurers and is not in the centralised list of blacklisted agents.
4. The applicant so appointed as an insurance agent shall be provided an identity card, by the insurer which shall identify the agent with the insurer of which he/she is acting as an agent.

13.5.5 Functions And Duties of an Insurance Agent

1. **To solicit and procure new business:** Every insurance agent is bound to solicit and procure new business as required under the rules. He should always make effort in getting new insurance proposals beyond his prescribed limit.

2. **To conserve the present business:** An agent should ensure the continuation of the policies already issued and prevent them from lapsing on account of default in the payment of premium.

3. **Assist in selection of suitable policy:** The agent should give proper guidance and help to the prospects in selection of a suitable policy, keeping in view the needs of the proposer by guiding him.

4. **To enquire into full details of prospects:** It is an important duty of the insurance agent to enquire into all the requisite information from the prospective insured.

5. **Inform the agency about the factors which can cause damage to insured:** It is the duty of an agent to inform the agency about all the related information which can influence the insurance policy by any means.

6. **Assuring the age of insured:** It is the duty of an agent to assure date of birth of an insured at the time of starting the policy.

7. **Motivating the policy holders to pay premium in time:** It is the duty of an agent to inform the insured to pay premium in time and get benefits of payments by avoiding penalties applicable in late payments.

8. **To prevent the policy from lapsing:** Agent should inform the disadvantages of policy lapse to the insured.

9. **Inform the insured for appointing nominee(s):** It is the duty of an agent to make sure that the nominee's column is filled by the insured.

10. **To prepare the necessary documents:** The agent can help the proposed to submit other important documents like birth certificate, medical certificate, etc.

11. **Other important duties of an agent:**

    i) Introducing himself as an insurance agent, and if asked, to show his I.D.

    ii) Inform about the policies to the insurer.

    iii) By knowing the requirements of prospects, providing him the best suitable policy.

    iv) Hard working with honesty.

    v) If asked by the insured, telling him about the rate of commission.

    vi) Calculating the amount of premium which is payable by the insured.

vii) Explaining the details of insurance application form to the prospect.

viii) Informing the prospects about the refusal of insurance application by the insurance agency.

ix) Following the rules and regulations of insurance authority.

x) Providing insurance bond to the insured within 45 days.

13.5.6 Minimum Amount of Business to be Secured by an Insurance Agent

An agent has to procure the new business in his first year of his appointment as follows:

1. If he is working in a city or a town with an ascertained population of five lakhs or above, proposals resulting into policies for not less than Rs. 75,000/- sum assured on at least twelve different lives, or
2. If he is working in a city or a town with an ascertained population of one lakh or above, but less than five lakhs, proposals resulting into policies for not less than Rs. 60,000/- sum assured on at least twelve different lives, or
3. If he is working in any other place with an ascertained population of less than one lakh, proposals resulting into policies for not less than Rs. 40,000/- sum assured on at least twelve different lives.

Subsequent Years

An agent shall bring in the following business each year subsequent to the first year:

1. Where population exceeds five lakhs or above, proposals resulting into policies for not less than Rs. 1,00,000/- sum assured on at least twelve different lives, or
2. Where population exceeds one lakh but does not exceeds five lakhs, proposals resulting into policies for not less than Rs. 75,000/- sum assured on at least twelve different lives, or
3. Where population does not exceed one lakh, proposals resulting into policies for not less than Rs. 60,000/- sum assured on at least twelve different lives.

An agent has been exempted from the above business limit if he has continually worked for the Corporation as an agent for a period of:

1. Not less than 21 years, or

2. At least 15 years and he is at least 55 years of age, or
3. 15 years and at any time subsequent thereto there is business in force in the books of the Corporation under his agency yielding a renewal premium income of not less than Rs. 40,000/- per annum.

13.5.7 Disqualification of Insurance Agent

According to the provision of Insurance Act, 1938 and LIC Agents Regulation, 1972 nay of the following persons cannot be appointed as Insurance Agents.

1. If he/she has not attained the age of 18 years.
2. If he/she is of unsound mind.
3. If he/she is guilty of misappropriation or criminal offence or criminal breach of trust or cheating or forgery.
4. If he/she is found to be knowingly participating in any fraud, dishonesty or misappropriation against the Corporation or any of its subsidiaries.
5. If he/she does not possess a valid licence in force.
6. If he/she is in employment of a state or central Government or public undertakings etc.
7. If he/she does not possess the requisite qualification.

13.5.8 Rights of an Insurance Agent

The following are the rights of an Insurance Agent:

1. **To receive Commission:** A remuneration for the discharge of his functions as an agent shall be paid by way of commission as set out in the schedule II of LIC Regulation Act, 1972.
2. **To receive Bonus Commission:** In addition to the commission an agent has the right to receive bonus commission as set out in the schedule III of LIC Regulation Act, 1972.
1. **To receive other benefits:** An agent is entitled for all other benefits and perquisites which the Corporation may extend from time to time to the agents.
2. **To appoint nominee to receive commission and other benefits:** An agent has the right to appoint nominee during his/her lifetime to receive commission and other benefits.

3. **Right to appeal:** The agent has a right to appeal before the competent authority in case his/her agency is terminated without sufficient cause.

13.5.9 Termination of Insurance Agency

1. **Termination on account of required business:** If an agent fails to bring in the required business his appointment shall be terminated at the end of such year. The agency so terminated can however be re-instated by the competent authority if he/she is satisfied with the reasons advance for such laps. The agency so re-instated shall be treated as continuation for all purposes.
2. **Termination on account of Licence:** If the licence of the agent is cancelled, or is not renewed as the case may be, the agency may be terminated from the date of the licence is cancelled or the date when the licence ceases to be valid.
3. **Termination on account of certain dis-qualifications:** An agent may be terminated if he/she:
   - i) Is found to be unsound mind by the Court of law.
   - ii) Is found to be guilty of criminal mis-appropriation or criminal breach of trust or cheating or forgery.
   - iii) Is found to be knowingly participated in any fraud, dishonesty or mis-appropriation against the Corporation or any of its subsidiaries.
4. **Termination on account of certain lapses:** The competent authority may terminate the appointment of an agent on the following grounds:
   - i) If he/she has failed to dis-charge his/her functions.
   - ii) If he/she acts in a manner prejudicial, to the interest of the Corporation.
   - iii) If he/she has been offering a rebate, of the whole or part of his/her commission.
   - iv) If any information in application form is found to be untrue.
   - v) If he/she becomes physically or mentally incapacitated to carry on his/her functions.

The competent authority may terminate the agency at any time giving one month's notice in writing. The agent may also by giving one month's notice in writing to competent authority discontinue his/her agency.



CHECK YOUR PROGRESS

Q. 3. Who is an insurance agent?

Q. 4. What are the requisite qualifications of an insurance agent?

13.6 OMBUDSMAN

13.6.1 Institution of Insurance Ombudsman

The institution of insurance ombudsman was established by the Government of India in November 1998. The purpose of this institution is to quick and systematic disposal of customers' grievances and mitigation of issues involved in the settlement of those complaints. The institution plays an important role in protecting the interests of customers and building trust in the system.The institution is of great importance and relevance for the protection of interests of policy holders and also in building their confidence in the system. The institution has helped to generate and sustain the faith and confidence amongst the consumers and insurers.

13.6.2 Appointment of Ombudsman

The governing body of insurance council issues orders of appointment of the insurance Ombudsman on the recommendations of the committee comprising of IRDA Chairman, LIC Chairman, GIC Chairman and a representative of the Government.

Insurance council comprises of members of the life insurance council and general insurance council formed under Section 40C of the Insurance Act, 1983. The governing body of insurance council consists of representatives of insurance companies.

13.6.3 Eligibility

Ombudsman are drawn from Insurance Industry, Civil Services and Judicial Services.

13.6.4 Term of office

An insurance Ombudsman is appointed for a term of three years or till the incumbent attains the age of sixty-five years, whichever is earlier. Re-appointment is not permitted.

13.6.5 Territorial Jurisdiction

The governing body has appointed seventeen Ombudsman in the different locations across the country allotting them different geographical areas as their areas of jurisdiction. The ombudsman may hold sitting at various places within their area of jurisdiction in order to expedite disposal of complaints. The offices of seventeen insurance Ombudsman are located at (1) Ahmedabad, (2) Bengaluru, (3) Bhopal (4) Bhubaneswr, (5) Chandigarh, (6) Chennai (7) Delhi, (8) Guwahati, (9) Hyderabad, (10) Jaipur, (11) Ernakulam, (12) Kolkata, (13) Lukcnow, (14) Mumbai, (15) Noida, (16) Patna, and (17) Pune.

13.6.6 Power and Functions of Insurance Ombudsman

Insurance Ombudsman typically has two types of functions -Conciliation and Award Making. The institution is authorised to receive and address the complaints of the customers. Such complaints may associate to any grievance against the insurance service provider like:

a) Any total or partial denial or refutation of claims by the insurance company

b) Disputes related to payable or paid premiums

c) Disputes related to the legal structure of the policy's wordings

d) Delay in the process of settling claims

e) Not issuing insurance documents related to the policy even after receiving the premium amount

However, the powers of insurance ombudsman are restricted to the insurance contracts value not more than Rs. 20 lakhs. The insurance companies are required to honour the awards passed by an Insurance Ombudsman within three months.

13.6.7 Manner of lodging complaint

The complaint by an aggrieved person has to be in writing, and addressed to the insurance Ombudsman of the jurisdiction under which the office of the insurer falls. The complaint can also be longed through the legal heirs of the insured. However, before lodging a complaint:

i) The complaint should have made a representation to the insurer named in the complaint and the insurer either should have rejected the complaint or the complaint have not received any reply within a period of one month after the concerned insurer has received his/her complaint or he/she is not satisfied with the reply of the insurer.

ii) The complaint is not made later than one year after the insurer had replied.

iii) The same complaint on the subject should not be pending with before any court, consumer forum or arbitrator.

13.6.8 Recommendation of the Ombudsman

When a complaint is settled through the mediation of the Ombudsman, he shall make the recommendations which he thinks fair in the circumstances of the case. Such recommendation shall be made not later than one month and copies of the same sent to complainant and the insurance company concerned. If the complaint accepts recommendations, he will send a communication in writing within 15 days of the date of receipt accepting the settlement.

13.6.9 Award

The Ombudsman shall pass an award within a period of three months from the receipt of the complaint. The awards are binding upon the insurance companies. If the policy holder is not satisfied with the award of the Ombudsman, he/she can approach other venues like Consumer Forums and Courts of law for redressal of his/her grievances.

As per the policy holder's protection regulations, every insurer shall inform the policy holder along with the policy document in respect of the insurance Ombudsman in whose jurisdiction his office falls for the purpose of grievances redressal arising if any subsequently.

Steady increase in number of complaints receive by various Ombudsman shows that the policy-holders are reposing their confidence in the institution of insurance Ombudsman.



13.7 LET US SUM UP

- An insurance agent is a person or organization who/that solicits, negotiates, or instigates insurance contracts on behalf of an insurer and can be independent or an employee of the insurer.
- The personal quality of a successful salesman may be grouped various categories namely Physical, Mental, Social and Vocational.
- An agent sells insurance products of **one company only**.
- The success of insurance mainly depends on the performance of the agents. Agents are paid commission in consideration of their services.
- To be appointed as insurance agent a person should have some requisitequalifications.
- Agents may be appointed in any place within India for the purpose of soliciting or procuring life insurance business including business relating to the continuance, renewal or revival of policies of insurance for the Corporation.
- Insurance Act, 1938 consigns some specific functions and duties tothe insurance agents.
- An insurance agent is to be maintained minimum amount of business to be secured his/her agency.
- Insurance Act, 1938 and LIC Agents Regulation, 1972 have mentioned some disqualifications of insurance agents.
- Insurance agency may be terminated as per the provisions laid down in the Insurance Act, 1938.
- The institution of insurance ombudsman was established by the Government of India in November 1998.
- Ombudsman plays an important role in protecting the interests of customers and building trust in insurance business.
- The purpose of Ombudsman is to quick and systematic disposal of customers' grievances and mitigation of issues involved in the settlement of those complaints.
- **An insurance Ombudsman is appointed for a term of three years or till the incumbent attains the age of sixty-five years, whichever is earlier. Re-appointment is not permitted.**



13.8 FURTHER READINGS

- Principles & Practice of Insurance -By M Motihar
- Insurance: Principles and Practice -By M.N. Mishra & S B Mishra



13.9 CHECK YOUR PROGRESS

Answer as directed:

a) An agent can sell insurance products of **one company only**. (Write True or False)

b) A person cannot be appointed as agent unless he attains _____ years of age.

(Fill in the gap)

c) An employee of the Corporation may also be appointed as an agent subject to the provision of LIC Staff Regulation Act, 1960.(Write True or False)

d) The institution of insurance ombudsman was established by the Government of India in November _____.(Fill in the gap)

e) An insurance Ombudsman is appointed for a term of _____ years. (Fill in the gap)



13.10 ANSWERS TO CHECK YOUR PROGRESS

a) True b) 18 c) True d) 1998 e) Three



13.11 POSSIBLE QUESTIONS

1. "Insurance has to be sold". Explain this statement with regard to insurance salesmanship.
2. Explain the main reasons for selling of insurance.
3. Discuss the essentials of an insurance agent.
4. Mention the guidelines that are exercised to appointment of an Insurance Agents by an insurer.

5. Explain the functions and duties of an insurance agent.
6. Write a note on minimum amount of business to be secured by an insurance agent.
7. What are the disqualifications of an insurance mentioned in Insurance Act, 1938 and LIC Agents Regulation, 1972?
8. Discuss the rights of an insurance agent.
9. Discuss the conditions on which an insurance agent may be terminated.
10. Explain the role of an Ombudsman.
11. Discuss the functions and powers of an Ombudsman.

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UNIT 14: REGULATION OF INSURANCE

UNIT STRUCTURE

14.1 Learning Objectives

14.2 Introduction

14.3 Development of Insurance Legislation in India

14.4 Insurance Regulatory and Development Authority Act-1999

14.4.1 Objective of IRDA

14.4.2 Duties, Powers and Functions of the IRDA

14.5 Prerequisites for Registration of Insurance Company

14.6 IRDAI's Role as Regulator of Insurance Agents & Intermediaries

14.7 Regulations Issued by IRDA

14.8 Life Insurance Council and General Insurance Council

14.9 General Insurance Business (Nationalisation) Act, 1972 (GIBNA)

14.10 The Actuaries Act, 2006

14.11 FDI in Insurance

14.12 Let Us Sum Up

14.13 Further Readings

14.14Answers to Check Your Progress

14.15 Possible Questions

14.1 LEARNING OBJECTIVES

After going through this unit, the learners will able to:

- Know the evolution of insurance legislation in India
- Know about IRDA
- State the Objective, Duties, Powers and Functions of the IRDA
- Explain the Prerequisites for Registration of Insurance Company
- Discuss the procedurefor Procuring IRDA Registration Certificate
- Know the Life Insurance Council and General Insurance Council
- Know the Actuaries Act, 2006
- Get an idea of FDI in Insurance

14.2 INTRODUCTION

Considering the various recommences the insurance industry provides to the society, economy, businesses and people on one side and considering the capital invested by the people through the instrument of insurance on other side, it is mandated to regulate insurancesector.

Though since ages, regulation exists for ensuring the maximum utilization of the insurance sectorfor the benefit of the society and for avoiding the probability of misuse of the insurance as an instrument related to finance and capital, yet the privatization of insurance sector in early 90s hasmade it compulsory to have stricter standards of laws and regulation over insurance sector.

In this unit we will discuss some regulatory provisions related to regulation of insurance business in India and also discuss Foreign Direct Investment in Indian insurance sector.

14.3 DEVELOPMENT OF INSURANCE LEGISLATION IN INDIA

Insurance law in India had its origins in the UnitedKingdom with the establishment of a British firm, the Oriental Life Insurance Company in 1818 inCalcutta, followed by the Bombay Life Assurance Company in 1823, the Madras Equitable LifeInsurance Society in 1829 and the Oriental Life Assurance Company in 1874. However, till theestablishment of the Bombay Mutual Life Assurance Society in 1871, Indians were charged an extrapremium of up to 20% as compared to the British. The first statutory measure in India to regulatethe life insurance business was in 1912 with the passing of the Indian Life Assurance CompaniesAct, 1912 (“Act of 1912”) (which was based on the English Act of 1909). Other classes of insurancebusiness were left out of the scope of the Act of 1912, as such kinds of insurance were still in nascent stage and legislative controls were not considered necessary.

General insurance on the other hand also has its origins in the United Kingdom. The first generalinsurance company Triton Insurance Company Ltd. was promoted in 1850 by British nationals inCalcutta. The first general insurance company established by an Indian was Indian MercantileInsurance Company Ltd. in Bombay in 1907. Eventually, with the growth of fire, accident and marineinsurance, the need was felt to bring such kinds of insurance within the purview of the Act of 1912.While there were a number of attempts to introduce such legislation over the years, non-lifeinsurance was

finally regulated in 1938 through the passing of the Insurance Act, 1938 ("Act of1938"). The Act of 1938 along with various amendments over the years continues till date to be the definitive piece of legislation on insurance and controls both life insurance.

On January 19, 1956, the management of life insurance business of two hundred and fort y five Indian and foreign insurers and provident societies then operating in India was taken over by theCentral Government. The Life Insurance Corporation ("LIC") was formed in Sept ember 1956 by theLife Insurance Corporation Act, 1956 ("LIC Act") which granted LIC the exclusive privilege to conductlife insurance business in India.

The general insurance business was also nationalised with effect from January 1, 1973, through the introduction of the General Insurance Business (Nationalisation) Act, 1972 ("GIC Act"). Underthe provisions of the GIC Act, the shares of the existing Indian general insurance companies andundertakings of other existing insurers were transferred to the General Insurance Corporation("GIC") to secure the development of the general insurance business in India and for the regulationand control of such business. The GIC was established by the Central Government in accordancewith the provisions of the Companies Act, 1956 in November 1972 and itcommenced business on January 1, 1973. Prior to 1973, there were a hundred and sevencompanies, including foreign companies, offering general insurance in India. These companies wereamalgamated and grouped into four subsidiary companies of GIC viz. the National InsuranceCompany Ltd., the New India Assurance Company Ltd, the OrientalInsurance Company Ltd., and the United India Assurance Company Ltd.

Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory andDevelopment Authority (IRDA) was constituted as an autonomous body to regulate and develop theinsurance industry. The IRDA was incorporated as a statutory body in April, 2000. Beside IRDA Act and Insurance Act, 1938, there are some common Act/Regulation to regulate and manage the General and LifeInsurance Business in India and some Acts have been made for specific requirement of LifeInsurance/ General Insurance.

Acts/Regulations Governing Both Life & General Insurance Business in India

The following Acts regulate the Insurance Business in India:

- Insurance Act, 1938.

- IRDA Act, 1999 & Regulations passed thereunder.
- Insurance Amendment Act, 2002. ? Exchange Control Regulations (FEMA).
- Indian Stamp Act, 1899.
- Consumer Protection Act, 1986.
- Insurance Ombudsman Rules, 2017.
- Labour Law legislations.

Regulations Governing/Affecting Life Insurance Business in India

The following Acts govern/regulate the life insurance business in India:

1. LIC Act, 1956.

2. Amendments to LIC Act.

Regulations affecting General Insurance Business in India

The following Acts affect, circumscribe or regulate in some way or the other, some aspect of the GeneralInsurance Business in India:

- General Insurance Nationalization Act, 1972.
- Amendments to GIN Act, 1972.
- Multi-Modal Transportation Act, 1993.
- Motor Vehicles Act, 1988.
- Inland Steam Vessels Amendment Act, 1977.
- Marine Insurance Act, 1963.
- Carriage of Goods by Sea Act, 1925.
- Merchant Shipping Act, 1958.
- Bill of Lading Act, 1855.
- Indian Ports (Major Ports) Act, 1963.
- Indian Railways Act, 1989.
- Carriers Act, 1865.
- Indian Post Office Act, 1898.
- Carriage by Air Act, 1972.
- Public Liability Insurance Act, 1991.
- Employee State Insurance Act,1948
- Aircraft Act, 1934.



Check Your Progress

Q. No. 1. In which year the general insurance business was nationalised?

Q.No.2. In which year IRDA was incorporated?

14.4 INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY ACT-1999

The Insurance Regulatory andDevelopment Authority (IRDA) is a statutory regulator. Government of India establish IRDA by passing The IRD Act in the parliament in the year 1999 to regulate and promote the insurance industry in India and to protect the interests ofholders of insurance policies. The IRDA was incorporated as a statutory body in April, 2000.

The Preamble of the IRDA Act states the objective of IRDA which is “to provide for the establishment of an Authority to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto. IRDA Act led to amendment of the Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and the General Insurance Business (Nationalisation) Act, 1972.”

The IRD Act also carried out a series of amendments to the Insurance Act of1938 and conferred the powers of the Controller of Insurance on the IRDA.

14.4.1 Composition of IRDA

The IRDA consistsof the following members: -

- a chairperson;
- not more than five whole-time members and
- not more than four part-time members.

The members of the IRDA are appointed by the Central Government from amongst persons of ability,integrity and standing who have knowledge or experience in life insurance, general insurance,actuarial science, finance, economics, law, accountancy, administration or any other discipline which would, in the opinion of the Central Government, be useful to the Authority.

The Central Government shall, while appointing the Chairperson and the whole- time members, ensure that at least one person each is a person

having knowledge or experience in life insurance, general insurance or actuarial science respectively. The head office of IRDA is situated at Hyderabad.

14.4.2 Objective of Irda

As per mission statement the objectives of the IRDA can be summarised as: -

1. To protect the interest of Policyholders and to secure their fair treatment.

2. To bring about speedy and orderly growth of the insurance industry for the benefit of thecommon man, and to provide long term funds for accelerating growth of the economy.

3. To set, promote, monitor and enforce high standards of integrity, financial soundness, fair dealing and competence of those it regulates.

4. To ensure that insurance customers receive precise, clear and correct information about products and services and to make them aware of their responsibilities and duties in this regard.

5. To ensure speedy settlement of genuine claims, to prevent insurance frauds and other malpractices and put in place effective grievance redressal machinery.

6. To promote fairness, transparency and orderly conduct in financial markets dealing with insurance and build a reliable management information system to enforce high standards of financial soundness amongst market players.

7. To take action where such standards are inadequate or ineffectively enforced.

8. To bring about optimum amount of self-regulation in day to day working of the industry consistent with the requirements of prudential regulation.

14.4.3 Duties, Powers and Functions of the Irda

Section 14 of the IRDA Act, 1999 lays down the following duties, powers and functions of IRDA.

1. Subject to the provisions of this Act and any other law for the time being in force, the Authority shall have the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business.

2. Without prejudice to the generality of the provisions contained in subsection (1), the powers and functions of the Authority shall include:

a) issue to the applicant a certificate of registration, renew, modify, withdraw, suspend or cancel such registration;

b) protection of the interests of the policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance;

c) specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents;

d) specifying the code of conduct for surveyors and loss assessors;

e) promoting efficiency in the conduct of insurance business;

f) promoting and regulating professional organisations connected with the insurance and re-insurance business;

g) levying fees and other charges for carrying out the purposes of this Act;

h) calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organisations connected with the insurance business;

i) control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under Section 64U of the Insurance Act, 1938 (4 of 1938);

j) specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;

k) regulating investment of funds by insurance companies;

l) regulating maintenance of margin of solvency;

m) adjudication of disputes between insurers and intermediaries or insurance intermediaries;

n) supervising the functioning of the Tariff Advisory Committee;

o) specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organisations referred to in clause (f);

p) specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and

q) exercising such other powers as may be prescribed



Check Your Progress

Q.No.3. Mention two objectives of IRDA.

Q. No.4. Mention the duties of IRDA

14.5 PREREQUISITES FOR REGISTRATION OF INSURANCE COMPANY

An insurance company seeking to carry out insurance business in India need to obtain a certificate of registration from the IRDA before commencing business. The company need to fulfil some preconditions before applying for such registration as per Insurance Act of 1938, IRDA Act and various regulations prescribed by IRDA.

14.5.1 General Requirements

Following are some general requirements that an applicant need to fulfil before applying for registration: -

a) The applicant would need to be a company registered under the provisions of the Indian Companies Act, 1956. Consequently, any person intending to carry on insurance business in India would need to set up separate entity in India.

b) The aggregate equity participation of a foreign company (either by itself or through its subsidiary company or its nominees) in the applicant company cannot exceed twenty six percent of the paid up capital of the insurance company. However, the Insurance Act and the regulations there under provide for the manner of computation of such twenty-six per cent.

c) The applicant can carry on any one of the life insurance business, general insurance business or re-insurance business. Separate companies would be needed if the intent were to conduct more than one business.

d) The name of the applicant needs to contain the words" insurance company" or "assurance company"

14.5.2 Capital Structure Requirements

The applicant would need to meet with the following capital structure requirements

a) A minimum paid up equity capital of rupees one billion in case of an applicant which seeks to carry on the business of life insurance or general insurance.

b) A minimum paid-up equity capital of rupees two billion, in case of a person carrying on exclusively the business of reinsurance.

In determining the aforesaid capital requirements, the deposits to be made and any preliminary expenses incurred in the formation and registration of the company would be included. A "promoter" of the company is not permitted to hold, at any time, more than twenty six percent of the paid up capital in any Indian insurance company. However, an interim measure has been permitted. Percentages higher than twenty six percent are permitted if the promoters divest, in a phased manner, over a period of ten years from the date of commencement of business, the share capital held by them in excess of twenty six per cent.

14.6 PROCESS FOR PROCURING IRDA REGISTRATION CERTIFICATE

Stage-1

A request for acquiring the Certificate of Registration should be made to the IRDA in Form prescribed under IRDA/R1. The application should be supported by the following documents:

- The certified copy of the Memorandum of Association and Articles of Association;
- The full profile including the name, address and occupation of all the directors and shareholders of the company;
- The statement regarding the class of insurance business proposed to be carried on.
- The statement regarding the sources of capital funds.

The primary appeal would be screened by IRDA and additional information may be asked for. Even a Principal Officer may be appointed by the Authority for seeking any information or clarification on their behalf.

Stage-2

After being contented about the instructions and documents supplied along with the Form IRDA/R1, the Authority may ask for an additional application in the prescriber Form IRDA/R2 which shall be accompanied with the following documents:

- Every entity shall deposit either in cash or in securities, partly in cash and party in securities, the following:
- In the previous year,3% of the total gross premium written in India, in case of the general insurance business, not exceeding INR 10 crore;

- A sum of INR 20 crores in case of reinsurance business;
- A sum of INR 1 lac/- only in case of marine business;
- The certificate showing the amount deposited with the Reserve Bank of India.

The statement showing declaration from the Principal Officer about fulfilment of Minimum Capital Requirement. For a reinsurance business the capital requirement shall be 20 crores and for the life insurance as well as General Insurance 10 crores.

- Actuary certificate regarding rate of interest.
- A deposit of INR 50,000/- for each class of business.
- If any foreign promoter is involved, then the certified copy of the MOU between the Indian and Foreign promoter.

14.6.1 Grant of Registration Certificate for Insurance business in India

Only after the receipt of application and on being contented about the following mentioned conditions, the Certificate of Registration shall be granted to the insurer by the IRDA. The conditions include the following:

- Sound financial condition and general character of the management;
- Adequate volume, capital structure and earning prospects of the applicant company;
- Fulfilment of the interest of the general public.

14.6.2 Refusal of Registration for insurance operations

The applicant may be refused of the registration of an insurer on the following grounds:

- Inadequate or improper information;
- Delay in providing information;
- Non-fulfilment of capital requirements;
- Improper conduct of the management;
- Any other as decided by the Authority.

In case, the aspirant is denied of the registration as an insurer, he can appeal before the Central Govt. within 30 days from the date on which a copy of the decision from the Authority is received

In case of the insurance registration, the decision of the government shall be final and cannot be appealed against in any court of law.

14.6.3 Cancellation of Registration

The IRDA, in case of repeated default of the grounds for suspension of a certificate ofregistration may impose a penalty in the form of cancellation of the certificate. The Authority is compulsorily required to cancel the registration of an insurer either wholly or in so far as it relates to a particular class of insurance business, as the case may be

- If the insurer fails to comply with the provisions to deposit; or
- If the insurer fails, at any time, to comply with the provisions relating to the excess of the value of his assets over the amount of his liabilities; or
- If the insurer is in liquidation or is adjudged an insolvent or
- If the business or a class of the business of the insurer has been transferred to any person or has been transferred to or amalgamated with the business of any other insurer or
- If the whole of the deposit made in respect of the insurance business has been returned to the insurer
- If, in the case of an insurer, the standing contract is cancelled or is suspended and continued to be suspended for a period of six months, or
- If the Central Government of India so directs.

In addition to the above, the IRDA has the discretion to cancel the registration of an insurer

- If the insurer makes default in complying with, or acts in contravention of, any requirement of the Insurance Act or of any rule or any regulation or order made or any direction issued there under, or
- If the Authority has reason to believe that any claim upon the insurer arising in India under any policy of insurance remain unpaid for three months after final judgement in regular course of law or
- If the insurer carries on any business other than insurance business or any prescribed business or
- If the insurer makes a default in complying with any direction issued or order made, as the case may be, by the Authority under the IRDA Act, 1999

- If the insurer makes a default in complying with or acts in contravention of, any requirement of the Companies Act, or the LIC Act, or the GIC Act or the Foreign Exchange Management Act, 2000.

14.6.4 Renewal of Registration

The registration shall only be renewed annually and the application for renewal shall be made before 31st December of the preceding year following which the renewal is sought for, along with the fees as below:

- The fees should not be less than 50,000/- for each class of insurance;
- 1/4th of the 1% of the premium received during the year in India, for reinsurance companies;
- The renewal fees shall be paid to the Reserve Bank of India.

14.7 IRDAI'S ROLE AS REGULATOR OF INSURANCE AGENTS & INTERMEDIARIES

IRDAI have been vested with the following powers under the IRDAI Act, 1999 to regulate the Distributors ofInsurance Policies:

1. Specification of requisite qualifications, practical training and code of conduct for insurance agentsand intermediaries.

2. Specification of code of conduct for survey or sand loss assessors.

3. Promoting efficiency in the conduct of insurance business.

4. Calling for information from or undertaking inspection of insurance companies, intermediaries andother organisations connected with insurance business.

5. Control and regulation of rates, advantages, terms and conditions that may be offered by generalinsurance companies.

6. Specifying the form and manner in which books of account shall be maintained by insurance

companies and intermediaries.

As a step in the above direction, IRDAI have framed regulations to regulate the various distributors who areengaged in selling insurance.

14.8 REGULATIONS ISSUED BY IRDA

In exercise of the powers under the Act the IRDA has in consultation with the Insurance Advisory Committee made various regulations and amended

them subsequently as per requirement. Some examples of the regulations are given below:

- Licensing of Insurance Agents Regulations, 2000
- Assets, Liabilities and Solvency Margin of Insurers Regulation, 2000.
- General Insurance – Reinsurance Regulations, 2000
- Obligations of Insurance to Rural Social Sector Regulations, 2000
- Insurance Surveyors and Loss Assessors (Licensing, Professional Requirements and Code of Conduct) Regulations, 2000.
- Third Party Administrator – Health Services Regulations, 2001.
- Protection of Policy holders' Interest Regulations, 2002.
- Insurance Brokers Regulations, 2000.
- Micro Insurance Regulations, 2005.



Check Your Progress

Q. No.5. Which institution's mission is to protect the interests of holders of insurance policies?

Q.No.6. Name two regulations issued by IRDA for regulation of insurance business.

14.9 LIFE INSURANCE COUNCIL AND GENERAL INSURANCE COUNCIL

Insurance Act, 1938 provides for establishment of Insurance council accordingly two Insurance Councils are formed under Section 64C of the Insurance Act, 1938.

14.9.1 The Life Insurance Council

It consists of all the members and associate members of the Association who carry on life insurance business in India.

Constitution of Executive Committee of Life Insurance Council

As per Section 64F(1) of the Insurance Act, 1938, an Executive Committee of the Life Insurance Councilshall be formed comprising of the following persons, namely: —

(a) two officials nominated by the Authority, one as the Chairman and the other as a member;

(b) eight representatives of members of the Insurance Association of India carrying on life insurance business elected in their individual capacity by the said members in such manner, from such groups of members and from such areas as may be specified by the Authority.

(c) One non official not connected with any insurance business, nominated by the Authority; and

(d) five persons connected with life insurance business, nominated by the Authority for the purpose of representing such groups of insurers carrying on life insurance business or such areas as have not been able to secure adequate representation on the Executive Committee of the Life Insurance Council or for any other purpose.

According to Section 64H of the Insurance Act, 1938, The duration of the Executive Committee of the Life Insurance Council or the General Insurance Council shall be three years from the date of its first meeting on the expiry of which it shall stand dissolved and a new Executive Committee constituted.

14.9.2 The General Insurance Council

It consists of all the members and associate members of the Association who carry on general insurance business in India.

Constitution of Executive Committee of General Insurance Council

As per Section 64F (2) of the Insurance Act, 1938, an Executive Committee of the Life Insurance Council shall be formed comprising of the following persons, namely: —

(a) two officials nominated by the Authority, one as the Chairman and the other as a member;

(b) eight representatives of members of the Insurance Association of India carrying on general insurance business elected in their individual capacity by the said members in such manner, from such groups of members and from such areas as may be specified by the Authority;

(c) one non-official not connected with any insurance business, nominated by the Authority; and

(d) five persons connected with general insurance business, nominated by the Authority for the purpose of representing such groups of insurers carrying on general insurance business or such areas as have not been able to secure adequate representation on the Executive Committee of the General Insurance Council or for any other purpose.

(e) If anybody of persons specified in (1) and (2) fails to elect any of the members of the Executive Committees of the Life Insurance Council or the General Insurance Council, IRDA may nominate any person to fill the vacancy, and any person so nominated shall be deemed to be a member of the Executive Committee of the Life Insurance Council or the General Insurance Council, as the case may be, as if he had duly elected thereto.

(f) No official nominated by the IRDA shall be entitled, whether as chairman or as a member , to vote in respect of any matter coming up before any meeting of the Executive Committee of the Life Insurance Council or the General Insurance Council, as the case may be, and subject thereto each of the said Executive Committees, may with the approval of the IRDA, make bye-laws for the transaction of any business at any meeting of the said committee and any such bye-law may provide that any member of the Committee who is interested in an matter for the time being before that Committee may not be present at or take part in any meeting thereof.

(g) The life Insurance Council or the General Insurance Council may form such other committees consisting of such persons as it may think fit to discharge such functions as may be delegated thereto.

(h) The Secretary of the Executive Committee of the Life Insurance Council and of the Executive Committee of the General Insurance Council shall in each case be an official nominated by the IRDA.

14.9.3 Functions of the Executive Committee of Life and General Insurance Councils

As per Section 64J, read with Section 64L of the Insurance Act, 1938, the following are the functions of theExecutive Committee of the Life and General Insurance Council:

(a) to aid, advise andassist insurers carrying on life/general insurance business in the matter of settingup standards of conduct and sound practice and in the matter of rendering efficient service toholders of life insurance policies;

(b) to render advice to the Authority in the matter of controlling the expenses ofinsurers in respect oftheir life/general insurance business in India, respectively; in addition in respect of general insurers,Executive Committee of General insurance council may also advise on Commission andotherexpenses;

(c) to bring to the notice of the Authority the case of any insurer acting in a mannerprejudicial to theinterests of holders of life/general insurance policies, respectively; and

(d) to act in any matter incidental or ancillary to any of the matters specified in Clauses (a) to (c) as,with the approval of the Authority, may be notified by theLife/General Insurance Council, as thecase may be, in the Gazette of India.For the purpose of enabling it effectively to discharge its functions,the Executive Committee of theLife/ General Insurance Council may collect such fees from Life/General insurance companies, as may bespecified in the bye-laws of the respective Councils.

14.9.4 Powers of Life & General Insurance Councils

For the efficient performance of its duties, the Life InsuranceCouncil or the General Insurance Council, asthe case may be, may

(a) appoint such officers and servants as may be necessary and fix the conditions oftheir service;

(b) determine the manner in which any prescribed fee may be collected;

(c) keep and maintain up-to-date, a copy of list of all insurers who are members of the either Council;

(d) make bye-laws for:(i)the holding of elections other than the first elections;(ii)the summoning and holding of meetings, the conduct of business thereatand the number ofpersons necessary to form a quorum;(iii)the submission by insurers to the Executive Committee of the Life Insurance Council, or theGeneral Insurance Council of such statements or information asmay be required of them and he submission of copies thereof by the insurers to the Authority;(iv)the levy and collection of any fees;(v)the regulation of any other matter which may be necessary for the purposeof enabling it tocarry out its duties under this Act.

Further, the Life Insurance Council or the General Insurance Council may authorise the ExecutiveCommittee concerned to exercise any of the powers conferred on the Life Insurance Council or the GeneralInsurance Council, as the case may be, under Clauses (a), (b) or (c) mentioned above.

14.10 GENERAL INSURANCE BUSINESS (NATIONALISATION) ACT, 1972 (GIBNA)

The General Insurance Corporation of India (GIC) was formed as a Government company under sub-section (1) of Section 9 of the General Insurance Business (Nationalisation) Act, 1972 and it commenced business from January 1, 1973. The purpose of establishment of GIC as a holding com-

pany of the four operating (subsidiary) companies, as stated in the General Insurance Business (Nationalisation) Act, was superintending, controlling and carrying on the business of general insurance.

Functions of GIC

The functions of GIC as enunciated in the said Act are as follows:

a) the carrying on of any part of general insurance business as deemed desirable;

b) aiding, assisting and advising the companies in the matter of setting up of standards of conduct and sound practice in general insurance business and in rendering efficient customer service;

c) advising the acquiring companies in the matter of controlling their expenses including the payment of commission and other expenses;

d) advising the acquiring companies in the matter of the investment of funds;

e) issuing directions to acquiring companies in relation to the conduct of general insurance business

14.11 THE ACTUARIES ACT, 2006

The Actuaries Act, 2006 was enacted on August 27, 2006 to control and advance the actuaries profession and other issues related with the actuaries. As provided under the Act actuary is the person engaged in deciding the current results of the potential contingent happenings or in the moulding of finance and determining of risk in various locations of insurance or computing the rate of life interest and possibilities in insurance etc. It shall also deal with formulation and fixing of rates for policies, calculating the profits, suggesting rates that are concerned with insurance industry, allowances, insurance and rates of pension according to the empirically related tables. It shall also consist of such other persons as specifically provided under the Act. By virtue of the Act, from the date specified by the Government of India, the name of the persons included in the record of the actuarial society during the initiation of the Act and the names of the persons added subsequent to the pioneering of the legislation and till their name persist to be present in the record are established as a body corporate under the Actuaries Institute and the names of the persons included in the record shall be members under the Actuaries Institute. The Institute shall have the status of a company with continuous succession and shall have the authority to deal with property and shall have the power to litigate.

As per provision under Section 3 of the Actuaries Act, 2006 the Institute of Actuaries of India constituted and the erstwhile Actuarial Society of India was dissolved. All the Assets and Liabilities of the Actuarial Society of India were transferred to, and vested in, the Institute of Actuaries of India. The obligations and balances due that are outstanding, the agreements concluded and the things that are to be performed by the Actuarial Society shall also be assigned to the Actuaries Institute. The litigations in which the society is engaged are also transferred to the Institute.

In addition, the fundamental motive of the Institute shall consist of the advancement, support and progression of professional learning, practical experience through training, awareness and activities between the actuaries, uplift the status of actuaries, control the activities of the persons engaged in the actuary's profession, to advance research and development on the subjects that are important to actuarial science etc. The persons whose name is entered as an associate or fellow shall have his name included in the records of the Institute. To be a member of the Institute, the person must have passed the assessment conducted by the Society of Actuary. He shall also conclude the training as per the guidelines of the Society or by the Council with some exemptions.

Objects of the Actuaries Institute:

The main objects of the Institute are (section 5 of the Actuaries Act, 2006);

- To promote, uphold and develop the standards of professional education, training, knowledge, practice and conduct amongst Actuaries;
- To promote the status of the Actuarial profession;
- To regulate the practice by the Members of the profession of Actuary;
- To promote, in the public interest, knowledge and research in all the matters relevant to Actuarial Science and its application; and
- To do all such things as may be incidental or conducive to the above objects or any of them.



Check Your Progress

Q. No.7. Mention one Functions of the Executive Committee of General Insurance Councils.

14.12 FDI IN INSURANCE

Indian insurance sector witnessed many changes during the courses of time. However, massive changes have taken place after the opening up of Indian economy. India allowed participation of private entity in insurance sector in 2000 and allowed FDI in insurance up to 26%. The limit of FDI was further increased to 49% in 2014 and further to 74% in 2021.

In addition, it was announced that under the new 2021 framework:

- foreign ownership and control would be allowed with safeguards;
- the majority of directors on an insurer's board of directors and key management persons would be required to be resident Indians;
- 50% of directors would need to be independent directors; and
- a specified percentage of the insurer's profits would have to be retained as a general reserve.

Amendment of Insurance Act

Allowing FDI in insurance sector need amendment in the Insurance Act. In order to allow 74% FDI in Insurance sector on 25 March 2021 the Insurance (Amendment) Act 2021 was notified, which introduced as follows:

- The amended Section 2(7A)(b) states that:
    - the limit of foreign investment allowed in Indian insurers cannot exceed 74% (previously 49%); and
    - foreign investment in insurers must be "subject to such conditions and manner, as may be prescribed".
- The amended Section 27(7) has omitted its previous requirement for insurers incorporated in India to hold assets in trust where at least:
    - 33% capital is owned by investors domiciled outside India; or
    - 33% of the members of the governing body are domiciled outside India.
- The amended Sections 2(7A) and 114(2)(aaa) have omitted the requirement for insurers to be Indian owned and controlled. It has been stipulated that the conditions and manner of foreign investment will be as prescribed.



14.13 LET US SUM UP

- Insurance law in India had its origins in the UnitedKingdom.
- Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory andDevelopment Authority (IRDA) was constituted as an autonomous body to regulate and develop theinsurance industry.
- Beside IRDA Act and Insurance Act, 1938, there are some common Act/Regulation to regulate and manage the Insurance Business in India.
- Section 14 of the IRDA Act, 1999 lays down the duties, powers and functions of IRDA.
- An insurance company seeking to carry out insurance business in India need to obtain a certificate of registration from the IRDA before commencing business.
- Insurance Act, 1938 provides for establishment of Insurance council.
- The General Insurance Corporation of India (GIC) was formed as a Government company under sub-section (1) of Section 9 of the General Insurance Business (Nationalisation) Act, 1972.
- India allowed participation of private entity in insurance sector in 2000 and allowed FDI in insurance up to 26%. The limit of FDI was further increased to 49% in 2014 and further to 74% in 2021.



14.14 FURTHER READINGS

- **Principles & Practice of Insurance -By M Motihar**
- **Insurance: Principles and Practice -By M. N. Mishra & S. B. Mishra**



14.15 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q.No.1.1971

Ans to Q.No.2.2000

Ans to Q.No.3.Two objectives of IRDA-

1. To protect the interest of Policyholders and to secure their fair treatment.

2. To bring about speedy and orderly growth of the insurance industry for the benefit of thecommon man, and to provide long term funds for accelerating growth of the economy.

Ans to Q.No.4.The duty of IRDAis to regulate, promote and ensure orderly growth of the insurance business and re-insurance business.

Ans to Q.No.5**.**IRDA

Ans to Q.No.6.Two regulations of IRDA-

- Licensing of Insurance Agents Regulations, 2000
- Assets, Liabilities and Solvency Margin of Insurers Regulation, 2000.

Ans to Q.No.7.One Functions of the Executive Committee of General Insurance Councils.

(a) to aid, advise and assist insurers carrying on life/general insurance business in the matter of setting up standards of conduct and sound practice and in the matter of rendering efficient service to holders of life insurance policies;



14.16 POSSIBLE QUESTIONS

Q.No.1. List the Acts/Regulations Governing Insurance Business in India.

Q.No.2. Mention the objectives and powers of IRDA.

Q.No.3. Discuss the process for procuring registration certificate from IRDA**.**

Q.No.4. Discuss the Functions of the Executive Committee of Life and General Insurance Councils.

Q.No.5. Discuss the powers and functions of the Life and General Insurance Councils.

Q.No.6. Mention the functions of GIC.

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