INSURANCE

UNIT- 1

Introduction

Definition: It is a form of contract or agreement which one party agrees in return of a consideration to pay an agreed amount of money to another party to make good for a loss, damage, injury to something of value in which the insured has to pay as a result of some uncertain event. Thus, insurance is a method of securing protection against future calamities and uncertainties.

Advantages of Insurance:

1. **Provide certainty:** Insurance helps the insured to convert his uncertainties into certainties by entering into contract with insurer. The payment of premium by insured enables to reduce the risk.
2. **Distribution of losses:** It helps to distribute the losses as it enables to transfer the risks and spread the financial loss of insured members over the whole insurers.
3. **Social security:** It acts as an instrument to fight against evils of poverty, unemployment, disease, old age, accidents, fire and other calamities.
4. **Credit facility:** The policies issued by insurance companies can be made use to raise policy loans from insurance company, as well traders are in the position to raise loans and get credit facilities from various financial institutions.
5. **Increase efficiency:** It reduces the risk and increases the efficiency in business. It provides security for business community which in turn paves the way for growth and diversification of the industry.
6. **Earns foreign exchange**: It provides security to the international traders, shippers and banking institutions, thus paves the way for expansion of foreign trade. The increased foreign trade activities lead to securing foreign exchange which makes the country to become economically strong.

Principles of Insurance:

1. **Insurable interest**: the person getting an insurance policy must have insurable interest in the property or life insured. A person said to have an insurable interest if he is financially benefited by the existence property and is prejudiced by its loss.
2. **Utmost good faith:** faith refers to absence of fraud on the part of the parties to the contract. The insured should disclose all the material facts to the insurer. If utmost good faith is lacking the contracts made by the parties becomes invalid.
3. **Indemnity:** the principles are applied to all the insurance contracts where the loss suffered by the insured can be measured in monetary value. Hence all the contract of

insurance, expect life insurance are the contracts of indemnity bcoz loss of life cannot be measured in terms of money.

4. **Proximate cause:** it is also called as causa proxima which means nearest or proximate or immediate cause. This principle is useful in deciding the actual cause of loss when a number of causes have contributed for the occurrence of loss.
5. **Subrogation:** it is also known as Doctrine of Rights Substitution. The insurer will step into the shoes of the insured and become entitled to all rights of action against the third party to cover the loss.
6. **Contribution:** this principle ensures equitable distribution of losses among the insurers. The total loss suffered by the insured is contributed by all insures in the ratio of the value of policies issued by them for same subject matter.
7. **Mitigation of loss:** it says that duty of the insured is to take all such steps to minimize the loss as would have been taken by any person who is not insured.

Re-insurance: It refers to an insurance contract between two or more insurance companies. Every insurer undertakes to bear the risk according to his capacity. In order to safe guard his interest. he may insure the same risk undertaken by him along with another insurer. Hence it is a contract between two insurance companies' i.e. first insurer and reinsurer.

Objectives of Re-insurance:

1. To safeguard the interest of insurers by wider distribution of risks
2. To limit the liability of insurer and to keep him in permissible limits of financial capacity.
3. To stabilize the underwritings over a period of time.
4. To help in steady accumulation of reserves by the insurer.
5. To safeguard against serious effects of uncertainties.

Insurance Regulatory & Development Authority (IRDA) Act 1999.

The IRDA is a corporate body. With LPG many private companies are being permitted to transact insurance business in India. It is advise by an insurance advisory committee consisting of more than 25 members to represent the interests of commerce, industry, transport , agriculture etc.

Objectives:

1. To establish an authority to protect the interest of the holders of the insurance policies.
2. To regulate, promote and ensure orderly growth of insurance industry.
3. To amend the related insurance acts to suit the requirements of the society

Duties of authority

1. **Orderly growth of insurance business**: the important duty is to regulate, promote and ensure growth of the insurance business and re-insurance business.
2. **Maintaining proper accounts**: the authority should maintain proper accounts and other relevant records for the accounting period. It has to prepare annual statements of accounts in the prescribed form in consultation with comptroller and auditor general of India.
3. **Rectify defects**: as per the directions of the central government and comptroller and auditor general, the authority has to go for audit of the accounts and rectify the defects if any.
4. **Submission of annual reports:** the authority has to submit the audited financial accounts to the central govt to present the reports beefier the houses of the parliament.
5. **Duration of the filing:** the authority should submit the financial statements to the central govt within 9 months from the completion of financial year.
6. **Report on promotional programs:** the authority should submit report on the promotional programs undertaken for the development of insurance industry.
7. **Protect the policy holders**: they should protect the interest of policyholders with regard to assignment of policy, nomination, claims settlement, surrender value etc.

Powers & functions of authority:

1. It has general supervisory power of insurance industry
2. It has administrative power to appoint the staff required for the conduct of its business
3. It has power to prepare code of conduct for the agents, surveyors or other intermediaries who took part in the insurance business.
4. It promotes efficiency.
5. It has the power to levy fees and other charges for providing services to the insures
6. It has the power to regulate the investment of funds by insurance companies
7. It can exercise the powers sanctioned by insurance laws and central government from time to time.
8. It has the power to check the functioning of tariff advisory committee
9. It has the power to regulate the margin of insolvency.
10. It has a power to issue of registration, renew, modify, withdraw, suspend or cancel the registration of insures.
11. It has the power to call for the information from insurance companies, to inspect the records, conduct enquires and call for explanation.

Ombudsperson:

An ombudsman is an official, usually appointed by the government, who investigates complaints against businesses, financial institutions, or government departments or other public entities, and attempts to resolve the conflicts or concerns raised, either by mediation or by making recommendations.

UNIT-2 NOTES

LIFE INSURANCE

Meaning/ Definition: Life insurance is a contract in which one party agrees to pay given sum on the happening of a particular event contingent upon the duration of the human life in consideration of the immediate payment of a smaller sum or certain equivalent periodical payments by another.

Procedure for issuing life insurance policy:

1. **Proposal for insurance policy:** The person intending to take an insurance policy has to make a written requisition in the prescribed form to the insurance company. The insured has to provide information on various aspects such as name, occupation, address, mode of payment, sum assured, etc. The insured should provide true and correct information to the insurance company otherwise the contract cannot be enforceable.
2. **Providing proof of age:** The proposer has to give proof of his age along with proposal form if the age is less than 25 yrs and more than 50 yrs. However if the age is ranging between 25 to 50 he need not submit the proof of his age.
3. **Undergoing medical examination:** The proposal form is sent to the doctor for approval. The insured has to appear for the medical examination. The doctor examines the proposer's health condition and prepares a report which is sent to the insurance company.
4. **Confidential report of the agent:** After the medical report is received, agent is required to furnish a confidential report about the proposer in prescribed form. The report contains true info about the proposer i.e health condition, financial position, reputation etc.
5. **Acceptance of proposal:** the insurance company determines type of risk, volume of risk, premium rate etc and if the assessment is favorable, insurer accepts the proposal.
6. **Payment of first premium:** on receiving the acceptance letter the proposer has to pay the first premium within the time stipulated. Once the first premium paid by the insured, the insurer becomes liable from the day on which it is paid. Premium may be paid monthly, quarterly, and half yearly.

7. **Preparing and issuing insurance policy:** once the premium receipt issue by the insurance company, the policy comes into operation and risk is covered from that date only.

Issue of duplicate policy: It is the duty of the insured to safeguard the original policy but it might misplace due to certain reasons such as theft. Fire etc. if the policy is in force and not matured the policyholder may ask for duplicate policy. The insurer has to verify the reasons under which the policy is lost. The insurer has to obtain an indemnity bond duly signed by the policy holder and surety. The insurer should verify whether FIR is filed in PS in case of loss of policy by theft.

After satisfying all the formalities a new document is issued. A rubber stamp indicating Duplicate may be affixed on the new policy document. The insured has to bear the costs of issue of duplicate policy, stamp duty etc.

Nomination: The insured who takes the life insurance policy nominate the person or person to whom the money secured by the policy shall be paid in the event of the death.

- The insured may nominate a person to whom the policy shall be paid in the event of the death.
- Any change in the name of nominee must be communicated by insured to the insurer with in a written notice
- If the nominee dies before the policy matures the amount is paid to the policy holder and if he too expires the amount is paid to the legal representatives of insured.

Surrender value: it is a voluntary termination of the contract by the policy holder. The policy holder can surrender the policy at any time before it becomes a claim. The amount payable by insurer to the insured on the surrender policy is called as surrender value. It is calculated on the basis of actual premium paid and the no.of yrs of the policy are in force. The minimum period required for surrender value in LIC is 3 yrs.

Policy loan: Availability of loan on the security of the policy is an important privilege to the policy holder. Loans are generally granted up to 90% of the surrender value for the policies in force and 85% of surrender value for paid up policies. The rate of interest charged on policy loans is 9.5 % p.a. for getting the policy loan the policy holder has to assign the policy to the insurer company. The policy holder has to make interest payment on due date otherwise interest is added to the principal amount. If the loan amount is not paid and interest is not paid and when policy becomes claim i.e either death or maturity the outstanding amount is deducted and balance is only paid to the insured.

Assignment: the general meaning of assignment is transfer of property means an act by which a living person conveys property, in present send in future to one or more living person. The term living person includes a company or association or body of individuals whether incorporated or not.

Features of Assignment:

1. An assignment is actionable claim and empowers the policy holder to sell, mortgage, charge or gift the policy to any person of his interest.
2. An assignment must be signed by the transferor or his duty authorized agent.
3. The assignor must be major and competent to contract.
4. The signature of the policy holder must be attested by witness.
5. An assignment must be sent to the insurer along with a notice. If assignment is not delivered to the insurer, it does not come into force.

Claims settlement:

1. **Maturity claim:** A maturity claim is payable to the insured as per the terms of the contract at the end of the policy period, if he lives up to that date. Insurer informs to the policy holder about the maturity policy and insured should submit the policy documents, age of proof if it is not admitted and the stamped document of assignment if it is assigned. After receiving the documents the insurer has to initiate action for making payment and settlement of claims. Before making the payment the insurer has to verify the age proof, all the premiums are paid or not, original policy is surrendered etc. and then the payment is made to the policy holder.
2. **Death claims:** It is a claim that arises out of death which may be a natural, a suicide or an accidental on. Insurer has to make enquiry about the genuineness of the claim. To claim the amount the insurer should the claimant to submit the relevant documents such as name of policy holder,

place, date, cause, time of death, name of the doctor who treated for illness, etc.

Death claim has following procedure:

a. Intimation of death: when the policy holder is dead the intimation must be given to the insurer.
b. Filling up claim form: the claimant should fill up all the details in the form given by the insurer.
c. Proof of death: the claimant has to provide the death certificate obtained from the municipality, Panchayath or doctor.
d. Proof of claimant: the person claiming the policy must satisfy the insurer that he is the legal representative or nominee of the insured.
e. Submission of original policy: the claimant ha to submit the original policy document to the insurer and duplicate policy in case when original document is lost.

3. **Accident and disablement claims**: the death may occur due to accident or disablement. The insurer must be very careful before making the payment. The insurer has to ensure that all the conditions are satisfied or not. The conditions for making payment for self-accident benefits are:

a. The accident should be unintentional one
b. The death must be result of injuries caused by the accident
c. The death must occur within 120 days or such other period is specified.
d. The claimant has to intimate about the death as a result of the accident and should produce the evidence to the insurer.

The following documents are to be submitted:

a. FIR
b. Postmortem report
c. Hospital reports etc.

Disability claim: It refers to the loss of sight, amputation of hands, legs etc. The conditions for claiming the disability benefits are:

a. The disability must be permanent
b. It must result before the assured attain the age of 65 yrs.

Once all the documents are submitted to the insurer and if he is satisfied the insured will get an additional sum equal to the sum assured is paid in monthly installments over 10 yrs the premium is allowed from the date followed by the accident which resulted in disability.

4. **Survival benefit claims:** Insurance companies offer some policies in which the policy holder is entitled for the survival benefit before the expiry of the full term policy like money back policy. The procedure for settlement of benefit claim are:
   a. The insurer gives advance intimation about the survival benefit along with discharge voucher.
   b. The insured has to return the discharge voucher filled, stamped and signed along with the signatures of witness and their address.
   c. The net amount is payable after making necessary deductions.

NON-LIFE INSURANCE

Definition: It defines as fire, marine or miscellaneous business, whether carried on singly or in combinations with one or more of them. Miscellaneous insurances include motor insurance, burglary, personal accident etc. thus the non-life insurance covers the business and other activities except the life insurance.

Types of non-life insurance products:

1. **Commercial line of insurance**
2. **Personal line of insurance.**

1. **Commercial line of insurance**
   a. **Policies for cottage, tiny and small sector industries:** the policies intended to meet the requirements of the industries are burglary, cash policy, motor policy etc.
   b. **Policies for traders:** the policies offered to the traders are fire policy, marine cargo policy, plate glass and neon sign insurance, shopkeeper's policy etc.
   c. **Policies for professional and specific professions insurance:** The policies offered are Hull insurance, stock exchange and brokers insurance, PLG dealers' package insurance, adhikari suraksha kavach etc.

d. **Policies fir industries and commercial organizations:** the policies can be taken on the basis of project covers and operational covers.

2. **Personal line of insurance.**
   a. **Property insurance policies**: the policies offered are phone insurance, gruha raksha policy, householder policy, TV policy etc.
   b. **Accident insurance policies:** policies offered are personal accident policy, suhana safar policy, bhagya shri policy etc.
   c. **Health insurance policy:** policies offered are mediclaim insurance, jan arogya insurance, videshi yatra mitra policy, cancer insurance etc.
   d. **Liability insurance policies:** the policies offered are professional indemnity policy, doctors indemnity policy etc.

I FIRE INSURANCE: It is an agreement whereby one party in return for a consideration undertake to indemnify the other party against the financial loss for the goods damaged or destroyed by means of fire.

Characteristics of fire insurance:

1. **Contract of indemnity:** The insured can only to the value of the goods damaged by fire or the amount of policy whichever is less.
2. **Offer and acceptance**: offer is made by the insured and acceptance by the insurer.
3. **Lawful consideration**: the consideration is paid by the insured which is called as premium.
4. **Period of insurance:** the policy is normally given for 1 year only. It is renewable every year on fulfillment of formalities.
5. **Cause of accident:** the loss must be the outcome of fire or ignition.
6. **Claim for settlement:** if the fire is result of fraud or misconduct on the part of insured the loss is not indemnified. But if the loss occurred due to negligence of the insured is admitted for indemnifying the loss.

   Scope of fire insurance:

   1. **Ordinary scope:** firstly there must be actual fir or ignition and secondly the fire must be accidental and unintentional. Normally risks such as fire or ignition, blasting of gas cylinders for household purpose, used for lighting and heating in any building are covered under fire insurance. Goods and properties like precious stones, stamps, cheques , books etc

and loss caused by events like earthquakes , cyclones, floods etc are not covered under fire insurance.

2. **Broader scope:** these special fire insurance policies my cover the risks excluded from ordinary scope of fire insurance such as perils and risk.

II MARINE INURANCE:

Marine insurance is an agreement by which the insurance company or the underwriter agrees to indemnify the owner of the ship or cargo against the risk involved in marine cargo and ship. It covers a large no. of risks such as sinking of ship, burning of ship, sea dacoits, stormy winds etc.

Characteristics of Marine Insurance:

a. **Consideration:** insured us under obligation to pay certain amount periodically to the insurer in consideration for accepting the risk.
b. **Coverage of insurance:** In marine insurance cargo, ship and freight can be insured.
c. **Mode of insurance**: the insurance may be for single journey or number of journeys or for specific period of time.
d. **Condition for compensation**: insure dis compensated only when the loss is occurred to the ship or cargo. It also includes third party insurance.

Scope for marine insurance:

a. **Hull insurance:** insuring the ship against the risks of sea transportation is called as hull insurance. It is exposed to various risks such as sinking, burning, collision, explosion etc.
b. **Cargo insurance**: the term cargo refers to goods carried in a ship in the course of shipment. The insurance which covers the risk such as fire, gales perils etc. is called as cargo insurance, any loss incurred to cargo during transportation from one port to another is indemnified by the insurance company.
c. **Freight insurance**: freight refers to payment received for the transportation of goods. The policy is taken by freight receiver to protect freight purchases. If the ship fails to reach the destination due to marine

perils, the freight receiver losses the freight. Hence freight insurance is remedy to avoid such risk.

B. Definitions

(i) Health Insurance can be defined as 'any form of insurance whose payment is contingent on the insured incurring additional expenses or losing income because of incapacity or loss of good health.'

C. Characteristics of Health Insurance.

The characteristics of Health insurance are as follows :

(a) Provides financial Security. It provides protection and financial security to individuals in terms of timely treatment against diseases. The financial losses of the insured due to his health can be avoided.

(b) Hedge against failure to Save. The policyholder may not be saving sufficiently large sums to meet any unforeseen medical expenses. But his incapacity to save money can be hedged through health insurance.

(c) Long term Savings Instruments. Health insurance policies serve as a accumulation plans and they can be used as long-term savings instruments.

(d) Tax Benefits. Tax benefits can be availed on these policies and attracts as a savings tool. The tax benefit can availed under Section 80-D of Income Tax Act, 1961.

(e) Protection against the Claims. The law provides protection to the health insurance proceeds and values against the claims of creditors of the policy holders.

(f) Adds extra efficiency. The Health insurance plan develops a semi-compulsory savings of policy holder which adds extra efficiency to one's performance.

(g) Wealth Creation. The Health Insurance contributes to the wealth creation of a policy holder and enables to increase his efficiency. It is because the medical expenses are born by the insurer and helps the insurer to maintain good health. This is turn leads to wealth creation.

D. Scope of Health Insurance

Health Insurance covers broadly three areas viz., Medical expense insurance, Disability income insurance and Long term care insurance.

(i) Medical Expenses Insurance Policy. Under this medical insurance policy, the expenses of the insured such as hospital, physician, medicines and other health care expenses are covered by insurance company. The insured has to pay the premium every year. As long as the premium is paid, the policy would be in force. Once the payment of premium is discontinued, the policy also lapses. For example, mediclaim policy, which assures reimbursement of medical expenses to the insured.

(ii) Disability Income Insurance Policy. Under this Health Insurance Policy, the insurance company assures replacement of lost income when the insured is disabled as a result of sickness or injury. The claims settlement is made by the insurer because physical or mental incapacity prevents the insured from working and put him to loss of income.

(iii) Long term care insurance policy. Long term care refers to a broad range of supportive medical, personal and social services needed by people who are unable to perform on their own because of an accident, illness or frailty. It means they have receive assistance from another person *i.e.* nurse, family members, friends etc. Under long term health insurance

B. Definition

(i) Social insurance is an insurance in which the insured makes a payment of nominal amount of premium in consideration of securing such risks as are covered under social security.

(ii) Social insurance is an

social security.

C. Characteristics of Social Insurance

The characteristics of Social Insurance are discussed below :

(a) Compulsion. Social Insurance is made compulsory by the central government. Since it is meant to solve social problems, it is necessary that everyone exposed to social risks must be involved.

(b) Consideration. The insured makes the payment of premium to the insurer which becomes consideration for providing insurance against social risks.

(c) Pre-defined benefits. In Social insurance, the benefits are limited and predefined. All the persons covered under the plan are subjected to the same benefits.

(d) Floor of Protection. Social insurance aims at to provide a minimum level of economic security against perils which may interrupt the individual's income.

(e) Subsidy. In social insurance, all the beneficiaries/insured are considered as socially weak and hence the losses of unfortunate few are to be subsidized by the other insurance groups or by taxpayers.

(a) Sickness Insurance. Under this Health Insurance Scheme, the insured is provided with financial aid in addition to medical facilities during the period of his illness. The Employee's State Insurance Corporation of various States prescribe the premium rates and provisions regarding these policies for the employees working in the industrial undertakings. The ESICs take the responsibility of providing the medical facility to the insured sick members.

SCOPE of social insurance

(b) Accident Insurance. Under this policy, the insured is provided with financial aid in case of an accident resulting in loss to him. In case the insured is died in the accident, the insurer agrees to pay a certain sum of money to the dependants of the deceased worker. To avail the benefits of this scheme, the insured has to pay the prescribed premium regularly *i.e.* premium to the insurer.

(c) Disablment Insurance. Under this policy, the insured is given financial help if he becomes disabled in an accident other than in industrial undertakings. The insured has to pay the premium regularly to get this benefit from the insurer. If the payment of premium is discontinued in a year, automatically the benefits of this policy are ceased.

(d) Maternity Insurance. Under this policy, the insured women workers are compensated by the insurer for the expenses incurred in getting medical treatment, medicines and balanced food during the period of maternity. The compensation is paid on a fixed basis for the premium paid by the insured.

(e) Old age Insurance. Under this policy, the insured are given the benefit of monthly pension or any fixed amount when they attain the age of super-annuation. This is one of the important health insurance policies, which extends financial help when the insured is unable to earn his livelihood in the old age.

B. Definition

Rural Insurance is a insurance programme on livestock and non-live stock of rural areas intended to provide financial assistance to the rural families for generating sufficient income for their livelihood.

C. Scope of Rural Insurance

The Rural insurance policies comprise the following :

(a) Insuring cattle, sheep and goat, work horses, camels, poultry, shrimps and prawns.

(b) Insuring other livestock like elephants, pigs, rabbits etc.

(c) Insuring silkworm and honeybee.

(d) Insuring plantations such as rubber, tea, sugarcane, coffee jute etc.

(e) Insuring horticulture crops such as grapes, mangoes, oranges, apples etc.

(f) Insuring agricultural property such as pump sets, plough and other agricultural equipments.

(g) Insuring package covers *i.e.* animal driven cart, rural accidents, farmers package etc.

(h) Insuring transit of animal from the place of purchase to the place of stabling.

(i) Insuring dwelling huts in rural areas constructed with financial aid from banks/co-operative/Government institutions.

(j) Insuring the dug wells, bore wells or Dug-cum-bore wells used for developing ground water and financed by banks/co-operatives/NABARD etc.

(k) Insuring lift irrigation system equipment such as intake well, delivery chambers, jack well, pump house, water storage tank, pipeline cables, switch gears, starters etc.