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SCHOOL OF MANAGEMENT STUDIES

UNIT – 1 – INSURANCE MANAGEMENT– SBAA1505

UNIT1- CONCEPTUAL FRAMEWORK

Concept - Perils And Risks, Classification Of Risks - Need For Insurance - Nature And Working Of Insurance, Types , Importance - Role Of Insurance - Fundamental Principles Of Insurance - Differentiation Insurance And Guarantee - Insurance And Wager - Disclosure - Moral Hazards.

Definition Peril: Peril is an insurance term for an event that could cause damage to property, items, or belongings insured. Examples of different perils in home insurance are fire, hail damage, flooding, earthquake, and theft, etc. Home Insurance policies are typically divided into 'All Peril' and 'Named Perils' insurance policies. These may have different costs and cover different risks.

Meaning of Risk:

In simple words risk is danger, peril, hazard, chance of loss, amount covered by insurance, person or object insured. The risk is an event or happening which is not planned but eventually happens with financial consequences resulting in loss. There is saying higher the risk more the profit.

3 Types of Risk in Insurance are

Financial and Non-Financial Risks, measured in monetary terms.

Pure risks are a loss only or at best a break-even situation.

Fundamental risks are the risks mostly emanating from nature.

It is required to know the complex classification and sub-classification of risk and also an insight into risks that can be insured and which cannot be.

We may look into this subject in the following manner:

Financial and Non-Financial Risks.

1. Pure and Speculative Risks.
2. Fundamental and Particular Risks.

In this post, we are going to look into the three classifications of risk.

Financial and Non-Financial Risks

Financial risks are the risks where the outcome of an event (i.e. event giving birth to a loss) can be measured in monetary terms. The losses can be assessed and a proper money value can be given to those losses. The common examples are:

- Material damage to property arising out of an event. We may consider the damage to a ship due to a cyclone or even sinking of a ship due to the cyclone. Damage to the motor car due to a road accident which may be of partial or total nature. Damage to stock or machinery etc.
- Theft of a property which may be a motorcycle, motor car, machinery, items of household use or even cash.
- Loss of profit of a business due to fire damages the material property.
- Personal injuries due to the industrial, road or other accidents resulting in medical costs, Court awards, etc.
- Death of a breadwinner in a family leading to corresponding financial hardship.

All such losses, i.e. the outcome of unforeseen untoward events can be measured in monetary terms.

The losses can be replaced, reinstated or repaired or even a corresponding reasonable financial support (in case of death) can be thought about.

We would call all such financial risks as insurable risks and these are indeed the main subjects of insurance.

Non-Financial risks are the risks the outcome of which cannot be measured in monetary terms.

There may be a wrong choice or a wrong decision giving rise to possible discomfort or disliking or embarrassment but not being capable of valuation in money terms.

Examples can be:

- Choice of a car, its brand, color, etc.
- Selection of a restaurant menu,
- Career selection, whether to be a doctor or engineer etc.
- Choice of bride/bridegroom,
- Choice of publicity etc.

Since the outcome cannot be valued in terms of money, we shall call these non-financial risks as uninsurable.

Pure Risk and Speculative Risks

Pure risks are those risks where the outcome shall result in loss only or at best a break-even situation. We cannot think about a gain-gain situation.

The result is always unfavorable, or maybe the same situation (as existed before the event) has remained without giving birth to a profit (or loss).

As opposed to this, speculative risks are those risks where there is the possibility of gain or profit. At least the intent is to make a profit and no loss (although loss might ensue).

Investing in shares may be a good example. Pricing, marketing, forecasting, credit sale, etc. are yet examples falling within the domain of speculation.

Consider another example where we can have the existence of both pure risks and speculative risks. A garment factory may be in our minds. Here we have:

- Cyclone damage possibility to the factory building,
- Fire damage possibility to stock,
- Machinery breakdown possibility to Machinery,
- Theft possibility to removable items,
- Personal accident possibility of factory workers etc.

Also, we have:

- the question of pricing of the product to remain in the competitive market,
- the question of fashion changes leading to a drastic fall in the demand of the product,
- the question of withdrawal of quota system,
- the question of credit sale

The students should appreciate that in the first set of examples we are indeed talking about the possibility of certain losses emanating from certain untoward events or unforeseen contingencies (like a cyclone, fire, theft, accident, etc.) and for convenience we shall call them the risks of trade.

These are identified as pure risks and as such insurable. Notice that these losses can also be measured in monetary terms.

As opposed to this, if we refer to the second set of examples we notice that the outcome of the trade or business is not the result of pure risks but indeed the result of economic factors, supply & demand, change of fashion, trade restriction or liberalization, etc. and for convenience we call them trade risks.

These may be identified as speculative risks and usually not insurable.

Fundamental Risk and Particular Risks

Now coming to the last stage of classification of risk we may consider the subject from the viewpoint of the cause of risk and its effect. We call such classifications as fundamental risks and particular risks.

Fundamental risks are the risks mostly emanating from nature. These are the risks that arise from causes that are beyond the control of an individual or group of individuals.

The losses arising out of such causes may be catastrophic in dimension and felt by a huge number of populations, the society or by the state although an individual may be a part of that catastrophe. The common examples are:

- Flood & Cyclone, Subsidence & landslip,
- Earthquake & volcanic eruption, Tsunami,
- The convulsion of nature and other natural disasters,
- Famine, Draught

We may also add in the list perils like war, terrorism, riots & other political activities which are neither created by nature nor by an individual but resulting in colossal losses.

But one thing is certain which are this that all such perils are impersonal not being caused or contributed by an individual or even a group of individuals.

Normally fundamental risks were not supposed to be insurable because of the magnitude and these were considered to be the responsibility of State. Now because ofdemand and insurers' strength, these risks are easily insurable.

Particular risks are; as opposed to what has been narrated hereinbefore, there are risks which usually arise from actions of individuals or even group of individuals.

These may be identified as causes arising from personal (or group) behavior and effects (losses) not being of that magnitude.

These are mostly men created because of their negligence, error in judgment, carelessness, and disregard for law or respect.

We may even go onto suggesting that these are indeed the cases (both cause and effect) where there has been an omission to do something which should have been done or there has been done something which should not have been done.

We may call these as risks of personal nature. The common examples are:

- Fire, Explosion,
- Burglary, housebreaking, larceny, and theft,
- Stranding, Sinking, Capsizing, Collision in case of a ship, including cargo loss,
- Machinery breakdown and deterioration of stock due to machinery breakdown,
- Motor accidents including death and bodily injuries, Industrial accidents,
- The collapse of bridges, Derailments.

Particular risks are insurable risks and most of the insurances relate to these risks.

HISTORY/ORIGIN OF INSURANCE

The idea of insurance took birth thousands of years ago. Yet, the business of insurance, as we know it today, goes back to just two or three centuries. Insurance has been known to exist in some form or other since 3000 BC. Various civilizations, over the years, have practiced the concept of pooling and dividing among themselves, all the losses suffered by some members of the community. Insurance through the ages - The Babylonian traders had agreements where they would pay additional sums to lenders, as a price for writing off the loans, in case a shipment was lost or stolen. These were called "bottomry loans". Similar practices were prevalent among the traders from Baruch and Surat sailing in Indian ships to Sri Lanka, Egypt and Greece. The Greeks had started benevolent societies in the late 7th century AD, to take care of the funeral – and families – of members who died. The Friendly societies of England were similarly constituted. • The inhabitants of Rhodes adopted a practice whereby, if some goods were lost due to jettisoning during distress, the owners of goods (even those who lost nothing) would bear the losses in proportion. Chinese traders in ancient days would keep their goods in different boats or ships sailing over the treacherous rivers. They assumed that if one of the boats suffered such a fate, the loss of goods would be only partial and not total. The loss could be distributed and thereby reduced. • "The Great Fire of London" in 1666, in which more than 13000 houses were lost, gave a boost to insurance and the first fire insurance company, called the Fire Office, was started in 1680. • Lloyds: The origins of insurance business as practiced today, is traced to the Lloyd's Coffee House in London. Traders, who used to gather there, would agree to share the losses to their goods being carried by ships, due to perils of the sea. (maritime perils, such as pirates who robbed on the high seas or bad sea weather spoiling the goods or sinking of the ship due to perils of the sea.) In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

EVOLUTION OF INSURANCE IN MODERN INDIA

♣ 1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834.

♣ In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency.

♣ 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

♣ In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business.

♣ In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies.

♣ In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

♣ The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business.

♣ An Ordinance was issued on 19th January, 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector.

♣ The history of general insurance dates back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd, was set up. This was the first company to transact all classes of general insurance business.

♣ 1957 saw the formation of the General Insurance Council, a wing of the Insurance Association of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

♣ In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then.

♣ In 1972 with the passing of the General Insurance Business (Nationalization) Act, general insurance business was nationalized with effect from 1 st January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1sst 1973.

♣ This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a committee under the chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector.

♣ The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein, among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners.

♣ Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.

♣ The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

♣ In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.

♣ 2003: Introduction of Broker in Indian Insurance market.

♣ Then Insurance industry transformed into monopoly and Oligopolistic state or public sector insurance industry in India.

♣ Today there are 31 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 24 life insurance companies operating in the country.

♣ The insurance sector is a colossal one and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country's GDP. A welldeveloped and evolved insurance sector is a boon for economic development as it provides long- term funds for infrastructure development at the same time strengthening the risk-taking ability of the country.

NATIONALIZATION OF INSURANCE SECTOR

By early 1970s, there were about 100 Indian insurers carrying on the general insurance business in India. Malpractices and mismanagement had crept into the management of these companies. Some insurance companies either liquidated or cheated the policy holders. There were complaints of falsification and denial of claims, interlocking of funds and other malpractices by many insurance companies. To protect public funds, the government started considering nationalization of the Insurance Industry. An Ordinance was issued on 19th January, 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector. In 1971, as a prelude to nationalization of the general insurance industry, the Govt. of India took over the management of all private general insurance companies. In the year 1972 General Insurance Business was nationalized. The main objective of this nationalization was to channelize the insurance funds for the benefit of the community at large. With the enactment of General Insurance Act 1972, General Insurance Corporation of India (GIC) was set up as a Holding Company. It had four subsidiaries: New India, Oriental, United India and National Insurance Companies. GIC was responsible for broad policy matters that could affect the general insurance industry in India. The company did not offer any direct insurance policies except the aviation insurance policies of Air India, Indian Airlines, Hindustan Aeronautics and Crop insurance. Thus General Insurance business was primarily conducted by the four subsidiaries of GIC. Apart from the four subsidiaries, GIC set up the GIC Asset Management Company to manage the GIC Mutual Fund, GIC Housing Finance, and Export Credit Guarantee Corporation.

LIBERALIZATION IN INSURANCE SECTOR

Although Indian Economy started opening up both to private sector and to foreign investment in the year 1991, Insurance sector still remained the domain of Govt. of India. However the Government realized that there was a need to bring reforms in the Insurance Sector in case this sector has to evolve. With a view to bring reforms in the Insurance Sector the Central Government formed Malhotra Committee headed by former Finance Secretary and RBI Governor R.N. Malhotra in the year 1993. Thus the Malhotra committee was set up with the objective of complementing the reforms initiated in the financial sector. The reforms were aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy keeping in mind the structural changes currently underway and recognizing that insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms. In 1994, the committee submitted the report and some of the key recommendations included:

A. Structure

a. Government stake in the insurance Companies to be brought down to 50%.

b. Government should take over the holdings of GIC and its subsidiaries so that these subsidiaries can act as independent corporations.

c. All the insurance companies should be given greater freedom to operate.

B. Competition

a. Private Companies with a minimum paid up capital of Rs.1bn should be allowed to enter the sector.

b. No Company should deal in both Life and General Insurance through a single entity.

c. Foreign companies may be allowed to enter the industry in collaboration with the domestic companies.

d. Postal Life Insurance should be allowed to operate in the rural market. e. Only one State Level Life Insurance Company should be allowed to operate in each state.

C. Regulatory Body

a. The Insurance Act should be changed.

b. An Insurance Regulatory body should be set up.

c. Controller of Insurance- a part of the Finance Ministry- should be made independent

D. Investments

a. Mandatory Investments of LIC Life Fund in government securities to be reduced from 75% to 50%.

b. GIC and its subsidiaries are not to hold more than 5% in any company (there current holdings to be brought down to this level over a period of time)

E. Customer Service

a. LIC should pay interest on delays in payments beyond 30 days.

b. Insurance companies must be encouraged to set up unit linked pension plans.

c. Computerization of operations and updating of technology to be carried out in the insurance industry. The committee emphasized that in order to improve the customer services and increase the coverage of insurance policies, industry should be opened up to competition. But at the same time, the committee felt the need to exercise caution as any failure on the part of new players could ruin the public confidence in the industry. Hence, it was decided to allow competition in a limited way by stipulating the minimum capital requirement of Rs.100 crores. The committee felt the need to provide greater autonomy to insurance companies in order to improve their performance and enable them to act as independent companies with economic motives. For this purpose, it had proposed setting up an independent regulatory body- The Insurance Regulatory and Development Authority.

IMPORTANT MILESTONES IN THE HISTORY OF INDIAN INSURANCE INDUSTRY

♣ 1993 Malhotra Committee established

♣ 1994 Recommendations of the Malhotra Committee published

♣ 1995 Mukherjee Committee established

♣ 1996 Setting up of (interim) Insurance Regulatory Authority (IRA)recommendations of the IRA ♣ 1997 Mukherjee Committee Report submitted but not made public

♣ 1997 The government gives greater autonomy to Life Insurance Corporation, General Insurance Corporation, and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the infrastructure sector

♣ 1998 The cabinet decides to allow 40 percent foreign equity in private insurance companies—26 percent to foreign companies and 14 percent to non-resident Indians and Foreign Institutional Investors

♣ 1999 The Standing Committee headed by MuraliDeora decides that foreign equity in private insurance should be limited to 26 percent. The IRA bill is renamed the Insurance Regulatory and Development Authority Bill

♣ 1999 Cabinet clears Insurance Regulatory and Development Authority Bill

♣ 2000 President gives assent to the Insurance Regulatory and Development Authority Bill

What is Insurance?

Insurance is a means of protection from financial loss. It is a form of Risk Management primarily used to Hedge against the risk of a Contingent, Uncertain loss. (or)An arrangement by which a company or the state undertakes to provide a guarantee of compensation for specified loss, damages, illness or death in return for payment of a specified premium.

Dictionary of business and Finance defines "Insurance as a form of contract agreement under which one party agrees in return for a consideration to pay an agreed amount of money to another party to make good a loss, damage or injury to something of value in which the insured has a interest as a result of some uncertain event.

Meaning of Insurance – Insurance means a promise of compensation for any potential future losses. It facilitates financial protection against by reimbursing losses during crisis. There are different insurance companies that offer wide range of insurance options and an insurance purchaser can select as per own convenience and preference. Several insurances provide comprehensive coverage with affordable premiums. Premiums are periodical payment and different insurers offer diverse premium options. The periodical insurance premiums are calculated according to the total insurance amount. In other words, a promise of compensation for specific potential future losses in exchange for a periodic payment. Insurance is designed to protect the financial well-being of an individual, company or other entity in the case of unexpected loss. Some forms of insurance are required by law, while others are optional. Agreeing to the terms of an insurance policy creates a contract between the insured and the insurer.

In exchange for payments from the insured (called premiums), the insurer agrees to pay the policy holder a sum of money upon the occurrence of a specific event. In most cases, the policy holder pays part of the loss (called the deductible), and the insurer pays the rest. Some important definitions of insurance are as follows: Insurance is cooperative form of distributing a certain risk over a group of persons who are exposed to it. Ghosh and Agarwal Insurance is an instrument of distributing the loss of few among many. Disnadle The collective bearing of risk is insurance. W. Beverideges

Main Branches of Insurance

- Accident Insurance

- Fire Insurance

- Holiday and Travel Insurance

- Household Insurance

- Liability Insurance

- Livestock and Bloodstock Insurance

- Marine Insurance

- Motor Insurance

- Pluvial Insurance

- Private Health Insurance

- Property Insurance

- Reinsurance

- Retrocession etc.

Basic Functions of Insurance

1.Primary Functions

2.Secondary Functions

3.Other Functions

1.Primary functions of insurance

(a) Providing protection — The elementary purpose of insurance is to allow security against future risk, accidents and uncertainty. Insurance cannot arrest the risk from taking place, but can for sure allow for the losses arising with the risk. Insurance is in reality a protective cover against economic loss, by apportioning the risk with others.

(b) Collective risk bearing — Insurance is an instrument to share the financial loss. It is a medium through which few losses are divided among larger number of people. All the insured add the premiums towards a fund and out of which the persons facing a specific risk is paid.

(c) Evaluating risk — Insurance fixes the likely volume of risk by assessing diverse factors that give rise to risk. Risk is the basis for ascertaining the premium rate as well. Provide Certainty — Insurance is a device, which assists in changing uncertainty to certainty.

2. Secondary functions of insurance

(a) Preventing losses — Insurance warns individuals and businessmen to embrace appropriate device to prevent unfortunate aftermaths of risk by observing safety instructions; installation of automatic sparkler or alarm systems, etc. '

(b) Covering larger risks with small capital — Insurance assuages the businessmen from security investments. This is done by paying small amount of premium against larger risks and dubiety. '

(c)Helps in the development of larger industries — Insurance provides an opportunity to develop to those larger industries which have more risks in their setting up.

3.Other functions of insurance

(a) Is a savings and investment tool — Insurance is the best savings and investment option, restricting unnecessary expenses by the insured. Also, to take the benefit of income tax exemptions, people take up insurance as a good investment option.

(b) Medium of earning foreign exchange — Being an international business, any country can earn foreign exchange by way of issue of marine insurance policies and a different other way.

(c) Risk Free trade — Insurance boosts exports insurance, making foreign trade risk free with the help of different types of policies under marine insurance cover. Insurance provides indemnity, or reimbursement, in the event of an unanticipated loss or disaster.

Importance of Insurance

I .Individual aspects:

(a) Security for health and property

(b) Encourage savings

(c)Encourage the habit of forced thrift

(d) Provide mental peace

(e) Increase efficiency

(f) Provision for the future

(g) Awareness for the future

(h) Credit Facility

(i) Tax exemption

(j) Contribution to the conservation of health

(k) Cover for legal liability

(l) Security to the mortgaged property

(m)Poster economic independence

II Economic aspects

1. Safety against risk

2. Protection to employees

3. Basis of Credit

4. Protection from the loss of key man

5. Encourage loss prevention methods

6. Reduction of cost

7. Promote foreign trade

8. Development of big industries

9. Increase in efficiency

III Social aspects

1. Stability in family life

2. Development of employment opportunity

3. Encourage alertness

4. Contributes to the development of basic facilities

IV National aspects

1. Increase the national savings

2. Helps in development opportunities

3. Develops the money market

4. Earns foreign exchange

5. Capitalizes the savings

Need for Insurance

1. Removal of uncertainties: Insurance company takes the risks of large but uncertain losses in exchange for small premium. So it gives a sense of security, which is real gift to the business man. If all uncertainty could be removed from business, income would be sure. Insurance removed many uncertainties and to that extent is profitable.

2. Stimulant of business enterprise: Insurance facilitates to maintain the large size commercial and industrial organizations. No large scale industrial undertaking could function in the modern world without the transfer of many of its risks to insurer. It safeguards capital and at the same time it avoids the necessity on the part of industrialists. They are therefore free to use their capital as may seem best.

3. Promotion of saving: Saving is a device of preparing for the bad consequences of the future. Insurance policy is often very suitable way of providing for the future. This type of policy is found particularly in life assurance. It promotes savings by making it compulsory which has a beneficial effect both for the individual and nation.

4. Correct distribution of cost: Insurance helps to maintain correct distribution of cost. Every business man tries to pass on to the consumer all types of costs including accidental and losses also. In the various fields of Insurance such losses are correctly estimated keeping in view a vast number of factors bearing on them. In the absence of insurance these losses and costs would be assessed and distributed only by guess work.

5. Source of credit: Modem business depends largely on credit; insurance has contributed ‘a lot in this regard. A life insurance policy increases the credit worthiness of the assured person because it can provide funds for repayment if he dies. Credit extension is also obtained by means of various kinds of property insurance. A businessman who stock of goods has been properly insured can get credit easily. Similarly, marine insurance is an essential requirement for every transaction of import and export.

6. Reduction of the chances of loss: Insurance companies spend large sums of money with a view to finding out the reasons of fire accidents, theft and robbery and suggest some measures to

prevent them. They also support several medical programs in order to make the public safety minded. Without such losses preventive activities of insurance companies, the chances of loss would have been greater than they are at present days.

7. Solution of social problems: Insurance serves as a useful device for solving complex social problems e.g. compensation is available to victims of Industrial injuries and road accident while the financial difficulties arising from old age, disability or death are minimized. It thus enables many families and business units to continue intact even after a loss.

8. Productive utilization of fund: Insurer accumulates large resources from the various insurance funds. Such resources are generally invested in the country, either in the public or private sector. This facilitates considerably in overall development of the economy.

9. Insurance as an investment: A life policy is a combination of protection and investment which serves a useful purpose. The premium that is paid by insured goes on accumulating in a fund every year. The sum so accumulated by the insurance company earns interest. Under life assurance a person may also invest his capital in an annuity which will pay him an income every year till death. Therefore, insurance may be regarded as an investment.

10. Promotion of international trade: The growth of the international trade of the country has been greatly helped by shifting of risk to insurance company. A ship sailing in the sea faces some misfortune. A fire breaks out and burns to ashes all the merchandise of a business man. But insurance is one of the devices by which these risks may be reduced or eliminated. So industrialists and exporter may devote their full attention toward the promotion of business which may increase the export activities.

11. Removing fear: Insurance helps to remove various types of fear from the mind of the people. The insured is secured in the knowledge that the protection of the insurance fund is behind him if some sad event happens. It thus creates confidence and eliminates worries which are difficult to evaluate, but the benefit is very real.

12. Favourable allocation of factors of production: Insurance also helps in achieving favourable allocation of the factors of production. Capital is usually shy in the risky business. People hesitate to invest their capital where financial losses are great. If protection is provided against

these risks by means of insurance, several investors will become ready to invest their funds in those fields.

13. Growth of Business competition: Insurance enables the small business units to compete upon more equal terms with the bigger organization. Without insurance it would have been impossible to undertake the risks themselves. On the other side bigger organization could absorb, their losses due to great financial strength. Moreover insurance removes uncertainty of financial losses arising out of the certain causes. It thus increases knowledge which is one of the most important preconditions of perfect competition.

14. Employment opportunity: Insurance provides employment opportunity to jobless persons which is helpful for the improvement and progress of social condition

15. Miscellaneous benefits: Following are some other miscellaneous benefits offered by insurance: (a) It establishes the relation between the employed and employer by providing various facilities i.e. group life insurance, social security scheme, retirement income plan, and workman's compensation insurance.

(b) Insurance creates the confidence and sense of security among the policy holder.

(c) Insurance company provides valuable services of skilled and expert persons to industries and business in order to eliminate various risks.

(d) It promotes economic growth and development. This would be impossible in the Notes absence of insurance.

(e) It contributes to the efficiency of business and also industrial and commercial executives.

(f) Security of dependents is made possible through life assurance. It gives relief to helpless families after the death of the earning member of the family.

Importance of Insurance in Business

1. Theft: A new business is a big target for thieves. New computers, furniture and other office equipment are worth more at a pawn or chop shop than older equipment. Even older businesses that have just undergone renovations and upgrades are a target. Replacement insurance protects a

business in the event of stolen equipment, replacing the missing items and paying for repairs from damage caused by the invasion.

2. Liability: If a customer slips and falls while on your business premises or your product has a defect that injures a customer and you do not have insurance, this could spell the end of your business. If a company car is involved in an accident and someone is injured, that could be disastrous as well. Business liability insurance covers accidents that occur on the business premises, product defects and mishaps that occur during normal business operations on and off premises.

3. Level of Coverage: How much insurance to carry will depend on your industry, the business structure and the amount of assets your business has.Example: A law firm partnership that owns the building in which it is housed might need more insurance than a jewellery designer operating out of her home.

4. Litigation: We live in a litigious society. Even with the Texas tort reform legislation passed in 2003, which capped judgments and sought to eliminate frivolous lawsuits, businesses are sued by individuals and other businesses for a variety of reasons, legitimate and otherwise. Even the most frivolous lawsuit can be costly to defend; and in the event business ends up on the losing end of a lawsuit, the awarded damages could exceed the business's capabilities to pay. Depending on the business entity structure, not only the business assets, but also the owner's personal assets could be at risk. Business liability insurance, malpractice insurance or professional liability insurance will cover at least part, if not all, of any damages.

5. Catastrophic Loss: Business insurance protects a business from closing due to a catastrophic loss. Fires, floods, hurricanes and tornadoes have been the end of many businesses in Texas, as elsewhere. When a company carries insurance against these types of losses, closure and loss are only temporary instead of permanent. Companies should always consider business interruption insurance, a rider on their business insurance policy, to ensure continued cash flow for the duration of a closure due to a natural disaster.

6. Personal Injury or Illness: Business owners should have personal insurance as well. Medical insurance will ensure medical bills incurred due to an illness or injury will not wipe out a business's assets.

Nature of Insurance

1. Risk Sharing and Risk Transfer: Insurance is a device to share the financial losses, which might occur to an individual or his family on the happening of a specified event. The event may be death of the earning member of the family in the case of life insurance, marineperils in marine insurance, fire in fire insurance and other certain events in miscellaneous insurance, e.g., theft in burglary insurance, accidents in motor insurance, etc. The loss arising from these events if insured are shared by all the insured in the form of premium which they have already paid in advance. Hence, the risk is transferred from one individual to a group.

2. Co-operative Device: A group of persons who agree to share the financial loss may be brought together voluntarily or through publicity or through solicitations of the agents. An insurer, by insuring a large number of persons, is able to pay the amount of loss. Like all co-operative devices, there is no compulsion here on anybody to purchase the insurance policy (third party liability insurance in case of a vehicle owner is an exception).

3. Calculates Risk in Advance: The risk is evaluated on the basis of probability theory before insuring since the premium payable on a policy is to be determined. Probability theory is that body of knowledge, which is concerned with measuring the likelihood that something will happen and making estimates on the basis of this likelihood.

4. Payment of Claim at the Occurrence of Contingency: The payment is made on happening of a certain insured contingency. It is true for all non-life insurances that payment will be made on the happening of the specified contingency only. The life insurance claim is a certainty, because the contingency of death or the expiry of term will certainly occur and the payment is certain. Similarly, in certain types of life policies, payment is not certain due to uncertainty of a particular contingency within a particular period. Example: In term-insurance the payment is made only when death of the assured occurs within the specified term, may be one or two years. Similarly, in pure endowment, payment is made only at the survival of the insured at the Notes expiry of the period.

5. Amount of Payment: The amount of payment depends upon the value of loss suffered due to the happening of that particular insured risk, provided insurance is there up to that amount. In life insurance, the purpose is not to make good the financial loss suffered. Moreover, one cannot

estimate the value of a human being. A person is no doubt precious to his/her family. The insurer promises to pay a fixed sum on the happening of an event i.e. death or permanent disability. The amount of loss at the time of contingency is immaterial in life insurance. But in the property and general insurances, the amount of loss, as well as the happening of loss, is required to be proved.

6. Larger Number of Insured Persons: The price of insurance is basically linked to the cost of claims, which is only known subsequently. In the beginning, it is an unknown factor and an estimate is made on the basis of past claims experience or empirical data about the longevity of human beings, accidents and their financial consequences. Generally, the past claims experience is repeated with minor variations if a large number of risks are collected. This once again operates by the law of large numbers and is one reason why insurance companies want to do as much business as possible.

7. Insurance must not be confused with Charity or Gambling: The uncertainty is changed into certainty by insuring property and life because the insurer promises to pay a definite sum at damage or death. In the absence of insurance, the property owner could at the best, practice only some form of self-insurance, which may not give him absolute certainty. A family is protected against losses on death and damage with the help of insurance. From the point of view of an insurance company, the insurance contract is essentially non speculative. In fact, no other business operates with greater certainties. From the insured's point of view, too, insurance is also not gambling. Failure of taking insurance, however, amounts to gambling because the uncertainty of loss is always looming on the head. One could also say that the insurance is just the opposite of gambling. In gambling, by bidding, the person exposes himself to risk of losing, but the insured safeguards himself through insurance, and may suffer loss only if he is not insured.

Types of Insurance

The following are the various types of insurance businesses recognised under the Insurance Act, 1938:

(a) Life insurance business

(b) General insurance business (also called "Non-Life" business).This is sub divided into the following 3 sub-categories:

1. Fire insurance business

2. Marine insurance business

3. Miscellaneous insurance business

(I) Life Insurance Policies - Life Insurance refers to a policy or cover whereby the policyholder can ensure financial freedom for his/her family members after death. Suppose you are the sole earning member in your family, supporting your spouse and children.

In such an event, your death would financially devastate the whole family. Life insurance policies ensure that such a thing does not happen by providing financial assistance to your family in the event of your passing.

Types of Life Insurance Policies

A. Term Insurance Term Insurance is the simplest form of life insurance. It pays only if death occurs during the term of the policy, which is usually from one to 30 years. Most term policies have no other benefit provisions. Thus, the features of Term Insurance Plan are as follows: ¾ It is a pure life cover i.e. in the event of death of the insured the sum assured is paid to the family (beneficiaries). ¾ in case the insured survives the policy term, there is no return of premium. ¾ There is no investment component in a term plan Example Mr. X took a term insurance plan from ABC Life Insurance Co. Ltd. for a period of 20 years and sum assured of Rs.10lacs. In the event of his death, Rs.10lacs would be paid to Mrs. X. If Mr. X survives the term, there will be no return of premium.

B. Whole Life Insurance Under this policy premiums are paid throughout life and the sum insured becomes payable only at the death of the insured. The policy remains in force throughout the life of the assured and he continues to pay the premium till his death. This is the cheapest policy as the premium is to be paid till the death of the Insured. This is the cheapest policy as the premium charged is the lowest under this policy. This is also known as 'ordinary life policy'. This policy is suitable to persons who want to make bequeathments for charitable purposes and to provide for their families after their death.

C. Endowment Plans An endowment policy is a saving linked Insurance policy with a specific maturity date. Under this policy the sum assured becomes payable if the assured reaches a particular age or after the expiry of a fixed period called the endowment period or at the death of the assured whichever is earlier. The premium under this policy is to be paid up to the maturity of the policy i.e. the time when the policy becomes payable. Premium would be little higher in case of this policy than the whole life policy. This is a very popular policy these days as it serves the dual purpose securing the family and /or saving for the retirement.

D. Children Policies: These types of policies are taken on the life of the parent/children for the benefit of the child. By such policy the parent can plan to get funds when the child attains various stages in life. Some Insurers offer waiver of premium in case of unfortunate death of the parent/proposer during the term of the policy.

E. Annuity/ Pension Plans: When an employee retires, he no longer gets his salary while his need for a regular income continues. Retirement benefits like Provident Fund and gratuity are paid in lump sum which are often spent too quickly or not invested prudently with the result that the employee finds himself without regular income in his post - retirement days. Pension is therefore an ideal method of retirement provision because the benefit is in the form of regular income. It is wise to provide for old age, when we have regular income during our earning period to take care of rainy days. Financial independence during old age is a must for everybody. This issue of having regular income during old age is taken care off by Annuity Policies. It is a policy under which the insured amount is payable to the assured by monthly or annual instalments after he attains a certain age. The assured may pay the premium regularly over a certain period or he may pay the premium regularly over a certain period or he may a lump sum of money at the outset. These policies are useful to persons who wish to provide a regular income for themselves and their dependents.

F. Money Back Policies Money Back Plan is a special type of Life Insurance Policy. Under this policy the money comes back to the Life Insured after specified intervals of time as Survival Benefits. However, if the Life insured dies during the term of the policy then the death benefit will be paid to the nominee and the policy would be terminated and no further money would be paid to him at regular intervals. Thus a money back policy is an endowment policy with liquidity benefit. The maturity benefit comes in instalments instead of Lump Sum at the end of the term of the policy. These benefits received at regular intervals are called Survival Benefits. Each installment is a percentage of sum assured. The remaining bit comes from maturity benefit at the end of the term of the policy. Illustration Bhakt Sethi has opted for a Money Back Life Insurance Policy. His plan has a Sum Assured of 5 lakhs for a policy term of 25 years. He would need to pay premiums for 25 years. And he would get back a part of the Sum Assured at regular intervals. For example, for a policy of 25 years, he would get 15% of Sum Assured after the 5th, 10th, 15th and 20th year of the policy i.e. he gets 15 X 4 = 60% of the Sum Assured as Survival Benefit. On Maturity of the policy he would get the remaining 40% of the Sum assured.

G. Group Insurance- Group insurance refers to the life insurance protection to group of persons. Opting for group insurance provides the advantage of a standardized cover to the group at competitive rates. They are suitable for large part of population who cannot afford individual life cover. Further members of an eligible group who otherwise cannot be insured can benefit through group insurance. Once the conditions of group insurance are satisfied, members can get life insurance at significantly lower rates compared to individual policies. The group may consist of employees, doctors, lawyers, credit societies etc. A group insurance scheme can be either

a. Contributory scheme – In this case the premium on the group life insurance policy is paid by both the employer and the employee.

b. Non-Contributory scheme – In this case premium is paid by the employer or the main agency fully.

H. Unit Linked Insurance Plan Unit linked insurance plans (ULIPs) aim to serve both the protection and investment objectives of investing. ULIP’s are subject to capital market risks.

Objectives of Life Insurance

Life Insurance is a financial cover for a contingency or risk linked with human life such as loss of life by death, disability, accident, retirement etc. Thus the risk to human life is due to natural factors or causes related to various types of accidents. When human life is lost or a person is disabled permanently or temporarily there is a loss of income to the entire household. It is not possible to value human life rather it would be more appropriate to say that it is beyond any value. However,a method to determine loss would be to assess the same on the basis of loss of income in the future years, also known as Human Life Value.

Thus Life Insurance policies provide for a definite amount of money to be paid by the Insurer in the event the Insured dies during the term of the policy. Thus the essential features of life insurance can be summed up as under:

- It is a contract relating to human life.

- There need not be an express provision that payment is due on the death of a person.

- A definite agreed money known as premium needs to be paid for starting a Life Insurance Contract/Policy.

- The contract provides for payment of lump sum money

- The amount is paid at the expiration of a certain period or on the death of a person.

Advantages of Life Insurance

Life Insurance provides dual benefits to the persons taking such insurance. These dual benefits are savings and security. The following factors explain as to why this investment tool should be a part of one's financial plans.

A. Risk Cover Life is today full of uncertainties. In this scenario Life Insurance ensures that the loved ones of the Insured continue to enjoy good quality of life against any unforeseen circumstances

B. Planning Life Stage Needs Life Insurance not only provides for financial support in the event of untimely death but also acts as a long-term investment. One can meet one's goals, be it children's education, their marriage, building one's dream home or planning a relaxed retired life.

C. Habit of Saving Life Insurance is a long-term contract whereas policy holder one has to pay a fixed amount at specified periods. This builds the habit of Long term savings. Regular Savings over a long period ensures that a decent corpus is built to meet various needs at different stages of life.

D. Safety of Investment The investment made in Life Insurance is quite safe as Life Insurance is a highly regulated sector. The body that regulates Insurance Sector in India is called IRDA (Insurance Regulatory and Development Authority)

E. Liquidity Life Insurance provides good liquidity to the Policy Holder as they have the option of taking loan against their policy. Thus when there is an urgent need of funds, the insured can avail the facility of loan against his policy which will, however, depend upon the surrender value of the Policy.

F. Tax Benefits The premiums paid for life insurance policies and the amounts received in the event of death or on maturity of the said policy attract tax benefits.

II.GENERAL INSURANCE POLICY

- A policy or agreement between the policyholder and the insurer which is considered only after realization of the premium.
- The premium is paid by the insurer who has a financial interest in the asset covered.
- The insurer will protect the insured from the financial liability in case of loss.

How does the concept of General Insurance work?

Insurance is a concept that applies to a large group of people which may suffer the same risk in the same conditions or region. The money collected as the premium can be called as a pool and when anyone faces a loss, the person is paid from that pool.

Still perplexed at how does a general insurance policy come into play? Consider that your mother suffered a heart attack suddenly and she needs a transplant. At the same time, your daughter’s college fee was due. It definitely is a huge expense to be made at the same time and none can be preferred over the other. In this time of stress, the family’s health insurance policy can save your burden and the fees can be paid from the savings. A General Insurance Policy here works to save your burden for money.

Why do we need General Insurance?

Imagine you're driving back home in your car and suddenly, a taxi hits you from behind. Your car has a dent and its bumper has come off too. Now you need about Rs. 2000/- for the dent and Rs.7500/- for the bumper to be able to fix it all.

A car insurance policy, in this case, will play well. You can get the amount reimbursed under the insurance policy. Your car is the asset here in which you have a financial interest. But remember, an insurance policy will pay only as per its predefined conditions.

(a) Fire Insurance

Fire insurance pays or compensates for the damages caused to your property or goods due to fire.It covers the replacement, reconstruction or repair expenses of the insured property as well as the surrounding structures.It also covers the damages caused to a third-party property due to fire.In addition to these, it takes care of the expenses of those whose livelihood has been affected due to fire.

Types of fire insurance

Some of the common types are:

Valued policy	The insurer firsts value the property and then undertakes to pay compensation up to that value in the case of loss or damage.
Floating policy	It covers the damages to properties lying at different places.
Comprehensive policy	This is known as an all-in-one policy.It has a wide coverage and includes damages due to fire, theft, burglary, etc.
Specific policy	This covers you for a specific amount which is less than the real value of the property.

(b) Motor Insurance

Motor Insurance refers to policies that offer financial assistance in the event of accidents involving your car or bike. Motor insurance can be availed for three categories of motorised vehicles, including:

- Car Insurance - Personally owned four-wheeler vehicles are covered under such a policy.

- Two-wheeler Insurance - Personally owned two-wheeler vehicles, including bikes and scooters, are covered under these plans.
- Commercial Vehicle Insurance - If you own a vehicle that is used commercially, you need to avail insurance for the same. These policies ensure that your business automobiles stay in the best of shapes, reducing losses significantly.

Types of Motor Insurance Policies

Based on the extent of cover or protection offered, motor insurance policies are of three types, namely:

- **Third-Party Liability** - This is the most basic type of motor insurance cover in India. It is the minimum mandatory requirement for all motorised vehicle owners, as per the Motor Vehicles Act of 1988. Due to the limited financial assistance, premiums for such policies also tend to be low. These insurance plans only pay the financial liability to the third-party affected in the said mishap, ensuring that you do not face legal hassle due to the accident. They, however, do not offer any financial assistance to repair the policyholder's vehicle after accidents.
- **Comprehensive Cover** - Compared to the third-party liability option, comprehensive insurance plans offer better protection and security. Apart from covering third party liabilities, these plans also cover the expenses incurred for repairing the damages to the policyholder's own vehicle due to an accident. Additionally, comprehensive plans also offer a payout in case your vehicle sustains damage due to fire, man-made and natural calamities, riots and others such instances. Lastly, you can recover your bike's cost if it gets stolen, when you have a comprehensive cover in place. One can also opt for several add-ons with their comprehensive motor insurance policy that can make it better-rounded. Some of these add-ons include zero depreciation cover, engine and gear-box protection cover, consumable cover, breakdown assistance, etc.
- **Own Damage Cover** - This is a specialized form of motor insurance, which insurance companies offer to consumers. Further, you are eligible to avail such a plan only if you purchased the two-wheeler or car after September 2018. The vehicle must be brand new and not a second-hand one. You should also remember that you can avail this standalone own damage cover only if you already have a

third party liability motor insurance policy in place. With own damage cover, you basically receive the same benefits as a comprehensive policy without the third-party liability portion of the policy.

Benefits of Motor Insurance Policies

Cars and bikes are increasingly more expensive with each passing day. At such a time, staying without proper insurance can lead to severe monetary losses for the owner. Listed below are some advantages of purchasing such a plan.

- **Prevents Legal Hassle** - Helps you avoid any traffic fines and other legalities that you would otherwise need to bear.
- **Meets All Third-Party Liability** - If you injure a person or damage someone's property during a vehicular accident, the insurance policy helps you meet the monetary losses, effectively.
- **Financial Assistance to Repair Your own Vehicle** - After accidents, you need to spend considerable sums on repairing your own vehicle. Insurance plans limit such out of pocket expenses, allowing you to undertake repairs immediately.
- **Theft/loss cover** - If your vehicle is stolen, your insurance policy will help you reclaim a portion of the car/bike's on-road price. You can expect similar assistance if your vehicle is damaged beyond repair due to accidents.

Additionally, individuals who own a commercial car/two-wheeler can also avail tax benefits if they pay premiums for that vehicle.

(c) Health Insurance

Health insurance refers to a type of general insurance, which provides financial assistance to policyholders when they are admitted to hospitals for treatment. Additionally, some plans also cover the cost of treatment undertaken at home, prior to a hospitalization or after discharge from the same.

With the rising medical inflation in India, buying health insurance has become a necessity. However, before proceeding with your purchase, consider the various types of health insurance plans available in India.

Types of Health Insurance policies

There are eight main types of health insurance policies available in India. They are:

- **Individual Health Insurance** - These are healthcare plans that offer medical cover to just one policyholder.
- **Family Floater Insurance** - These policies allow you to avail health insurance for your entire family without needing to buy separate plans for each member. Generally, husband, wife and two of their children are allowed health cover under one such family floater policy.
- **Critical Illness Cover** - These are specialized health plans that provide extensive financial assistance when the policyholder is diagnosed with specific, chronic illnesses. These plans provide a lump-sum payout after such a diagnosis, unlike typical health insurance policies.
- **Senior Citizen Health Insurance** - As the name suggests, these policies specifically cater to individuals aged 60 years and beyond.
- **Group Health Insurance** - Such policies are generally offered to employees of an organization or company. They are designed in such a way that older beneficiaries can be removed, and fresh beneficiaries can be added, as per the company's employee retention capability.
- **Maternity Health Insurance** - These policies cover medical expenses during pre-natal, post-natal and delivery stages. It covers both the mother as well as her newborn.
- **Personal Accident Insurance** - These medical insurance policies only cover financial liability from injuries, disability or death arising due to accidents.
- **Preventive Healthcare Plan** - Such policies cover the cost of treatment concerned with preventing a severe disease or condition.

Benefits of Health Insurance

After assessing the various kinds of health insurance available, you must be wondering why availing such a plan is essential for you and your loved ones. Look at the reasons listed below to understand why.

- **Medical Cover** - The primary benefit of such insurance is that it offers financial coverage against medical expenditure.

- **Cashless Claim** - If you seek treatment at one of the hospitals that have tie-ups with your insurance provider, you can avail cashless claim benefit. This feature ensures that all medical bills are directly settled between your insurer and hospital.
- **Tax Benefits** - Those who pay health insurance premiums can enjoy income tax benefits. Under Section 80D of the Income Tax Act one can avail a tax benefit of up to Rs.1 Lakh on the premium payment of their health insurance policies.

(d) Travel Insurance

When talking about the different types of insurance policies, one must not forget to learn more about travel insurance plans. Such policies ensure the financial safety of a traveller during a trip. Therefore, when compared to other insurance policies, travel insurance is a short-term cover.

Depending on the provider you choose, travel insurance may offer financial aid at various times, such as during loss of baggage, trip cancellation and much more. Here is a look at some of the different types of travel insurance plans available in the country:

- **Domestic Travel Insurance** - This is the kind of travel insurance policy that safeguards your finances during travels within India. However, if you plan to step outside the country for a vacation, such a policy would not offer any aid.
- **International Travel Insurance** - If you are stepping out of the country, ensure you pick an international travel insurance plan. It allows you to cover the unforeseen expenses that can arise during your trip like medical emergencies, baggage loss, loss of passport, etc.
- **Home Holiday Insurance** - When you are travelling with family, your home remains unguarded and unprotected. Chances of burglary are always significant, which may lead to significant losses. Thankfully, with home holiday insurance plans, which are often included within travel policies, you are financially protected from such events as well.

Benefits of Travel Insurance

The following aspects are covered under travel insurance plans:

- **Cover Flight Delay** - Flight delays or cancellations can lead to significant losses for the passenger. If you buy travel insurance, you can claim such financial losses from the insurer.

- **Baggage Loss/Delay** - Travel insurance lets you claim monetary assistance if there is a delay or you happen to lose your luggage during the trip. With this amount, you can purchase some of the necessary items.
- **Reclaim Lost Travel Documents** - Visa and passport are essential documents during an international trip. Opting for international travel insurance ensures that you have the necessary financial backing to reapply for interim or replacement documents as and when necessary.
- **Trip Cancellation Cover** - A sudden death in the family or a medical emergency may play spoilsport with your travel arrangements. Thankfully, international travel insurance plans support trip cancellations in such events. You can claim financial assistance to pay penalties and cancellation charges for flights, hotels, etc.

(e) **Property Insurance**- Any building or immovable structure can be insured through property insurance plans. This can be either your residence or commercial space. If any damage befalls such a property, you can claim financial assistance from the insurance provider. Keep in mind that such a plan also financially safeguards the content inside the property.

Types of Property Insurance in India

Here are some types of property insurance policies available in India:

- **Home Insurance** - With such a policy, you remain free from all financial liabilities that may arise from damage to your home or contents inside due to fires, burglaries, storms, earthquakes, explosions and other events.
- **Shop Insurance** - If you own a shop, which acts as a source of income for you, it is integral to protect yourself from financial liability arising from the same. Whether the liability occurs due to natural calamities or due to accidents, with these plans, you can immediately undertake repairs to the shop.
- **Office Insurance** - Another type of property insurance policy, office insurance ensures that the office building and all the equipment inside are significantly protected in the event of unforeseen events. Generally, office spaces include expensive equipment, such as computers, servers and much more. Thus, availing these plans is essential.

- **Building Insurance** - If you own a complete building, opting for home insurance may not be sufficient. Instead, you can purchase building insurance to cover the entire premises.

Benefits of Property Insurance

- **Protection against Fires -** While the insurance policy cannot prevent fires, it can prevent financial liabilities from such an event.
- **Burglaries** - If your property exists in an area prone to theft and burglaries, such a policy is vital to ensure financial security.
- **Floods** - In certain parts of India, floods are common. These floods can ravage your property leading to substantial losses. Property insurance also protects against such events.
- **Natural Calamities -** The plan also offers financial aid against damage arising from earthquakes, storms and more.

Rebuilding or renovation of a property is immensely expensive. Thus, property insurance policies are the best option to ensure long-term financial health.

(f) Mobile Insurance

Owing to the rising price of mobile phones and their several applications today, it has become imperative to insure the device. Mobile insurance allows you to reclaim money that you spend on repairing your phone in the event of accidental damage.

Further, you can also claim the same in case of phone theft, making it easier to replace the handset with a new phone.

Benefits of Mobile Insurance

Mobile insurance policies are extremely beneficial, especially for those who own a premium smartphone.

- **Comprehensive protection for new devices** - The value of phones tends to decline with time. Thus, when the handset is new, phone insurance can help safeguard its significant value.

- **Coverage against Damage to Screen** - If you accidentally damage the smartphone screen, which is one of the most important parts of such devices, your insurance plan will pay for the repair expenses.
- **Theft or Robbery of Smartphone** - Nothing is worse than buying your dream smartphone and losing it due to theft or burglary. Well, phone insurance will help you afford a replacement handset if such an unfortunate thing happens.

Some insurers may not allow you to buy insurance for the smartphone after a month or two passes from the purchase of the handset.

(g) Cycle Insurance

Bicycles are valuable properties in India as some people rely on these vehicles for their daily commute. A cycle insurance policy ensures that you have access to necessary funds should your bicycle undergo accidental damage or theft. It saves your out of pocket expenses, while also ensuring immediate repairs to the vehicle.

Benefits of Cycle Insurance

The advantages of availing such an insurance policy are:

- **Worldwide Coverage** - Depending on the insurance provider, cycle insurance policies provide financial assistance regardless of where your bicycle undergoes damage. Even if you meet with a cycling accident in a different country, such a plan will offer aid.
- **Protection against Fires and Riots** - If your bicycle sustains damage due to accidental fires and/or rioting, insurance policies will provide the necessary financial assistance to repair or undo the damage.
- **Accidental Death Benefit** - If you pass away due to bicycle accidents, the insurance policy for the cycle would offer a lump-sum payout to your surviving family members.

Regardless of your cycle's price, opting for insurance can reduce your financial liabilities significantly.

(h) Bite-Size Insurance

Bite-sized insurance policies refer to sachet insurance plans that minimize your financial liability for a very limited tenure, generally up to a year.

These insurance plans allow you to protect your finances against specific damage or threats.

For instance, particular bite-sized insurance may offer accidental cover of Rs. 1 Lakh for a year. You can choose this policy when you think you might be particularly susceptible to accidental injuries.

Another example is insurance cover for specific diseases. For instance, if your area is prone to water-borne diseases, such as cholera, you can pick a policy that covers cholera treatment and all associated costs for a 1-year period.

Benefits of Bite-sized Insurance

The primary benefit of bite-size insurance policies is that it allows you to avail financial protection at very limited prices.

The premiums are so low that it hardly makes any impact on your overall monthly expenditures. In comparison, the sum insured is significant.

Principles of Insurance

The business of insurance aims to protect the economic value of assets or life of a person. Through a contract of insurance, the insurer agrees to make good any loss on the insured property or loss of life (as the case may be) that may occur in course of time in consideration for a small premium to be paid by the insured. Apart from the above essentials of a valid contract, insurance contracts are subject to additional principles.

These are:

1. Principle of Utmost good faith

2. Principle of Insurable interest

3. Principle of Indemnity

4. Principle of Subrogation

5. Principle of Contribution

6. Principle of Proximate cause

7. Principle of Loss of Minimization

These distinctive features are based on the basic principles of law and are applicable to all types of insurance contracts. These principles provide guidelines based upon which insurance agreements are undertaken. A proper understanding of these principles is therefore necessary for a clear interpretation of insurance contracts and helps in proper termination of contracts, settlement of claims, enforcement of rules and smooth award of verdicts in case of disputes.

1. **Principleof Uberrimae Fidei** (Utmost Good Faith)

• Both the parties i.e. the insured and the insurer should have a good faith towards each other.

• The insurer must provide the insured complete, correct and clear information of subject matter.
• The insurer must provide the insured complete, correct and clear information regarding terms and conditions of the contract.

• This principle is applicable to all contracts of insurance i.e. life, fire and marine insurance. Principle of Uberrimae fidei (a Latin phrase), or in simple English words, the Principle of Utmost Good Faith, is a very basic and first primary principle of insurance.

According to this principle, the insurance contract must be signed by both parties (i.e. insurer and insured) in an absolute good faith or belief or trust. The person getting insured must willingly disclose and surrender to the insurer his complete true information regarding the subject matter of insurance. The insurer's liability gets void (i.e legally revoked or cancelled) if any facts, about the subject matter of insurance are either omitted, hidden, falsified or presented in a wrong manner by the insured.

The principle of Uberrimae fidei applies to all types of insurance contracts.

For example, if any person has taken a life insurance policy by hiding the fact that he is a cancer patient and later on if he dies because of cancer then insurance company can refuse to pay the compensation as the fact was hidden by the insured.

2. Principle of Insurable Interest

• The insured must have insurable interest in the subject matter of insurance.

• In life insurance it refers to the life insured.

• In marine insurance it is enough if the insurable interest exists only at the time of occurrence of the loss.

• In fire and general insurance, it must be present at the time of taking policy and also at the time of the occurrence of loss.

• The owner of the party is said to have insurable interest as long as he is the owner of it.

• It is applicable to all contracts of insurance. The principle of insurable interest states that the person getting insured must have insurable interest in the object of insurance. A person has an insurable interest when the physical existence of the insured object gives him some gain but its non-existence will give him a loss. In simple words, the insured person must suffer some financial loss by the damage of the insured object.

For example: - The owner of a taxicab has insurable interest in the taxicab because he is getting income from it. But, if he sells it, he will not have an insurable interest left in that taxicab. From above example, we can conclude that, ownership plays a very crucial role in evaluating insurable interest. Every person has an insurable interest in his own life. A merchant has insurable interest in his business of trading. Similarly, a creditor has insurable interest in his debtor.

For example, if a person has taken the loan against the security of a factory premises then the lender can take fire insurance policy of that factory without being the owner of the factory because he has financial interest in the factory premises.

3. Principle of Indemnity

• Indemnity means guarantee or assurance to put the insured in the same position in which he was immediately prior to the happening of the uncertain event. The insurer undertakes to make good the loss.

• It is applicable to fire, marine and other general insurance.

• Under this the insurer agreed to compensate the insured for the actual loss suffered. Indemnity means security, protection and compensation given against damage, loss or injury.

According to the principle of indemnity, an insurance contract is signed only for getting protection against unpredicted financial losses arising due to future uncertainties. Insurance contract is not made for making profit else its sole purpose is to give compensation in case of any damage or loss. In an insurance contract, the amount of compensations paid is in proportion to the incurred losses. The amount of compensations is limited to the amount assured or the actual losses, whichever is less. The compensation must not be less or more than the actual damage. Compensation is not paid if the specified loss does not happen due to a particular reason during a specific time period. Thus, insurance is only for giving protection against losses and not for making profit.

However, in case of life insurance, the principle of indemnity does not apply because the value of human life cannot be measured in terms of money.

For example, a person insured a car for 2.5 lakh against damage on an accident case. Due to accident he suffered a loss of 1.5 lakh, then the insurance company will compensate him 1.5 lakh only not the policy amount i.e., 2.5 lakh as the purpose behind it is to compensate not to make profit.

4. Principle of Subrogation

• As per this principle after the insured is compensated for the loss due to damage to property insured, then the right of ownership of such property passes to the insurer.

• This principle is corollary of the principle of indemnity and is applicable to all contracts of indemnity. Subrogation means substituting one creditor for another. Principle of Subrogation is an extension and another corollary of the principle of indemnity. It also applies to all contracts of indemnity. According to the principle of subrogation, when the insured is compensated for the losses due to damage to his insured property, then the ownership right of such property shifts to the insurer. This principle is applicable only when the damaged property has any value after the event causing the damage. The insurer can benefit out of subrogation rights only to the extent of the amount he has paid to the insured as compensation.

For example:- Mr. Arvind insures his house for Rs. 1 million. The house is totally destroyed by the negligence of his neighbor Mr. Mohan. The insurance company shall settle the claim of Mr. Arvind for Rs. 1 million. At the same time, it can file a law suit against Mr. Mohan for Rs. 1.2 million, the market value of the house. If insurance company wins the case and collects Rs. 1.2 million from Mr. Mohan, then the insurance company will retain Rs. 1 million (which it has already paid to Mr. Arvind) plus other expenses such as court fees. The balance amount, if any will be given to Mr. Arvind, the insured.

5. **Principle of contribution**• The principle is corollary of the principle of indemnity. • It is applicable to all contracts of indemnity. • Under this principle the insured can claim the compensation only to the extent of actual loss either from any one insurer or all the insurers. Principle of Contribution is a corollary of the principle of indemnity. It applies to all contracts of indemnity, if the insured has taken out more than one policy on the same subject matter. According to this principle, the insured can claim the compensation only to the extent of actual loss either from all insurers or from any one insurer. If one insurer pays full compensation then that insurer can claim proportionate claim from the other insurers.

For example :- Mr. Arvind insures his property worth Rs. 100,000 with two insurers "AIG Ltd." for `90,000 and "MetLife Ltd." For `60,000. Arvind's actual property destroyed is worth Rs. 60,000, then Mr. Arvind can claim the full loss of `60,000 either from AIG Ltd. or MetLife Ltd., or he can claim `36,000 from AIG Ltd. and `24,000 from Metlife Ltd. So, if the insured claims full amount of compensation from one insurer then he cannot claim the same compensation from other insurer and make a profit. Secondly, if one insurance company pays the full compensation then it can recover the proportionate contribution from the other insurance company.

6. **Principle of Causa Proxima** (NEAREST CAUSE)

• The loss of insured property can be caused by more than one cause in succession to another.

• The property may be insured against some causes and not against all causes.

• In such an instance, the proximate cause or nearest cause of loss is to be found out.

• If the proximate cause is the one which is insured against, the insurance company is bound to pay the compensation and vice versa. Principle of Causa Proxima (a Latin phrase), or in simple english words, the Principle of Proximate (i.e Nearest) Cause, means when a loss is caused by more than one causes, the proximate or the nearest or the closest cause should be taken into consideration to decide the liability of the insurer. The principle states that to find out whether the insurer is liable for the loss or not, the proximate (closest) and not the remote (farest) must be looked into.

For example:- A cargo ship's base was punctured due to rats and so sea water entered and cargo was damaged. Here there are two causes for the damage of the cargo ship - (i) The cargo ship getting punctured because of rats, and (ii) The sea water entering ship through puncture. The risk of sea water is insured but the first cause is not. The nearest cause of damage is sea water which is insured and therefore the insurer must pay the compensation. However, in case of life insurance, the principle of Causa Proxima does not apply. Whatever may be the reason of death (whether a natural death or an unnatural death) the insurer is liable to pay the amount of insurance.

7. Principle of loss minimization

• Under this principle it is the duty of the insured to take all possible steps to minimize the loss to the insured property on the happening of uncertain event. According to the Principle of Loss Minimization, insured must always try his level best to minimize the loss of his insured property, in case of uncertain events like a fire outbreak or blast, etc. The insured must take all possible measures and necessary steps to control and reduce the losses in such a scenario. The insured must not neglect and behave irresponsibly during such events just because the property is insured. Hence it is a responsibility of the insured to protect his insured property and avoid further losses.

For example :- Assume, Mr. Arvind's house is set on fire due to an electric short-circuit. In this tragic scenario, Mr. Arvind must try his level best to stop fire by all possible means, like first calling nearest fire department office, asking neighbours for emergency fire extinguishers, etc. He must not remain inactive and watch his house burning hoping, "Why should I worry? I've insured my house."

DIFFERENTIATION INSURANCE AND GUARANTEE

Insurance is a contract of indemnity whereby Insurer agrees to indemnify, or pay, the insured for certain types of loss while in a contract of guarantee, one party agrees to act on behalf of another should that second party default.

In plain terms, this means that if an individual fails to pay her guaranteed debt or to perform some other duty or obligation, the guarantor, the party who has agreed to act on behalf of another will step in to pay or perform the obligation.

There are two major differences between insurance and guarantees. One difference is that insurance is a direct agreement between the insurance provider and the policyholder, while a guarantee involves an indirect agreement between a beneficiary and a third party, along with the primary agreement between the principal and beneficiary.

A second difference is that insurance policy calculations are based on underwriting and possible loss, while a guarantee is focused strictly on performance or nonperformance. In addition, insurance providers or policyholders can cancel policies with notice, while guarantees often cannot be canceled.

The difference between a contract of Insurance and a contract of guarantee are as given below:

CONTRACT OF INSURANCE	CONTRACT OF GUARANTEE
In a contract of insurance, there are two parties i.e. insurer and insured.	In a contract of Guarantee there are three parties i.e. Main Debtor, Creditor & Surety
Insurance contract is generally cancellable	Contract of Guarantee is Non-Cancellable Insurance premium is based on the probability and quantum of losses
In contract of business, loss cannot be estimated generally so fee is charged for the guarantee service rendered an insurance contract transfers the risk.	There is no transfer of risk in a contract of guarantee

.

Insurance and wager A contract of Insurance, i.e. life, accident, fire, marine, etc. is not a wager though it is performable upon an uncertain event. It is so because; the principle of insurable interest distinguishes insurance from a wagering contract. Insurable interest is the interest which one has in the safety or preservation of the subject matter of insurance. Where insurable interest is not present in insurance contracts, it becomes a wagering contract and is therefore void. The following are the points of distinction between wagering agreements and insurance contracts.

1. A contract of insurance is a contract to make good the loss of property (or life) of another person against some consideration called premium. A wagering agreement is an agreement to pay money or money's worth on the happening of an uncertain event.

2. The parties have no insurable interest in a wagering agreement. But the holder of an insurance policy must have an insurable interest.

3. In wagering agreement, neither party has any interest in happening or non-happening of an event. But in a contract of insurance, both parties are interested in the subject-matter.

4. Contracts of insurance are contracts of indemnity except life insurance contract, which is a contingent contract. But a wagering agreement is a conditional contract.

5. Contract of insurance are based on scientific and actuarial calculation of risks, whereas wagering agreements are a gamble without any scientific calculation of risk.

6. Contracts of insurance are regarded as beneficial to the public and hence encouraged by the State but wagering agreements serve no useful purpose.

7. A contract of insurance is a valid contract where as a wagering agreement is void being expressly declared by law.

DISCLOSURES

The principle of Uberrimae fidei applies to all types of insurance contracts and is a very basic and primary principle of insurance. According to this principle, the insurance contract must be signed by both parties (i.e insurer and insured) in absolute good faith or belief or trust. The person getting insured must willingly disclose and surrender to the insurer all relevant complete true information regarding the subject matter of insurance. The insurer's liability is voidable (i.e legally revoked or cancelled) if any facts, about the subject matter of insurance are either omitted, hidden, falsified or presented in a wrong manner by the insured. The principle forbids either party to an insurance contract, by non-disclosure or mis-representation of a material fact, which he knows or ought to know, to draw the other into the bargain, from his ignorance of that fact and his believing the contrary. The duty of the utmost good faith is implied in insurance contracts because they are entered into by parties who have not the same access to relevant information. In this, they differ from contracts of sale to which the maxim caveat emptor (let the buyer beware) applies. Although the duty rests upon both parties, it is the duty of the proposer which needs to be discussed in some detail for he usually has the advantage of knowing most of the particulars relating to the subject-matter. Until a definite offer to enter into an insurance contract has been unconditionally accepted the duty of the utmost good faith must be strictly observed. The obligation arises again prior to each renewal and, to a limited extent, when the insured desires an alteration in the policy. In the latter case, he must inform the insurer of any fact’s material to the alteration.

MATERIAL FACTS

Material fact is every circumstance or information, which would influence the judgment of a prudent insurer in assessing the risk. Or Those circumstances which influence the insurer’s decision to accept or refuse the risk or which affect the fixing of the premium or the terms and conditions of the contract, must be disclosed. A material fact is one which would have influenced the judgment of a prudent insurer in deciding whether he would accept the risk in whole or in part and, if so, at what amount of premium. The materiality of a fact depends upon the application of this test to the particular circumstances of the case as at the date that the fact should have been communicated. Material facts may have a bearing on the physical hazard or on the moral hazard, or they may show that if a loss occurs the insurer's liability is likely to be greater than would normally be expected.

FACTS, WHICH MUST BE DISCLOSED

i. Facts, which show that a risk represents a greater exposure than would be expected from its nature e.g., the fact that a part of the building is being used for storage of inflammable materials.

ii. External factors that make the risk greater than normal e.g. the building is located next to a warehouse storing explosive material.

iii. Facts, which would make the amount of loss greater than that normally expected e.g. there is no segregation of hazardous goods from non-hazardous goods in the storage facility.

iv. History of Insurance (a) Details of previous losses and claims (b) if any other Insurance Companyhas earlier declined to insure the property and the special condition imposed by the other insurers; if any.

v. The existence of other insurances.

vi. Full facts relating to the description of the subject matter of Insurance

EXAMPLES OF MATERIAL FACTS

(a) In Fire Insurance: The construction of the building, the nature of its use i.e. whether it is of concrete or Kucha - having thatched roofing and whether it is being used for residential purposes or as a godown, whether firefighting equipment is available or not.

(b) In Motor Insurance: The type of vehicle, the purpose of its use, its age (Model), Cubic capacity and the fact that the driver has a consistently bad driving record.

(c) In Marine Insurance: Type of packing, mode of carriage, name of carrier, nature of goods, the route.

(d) In Personal Accident Insurance: Age, height, weight,occupation, previous medical history and occupation especially if it is likely to increase the chance of an accident. Proclivity of substance abuse has to be disclosed as well- eg. alcohol or drug addiction.

(e) Burglary Insurance: Nature of stock, value of stock, type of security precautions taken. The above is just indicatory of the type of material facts that must be disclosed. Details of previous losses is a material fact that has to be disclosed in all cases.

FACTS, WHICH NEED NOT BE DISCLOSED

(a) Facts of Law: Ignorance of law is not excusable - everyone is deemed to know the law. Overloading of goods carrying vehicles is legally banned. The transporter cannot take shelter behind the excuse that he was not aware of this provision; in the event of an accident.

(b) Facts which lessen or diminishes the Risk: The existence of a good firefighting system in the building.

(c) Facts of Common Knowledge: The insurer is expected to know the areas of strife and areas susceptible to riots and of the process followed in a particular trade or Industry. Any fact which is known or which, by law, may be presumed to be known to the insurer the insurer is presumed to know matters of common notoriety or knowledge, and matters which an insurer, in the ordinary course of his business, ought to know.

(d) Facts which could be reasonably discovered: For e.g.the previous history of claims which the Insurer is supposed to have in his record.

(e) Facts which the insurer's representative fails to notice: In burglary and fire Insurance it is often the practice of Insurance companies to depute surveyors to inspect the premises and in case the surveyor fails to notice hazardous features and provided the details are not withheld by the Insured or concealed by him them the Insured cannot be unless inquiry is made, it is not necessary to disclose the following facts.Any fact which it is superfluous to disclose by reason of an express or implied condition.

(f) Any fact as to which information is waived by the insurer.

(g) Any fact as to which insurer is given sufficient information to put him on inquiry.

TIME OF DISCLOSURE

The duty of disclosure must be observed, from the time of submission of proposal and continued throughout the negotiations until the contract is concluded. Any material fact, therefore, which, at any stage of negotiations, comes to the knowledge of the proposer assured, including any alteration of circumstances which brings into existence of material fact or in consequence of which a fact previously immaterial becomes material, must be at once communicated to the users.

EFFECT OF NON-DISCLOSURE

Where there has been non-disclosure, whether innocent or fraudulent, sometimes called concealment the contract is voidable at the option of the insurer. This is the position where the matter is not dealt with by a policy condition. The ground is usually covered by a policy condition which may do no more than state the common law rule.

REPRESENTATIONS

Representations are statements made during the negotiations with the object of inducing the other party to enter into the contract: they must be distinguished from statements which are introduced into the contract, and upon the truth of which the validity of the contract is made to depend. Representations may be as to a matter of fact, and, if material must be substantially correct. Where there has been misrepresentation it is necessary to decide whether it was fraudulent or innocent. A fraudulent misrepresentation is one which was known to be false; or which was made without belief in its truth, or recklessly, careless whether it was true or false. Fraudulent misrepresentation of a material fact entitles the insurer to avoid the policy. Every material fact which the insured ought to know in the ordinary course of business must be stated; an innocent misrepresentation of such a fact would entitle the insurer to avoid the policy. This must be so, otherwise the duty to disclose material facts and to state them accurately would not be correlative.

ACTIVE AND PASSIVE DUTY OF DISCLOSURE

The question here is what method is used to acquire the material information. Two different approaches are used in this respect. The first - an “active” duty of disclosure, and the second approach is characterized as a “passive” duty of disclosure. The former argues that the duty to assess what information is material for the insurer rests with the person effecting the insurance. On the other hand, a passive duty of disclosure implies that the insurer will have to define what information is material through a questionnaire. A passive duty of disclosure implies that information not asked for is not material. The common law systems seem mainly to apply an active duty of disclosure, but elements of a passive duty of disclosure is found in some countries in the form of proposals.

MORAL HAZARDS

Moral hazard is a situation in which one agent decides on how much risk to take, while another agent bears (parts of) the negative consequences of risky choices. The person who buys insurance is protected against monetary damages. Therefore, he may engage in more risky behavior than if he has to bear the risk himself.

Moral hazard can arise in the insurance industry when insured parties behave differently as a result of having insurance. There are two types of moral hazard in insurance: ex ante and ex post Ex-Ante Moral Hazard - Ed the Aggressive Driver: Ed, a driver with no auto insurance, drives very cautiously because he would be fully responsible for any damages to his vehicle. Ed decides to get auto insurance and, once his policy goes into effect, he begins speeding and making unsafe lane changes. Ed's case is an example of ex-ante moral hazard. As an insured motorist, Ed has taken on more risk than he did without insurance. Ed's choice reflects his new, reduced liability.

Ex-Post Moral Hazard - Marie and Her Allergies: Marie has had no health insurance for a few years and develops allergy symptoms each spring. This winter she starts a new job that offers insurance and decides to consult a physician for her problems. Had Marie continued without insurance, she may never have gone to a doctor. But, with insurance, she makes an appointment and is given a prescription for her allergies. This is an example of ex-post moral hazard, because Marie is now using insurance to cover costs, she would not have incurred prior to getting insurance. Insurers try to decrease their exposure by shifting a portion of liability to policyholders in the form of deductibles and co-payments. Both represent the amount of money a policyholder must pay before the insurance company's coverage begins. Policyholders can often opt for lower deductibles and co-payments, but this will raise their insurance premiums.

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SCHOOL OF MANAGEMENT STUDIES

UNIT – 2 – INSURANCE MANAGEMENT – SBAA1505

Unit 2 INSURANCE POLICIES

Nature of Life Insurance – Life Insurance Policies – Annuities – Group Policies – Master Policy -ContractFirstPremium–Renewal–ModeofPremiumPayment–LimitedPeriodPaymentand Single Premium – Lapse & Revival – Paid Up Policy – Deferment Period – Nomination & AssignmentofPolicy–Bonus-SurrenderValue,GeneralInsurance–ConceptandNeed,Features– Fire Policy – Marine Insurance – Motor Vehicle and Third Party Insurance – Health & Mediclaim.

Life Insurance Basics

Life insurance is an agreement between you (the policy owner) and an insurer.Under the terms of a life insurance policy, the insurer promises to pay a certain sum to a person you choose (your beneficiary) upon your death, in exchange for your premium payments.Proper life insurance coverage should provide you with peace of mind, since you know that those you care about will be financially protected after you die.

Uses of life insurance

One of the most common reasons for buying life insurance is to replace the loss of income that would occur in the event of your death.

- When you die and your paychecks stop, your family may be left with limited resources.
- Proceedsfromalifeinsurancepolicymakecashavailabletosupportyourfamily almost immediately upon your death.
- Life insurance can pay any debts that you may leave behind.
- Life insurance can pay off mortgages, car loans, and credit card debts, leaving other remaining assets intact for your family.
- Life insurance proceeds can also be used to pay for final expenses and estate taxes.
- Finally, life insurance can create an estate for your heirs.

How Much Life Insurance do you need?

- Your life insurance needs will depend on a number of factors, including:
    - Whether you're married
    - the size of your family
    - the nature of your financial obligations
    - your career stage
    - your goals.

- For example, when you're young, you may not have a great need for life insurance. However, as you take on more responsibilities and your family grows, your need for life insurance increases.

Determining Life Insurance Needs

- There are tools to help you determine how much coverage you should have.
- Your best resource may be a financial professional.
- At the most basic level, the amount of life insurance coverage that you need corresponds directly to your answers to these questions:

1. What immediate financial expenses (e.g.,debt repayment,funeral expenses) would your family face upon your death?
2. How much of your salary is devoted to current expenses and future needs?
3. How long would your dependents need support if you were to die tomorrow?
4. How much money would you want to leave for special situations upon your death, such as funding your children's education, gifts to charities, or an inheritance for your children?

- Since your needs will change over time, you'll need to continually re-evaluate your need for coverage.

Life insurance-concept

Life insurance is a contract under which the insurer (Insurance Company) inconsideration of a premium paid undertakes to pay a fixed sum of money on the death of the insured or on the expiry of a specified period of time whichever is earlier. In case of life insurance, the payment for life insurance policy is certain. The event insured against is sure to happen only the time of its happening is not known. So life insurance is known as ‘Life Assurance’. The subject matter of insurance is life of human being. Life insurance provides risk coverage to the life of a person. On death of the person insurance offers protection against loss of income and compensate the titleholders of the policy.

Meaning of Life Insurance

 Life insurance is a contract to a certain sum of money on the death of a person in consideration of the certain annuity for his life calculated according to the probable duration of life.

A life insurance is a contract in which one party agrees to pay a given sum of money upon the happening of a particular event contingent upon the duration of human life in consideration of immediate payment of smaller sum.

Features of life insurance plans

(a) **Waiver of premium**. This feature pays the premium of a policy if you become seriously ill or disabled.

(b) **Accelerated death benefit**. This feature allows you to receive cash advances against the death benefit of your policy if you're diagnosed with a terminal illness. Many people with this benefit use the money to help pay for treatment and other expenses when they have only a short time to live.

(c) **Guaranteed purchase option**. With this feature, you can purchase coverage at designated future dates or life events without proving you're in good health.

(d) **Long-term care riders**. Some life products include this option, which allows you to use the benefits of your policy to pay for long-term care in exchange for a reduced life benefit.

(e) **Spouse or child term riders**. Life policies with this feature allow you to purchase term life insurance for your spouse or dependent child, up to age 26. This option can be a more affordable way to purchase coverage if you can't afford separate policies.

(f) **Cash value plans**. This type of policy pays out upon your death and also accumulates value during your lifetime. You can use the cash value as a tax-sheltered investment, as a fund from which you can borrow and use to pay the policy premiums later.

(g) **Mortgage protection**. This feature, typically found on term life policies, will pay your mortgage if you die.

(h) **Cash withdrawals and loans**. Many universal and whole life policies allow you to withdraw or borrow money, using the cash value of the policy as collateral. Interest rates tend to be relatively low. You can also use the cash value of your life policy to pay your premiums if you need or want to stop paying premiums for a period of time. You must pay back the loan or your beneficiaries will receive a reduced death benefit.

(i) **Survivor support services**. Some life policies offer services that provide objective financial and legal assistance to beneficiaries.

(j) **Employee assistance programs**. This feature makes resources available to you for problems that can affect your personal and professional life. Resources are usually free and help address issues such as substance abuse, stress, marital problems, legal concerns and major life events.

Procedure for Taking a Life Policy

1. Procedure for Taking a Life Policy:

Life policy is based on the principle utmost good faith. The procedure-filling in the form is quite simple. It is almost like a home industry where the person who wishes to make an investment in the form of insurance. The first thing to do is to fill in a proposal form.

The proposal form contains the following details:

(a) Name, nationality, permanent residential address, occupation, nature of duties, present employer's name, length of service, previous employment record, father's name in full.

(b) Place of birth, date of birth, proof of age and district of birth.

(c) Term of insurance, nature of insurance, type of policy, amount to be insured, mode of premium payable — yearly, half-yearly, quarterly and monthly.

d) Personal information regarding height, weight where the life is proposed.

(e) Details of any previous policies whether one or double insurance.

(f) Family history, history of father, mother, brothers, sisters, children.

(g) Information regarding diseases likes epileptics, asthma, tuberculosis, cancer, leprosy, etc.

(h) Information regarding previous records of accident, injury, operation diseases.

2. Medical Examination:

If the applicant has a family history of disease then the investment procedure is more detailed and description about permanent immunity and other family diseases have to be given including habits, name, income, occupation and salary. A person of normal health almost goes through a medical examination as a matter of formality.

3. Medical Report:

The next step after filling-in proposal form is to undergo a medical examination from one of the doctors approved by the Life Insurance Corporation. The examination is usually of a routine kind where the identification of the applicant, his appearance, measurement, weight, condition of teeth, eyes, throat, tongue, ears, and condition of heart, chest, digestion, nerve system and past operation is taken into consideration to find out the life span of the individual.

4. Agent's Report:

The third step consists of a report which is confidential in nature. It is made by the agent who is underwriting the life of the person. His report consist of the age of the person insuring himself, his health, occupation, soundness of payment of premium, proper health and longevity of life.

5. Acceptance of Proposal:

The Life Insurance Corporation accepts the proposal of the insurer on the commitment made by the agent and after taking into consideration the doctor's medical report. The factors which play a dominating role is the mode of premium, type of policy, the age of the applicant, his health, occupation and habits.

Once these factors have been considered and the Life Insurance Corporation's officers are satisfied, the form is accepted. An investor's form will be rejected only if he suffers from serious diseases or the longevity of life cannot be guaranteed.

6. Proof of Age:

The next step after accepting the proposal of a person is to ask him to submit the proof the age. The person who is interested in insuring himself may give this proof by submitting any of the following documents:

(a) A copy of a certificate giving details of the school leaving examination with age or date of birth stated therein;

(b) Municipal records;

(c) Original horoscope prepared at the time of birth, if no proof of age is available;

(d) In the case of uneducated families, entry in the family record through birth registers;

(e) Employer's Certificate'

(f) Any other satisfactory proof.

7. Mode of Premium:

When an investor takes a life policy on his portfolio he must pay some installment to the life insurance company for this investment. This installment is called premium and may be paid periodically.

It may be paid annually, half-yearly, quarterly or monthly. Usually, a period of 30 days is given as grace beyond the due date of payment of premium. The rates of premium are different for different kinds of policies offered as investment.

8. Issue of Policy:

When all these formalities are completed the Life Insurance Corporation sends a life policy to the insured. This legal document between the life company and the insured states the details of the policy.

It gives details regarding the age, address, sum assured, type of policy with or without profits, date of maturity, premium, mode of payment of premium, name of person who is entitled to receive the ultimate sum, amount at the termination of the policy, the surrender value of the policy, the settlement of claims of policy and all other conditions of the contract.

Principles of Life Insurance

(a) Insurable interest -The insured must have insurable interest in the life assured. In absence of insurable interest, Contract of insurance is void. Insurable interest must be present at the time of entering into contract with insurance company for life insurance. It is not necessary that the assured should have insurable interest at the time of maturityalso.

(b) Utmost good faith- The contract of life insurance is a contract of utmost good faith. The insured should be open and truthful and should not conceal any material fact in giving information to the insurance company, while entering into a contract with insurance company. Misrepresentationorconcealmentofanyfactwillentitletheinsurertorepudiatethecontractifhe wishes to do so.

(c) Not a contract of indemnity-The life insurance contract is not a contract of indemnity. Contract of life insurance is not a contract of indemnity. The loss of life cannot be compensated and only a fixed sum of money is paid in the event of death of the insured. So, the life insurance contract is not a contract of indemnity. The loss resulting from the death of life assured cannot be calculated in terms of money.

Importance of Life Insurance

Life Insurance is of great importance to individuals, groups, business community and general public. Some of the main benefits of life insurance are given below.

(a) **Protection against untimely death Life -** Insurance provides protection to the dependents of the life insured and the families of the assured in case of his untimely death.The dependents or family members get a fixed sum of money in case of death of the assured.

(b) **Saving for old age** - After retirement the earning capacity of a person reduces. Life insurance enables a person to enjoy peace of mind and a sense of security in his/her old age.

(c) **Promotion of savings** - Life insurance encourages people to save money compulsorily. When a life policy is taken, the assured is to pay premiums regularly to keep the policy in force and he cannot get back the premiums, only surrender value can be returned to him. In case of surrender of policy, the policyholder gets the surrendered value only after the expiry of duration of the policy.

(d) **Initiates investments -** Life Insurance Corporation encourages and mobilizes the public savings and channelizes the same in various investments for the economic development of the country. Life insurance is an important tool for the mobilization and investment of small savings.

(e) **Credit worthiness** - Life insurance policy can be used as a security to raise loans. It improves the credit worthiness of business

(f) **Social Security** - Life insurance is important for the society as a whole also. Life insurance enables a person to provide for education and marriage of children and for construction of house. It helps a person to make financial base for future.

(g) **Tax Benefit -** Under the Income Tax Act, premium paid is allowed as a deduction from the total income under section80C.

Life insurance Policies

Life insurance policies can be grouped into the following categories:

(a) Term Policy-In case of Term assurance plans, insurance company promises the insured for a nominal premium to pay the face value mentioned in the policy in case he is no longer alive during the term of the policy. Term assurance policy has the following features:

• Itprovidesariskcoveronlyforaprescribedperiod.Usuallythesepoliciesareshort-term plans and the term ranges from one year onwards. If the policyholder survives till the end of this period, the risk cover lapses and no insurance benefit payment is made to him.

• The amount of premium to be paid for these policies is lower than allot her life insurance policies. As savings and reserves are not accumulated under this policy, it has no surrender value and loan or paid-up values are not allowed on these policies.

• This plan is most suitable for those who are initially unable to pay high premium

• When income is low as required for Whole Life or Endowment policies,but requires life cover for a high amount.

(b) Whole Life Policy- This policy runs for the whole life of the assured. The sum assured becomes payable to the legal heir only after the death of the assured. The whole life policy can be of three types.

(i) ***Ordinary whole life policy*** – In this case premium is payable periodically throughout the life of the assured.

(ii) ***Limited payment whole life policy*** – In this case premium is payable for a specified period (Say 20 Years or 25 Years) Only.

(iii) ***SinglePremiumwholelifepolicy***–Inthistypeofpolicytheentirepremiumispayable in one single payment.

(c) Endowment Life Policy-In this policy the insurer agrees to pay the assured or his nominees a specified sum of money on his death or on the maturity of the policy whichever is earlier. The premium for endowment policy is comparatively higher than that of the whole life policy. The premium is payable till the maturity of the policy or until the death of the assured whichever is earlier. It provides protection to the family against the untimely death of the assured.

(d) Health insurance schemes - An individual is subject to uncertainty regarding his health. He may suffer from ailments, diseases, disability caused by stroke or accident, etc. For serious cases the person may have to be hospitalized and intensive medical care has to be provided which can be very expensive. It is here that medical insurance is helpful in reducing the financial burden. These days the vulnerability to lifestyle diseases such as heart, cancer, neurotic, and pollution based, etc are on the increase. So it makes sense for an individual to go for medical insurance cover.

(e) Joint Life Policy- This policy is taken on the lives of two or more persons simultaneously. Under this policy the sum assured becomes payable on the death of any one of those who have taken the joint life policy. The sum assured will be paid to the survivor(s).For example,a joint life policy may be taken on the live so husband and wife, sum assured will be payable to the survivor on the death of the spouse.

(f) With Profit and without Profit Policy-Under with profit policy the assured is paid, in addition to the sum assured, a share in the profits of the insurer in the form of bonus. Without profit policy is a policy under which the assured does not get any share in the profits earned by the insurer and gets only the sum assured on the maturity of the policy. With profit and without profit policies are also known as participating and non–participating policies respectively.

(g) Double Accident Benefit Policy - This policy provides that if the insured person dies of any accident, his beneficiaries will get double the amount of the sum assured.

(h) Annuity Policy - Under this policy, the sum assured is payable not in one lump sum payment but in monthly, quarterly and half-yearly or yearly installments after the assured attains a certain age. This policy is useful to those who want to have a regular income after the expiry of a certain period e.g. after retirement. Annuity is paid so long as the assured survives. In annuity policy medical check-up is not required. Annuity is paid so long as the assured survives.

(i) Policies for Women - Women, now days are free to take life assurance policies. However, somespeciallydesignedpoliciessuittheirneedsinauniquemanner;importantpoliciesforwomen are

A. Jeevan Sathi is also known a Life Partner plan where the husband and wife arecovered under this endowment policy

B. Jeevan Sukanya

(j) Group Insurance - Group life insurance is a plan of insurance under which the lives of many persons are covered under one life insurance policy. However, the insurance on each life is independent of that on the other lives. Usually, in group insurance, the employer secures a group policy for the benefit of his employees. Insurer provides coverage for many people under single contract.

(k) Policies for Children - Policies for children are meant for the various needs of the children such as education, marriage, security of life etc. Some of the major children policies are:

(1) Children's deferred assurances

(2) Marriage endowment and educational annuity plans

(3) Children endowment policy

(l) Money Back Policy- In this case policy money is paid to the insured in a number of separate cash payments. Insurer gives periodic payments of survival benefit at fixed intervals during the term of policy as long as the policyholder is alive. The contract for the life insurance starts with the proposal made by the proposer in standard application form available with insurance company and then various other documents are prepared.

(m) Unit Linked Insurance Plan - This is one of the most sort after type of life insurance policy today.This is because ULIPs provide the basic life insurance element as well as a flexible investment element too. With ULIP plans, the premium paid is split toward two causes, one is of course the life insurance component, wherein the insured person's family receives a sum assured in case of his or her demise within the tenure of the ULIP plan. The other component of the premium is directed towards investment opportunities in the equity or debt markets. ULIPs offer theinsuredpersonareturnoninvestmentsimilartothatofamutualfundandthefinancialsecurity against his death that other life insurance policies provide.

Contract First Premium

An insurance contract commences when the life insurance company issues a **first premium receipt** (FPR). The FPR **is the** evidence that the policy contract has begun. ... The policy document **is the** most important document associated with insurance. It is evidence of the contract between the assured and the insurance company.

What Are Premium Payments?

Sally, who plans to purchase life insurance,. Sally's agent indicated that she has flexibility when it comes to how often she pays her policy premium. **Premium payment** represents the cost of the insurance policy and Sally wants some advice on which policy to select, how often to pay her premium and policy provisions.

Modes of Premium Payment

Mode refers to the frequency with which a policy owner makes premium payments. If Sally decides to purchase insurance, she could pay her premiums:

- Annually
- Semi-annually
- Quarterly
- Monthly

An **annual payment** would require Sally to pay her premium once a year. This would be the most affordable option for her, since the insurance company wouldn't spend as much time and money processing payments. While this option would be best from a cost perspective, Sally would have to determine if she can afford to pay this premium all at once.

If Sally chose a **semi-annual payment**, then she would pay her premium every six months (twice a year). Her premium payments would be a bit higher than if she chose an annual payment frequency, but it might be easier for her to budget for two smaller payments instead of one larger one.

A **quarterly payment** would require Sally to make a payment every three months (four payments a year). Sally would find it easier to budget for four smaller payments, but her policy premium would be higher.

A **monthly payment** would require Sally to pay a premium every month (twelve times a year). This option would be the best for Sally's budget as she would pay a smaller amount every month. However, it would likely have the highest policy premium, since the insurance company would need to process these twelve payments per year.

Limited payment period life insurance plans are such plans that permit an individual to **pay** the premiums for a **limited period** of time say 5, 10 or 15 years but offers full insurance cover for the entire policy term. Such policies tread the middle path between regular **payment** plans and single premium policies.

Single premium Policy

A **single premium policy** is a type of life **insurance policy** wherein a lump sum is paid as **premium** instead of the yearly, quarterly or monthly form of **premium payment**.

Difference between Single premium and Regular premium

In the single premium plan, an insurer gets coverage for full term by paying **premium** amount **in a** lumpsum. Whereas, in **regular premium** ULIP plan, an insurer needs to pay **premiums** in intervals such as monthly, quarterly, half-yearly or annually for the policy

Lapse of Policy In case of Regular/ Limited premium policies the premium is payable by the policyholder at regular intervals during the premium paying term. The premium payment term and frequency is shown on the policy certificate. The company allows a grace period of 30 days for quarterly, half yearly and yearly frequency and 15days for monthly frequency .regular/limited premium policy lapses if the premium is not paid on the due date and during the grace period. If a policy is not in the premium holiday period it is necessary to pay premium on the due date or during the grace period. Depending on the terms and conditions mentioned in the policy document, life cover and other benefits payable under the policy cease or are reduced once the policy is lapsed/ paid up, however, the policyholder will continue to have the benefit of investment in the respective unit funds.

Revival of Lapsed Policy If the policy has lapsed due to non-payment of premiums within the due date, the terms and conditions of the policy contract are rendered void, till the policy is revived..A lapsed policy has to be revived by payment of the accumulated premiums with interest as well as giving the health requirements as required. Various types of revivals are as follows:

A. Ordinary Revival If the revival of the policy is effected within 6 months from the due of the first unpaid premium no personal statement of health is required and the policy is revived on collection of delayed premium along with interest.

B. Revival on Non-medical basis for revival of the policy on Non-medical basis the amount to be revived should not exceed the prescribed limit of non-medical assurance taken by the life assured.

C. Revival on medical basis If a policy cannot be revived under ordinary revival on non-medical basis it can be revived with medical requirements. The medical requirements will depend on the amount to be revived.

Deferment Period in Insurance

Benefits are payable to the insured when they become incapacitated and are unable to work for a period of time. The deferred period is the period of time from when a person has become unable to work until the time that the benefit begins to be paid. Is the time period that you have to wait before a claim is paid for **insurance policies** such as **Income Protection** and **Accident, Sickness and Unemployment Insurance** For **long term income protection policies**, typical deferment periods are:

- 4 weeks
- 8 weeks
- 13 weeks
- 26 weeks
- 52 weeks

Some companies also offer 1 day, 1 week and 2 year deferments, however these are less common.

For **accident, sickness and unemployment policies**, the typical deferment periods are 30, 60 and 90 days. The longer the deferment period that you choose, the cheaper the premium for the policy will be.

Surrender Value of Policy Surrender Value is the amount payable to the policyholder by the Insurer, if he/she decides to exit the policy before maturity period. In case of Life Insurance Corporation of India Surrender value is payable to the policyholder only after 3 full years premiums are paid to the insurance company Guaranteed Surrender Value is the amount guaranteed by the insurance company to the policyholder in case of termination of the policy before maturity.

What does a Paid policy mean?

- A life insurance policy in which if all the premium payments are complete and the insured is free of all payment obligations, the policy stays intact until insured's death or termination of the policy is called Paid-up policy.
- Deferment Period – Benefits are payable to the insured when they become in capacitated and are unable to work for a period of time. The deferred period is the period of time from when a person has become unable to work until the time that the benefit begins to be paid.

Surrender value

It is the amount the policyholder will get from Life Insurance Company if he decides to exit the policy before maturity.

What happens when a policy is surrendered for cash value?

When a policy is surrendered, the policy owner will receive all of the remaining cash value in the policy known as the cash surrender value. This amount will generally be slightly less than the total amount of cash value in the policy because of surrender charges assessed by the policy.

What is Nomination?

The nomination is a right given to the policy holder that authorizes him/her to appoint a person (usually a close family member) to receive the benefits in the event of the death of the life assured. The person who is appointed by the policyholder to receive the benefit is called a Nominee.

Types of Nominees

Under the life insurance policy, the policyholder nominates a person who is entitled to receive the benefits in case something happens to the life assured. Some of the different types of nominees given below.

(a) Beneficial Nominees – As per the law, any immediate family member (like spouse, children or parents) nominated by the policyholder is entitled to receive the monetary benefits and will be the beneficial owner of the claim benefits. It is important to note that only immediate family members can be termed as Beneficial Nominees.

(b) Minor Nominees – Many individuals appoint their children as beneficiaries of their life insurance policies. Minor nominees (who are less than 18 years of age) are not considered eligible to handle claim amounts. For this, the policyholder needs to assign an appointee or custodian. The claim amount is paid to the appointee until the minor turns 18.

(c) Non- family Nominees – These types of nominees can be distant relatives or even friends as the beneficiary of the life insurance policy.

(d) Changing Nominees – Policyholders can change their nominees as many times as they want, but the latest nominee should supersede all previous ones.

What is Assignment?

Assignment of the policy refers to the transfer of rights, title and policy ownership from the policyholder to another person or entity. The person involved in assigning/transferring the policy is called assignor. And the person/institution to which it is assigned is called the assignee. The assignment is categorized under two different types,

(a) Absolute Assignment – Under the absolute assignment, all rights, title and interest are transferred by the assignor to an assignee without reversion to the assignor (in case of any event). It shifts the ownership of the insurance policy to other parties without any terms and conditions. This assignment is usually done for money consideration such as raising a loan, out of love or affection towards family members.

(b) Conditional Assignment – It means that the transfer of rights will happen from the assignor to the assignee subject to certain terms and conditions. If the conditions are fulfilled, only then the policy will be transferred.

Assignment Vs. Nomination in Life Insurance

Parameters	**Nomination**	**Assignment**
Source	It is made through mentioning the names of the nominees.	It is made through an endorsement on the contract policy
Policy Ownership	Policy ownership does not change under nomination, it continues with the policyholder	It involves transferring rights/ownership for the assignor(policyholder) to the assignee (person/entity)
Purpose	It offers the nominee to avail claim benefits in case of death of the life assured	The life assured will transfer all his/her right/ownership of the policy to another person/institution.
Consideration	Nomination does not support consideration.	The assignment might/might not support consideration
Witness	It is not required in the nomination	Without a witness, the assignment will be considered in valid.
Right to Sue	The nominee cannot sue the policyholder of the policy.	Assignee has the right to sue the assignor of the policy.
Policy amount	The nominee is entitled to avail the claim benefits in case of death of the life assured.	Assignee is entitled to receive the policy money.

Bonus in Life Insurance Policy

In simplest of words, a bonus is an extra amount or reward you receive over and above you base salary/ amount. A similar concept aligns with life insurance companies, which make bonus payments to their policyholders on a yearly basis beyond the basic sum, assured they are entitled to. This additional amount can be either paid out on policy maturity or upon the death of the insured, based on your policy terms.

How is Life Insurance Bonus generated?

The premiums paid by policyholders of a life insurance company become a part of its asset pool that is utilized for payment of claims in the future. A large portion of these funds is invested in debt instruments secured by the government while allocating little to equities.

The insurer’s claim experience and returns on investment together are responsible for profit, which it distributes as bonus payments at the end of the financial year. Any excess of assets after the company’s assets and liabilities are valued, may also generate an extra amount to be distributed as bonus.

Here are a few types of bonuses paid out to insurers:

(a) Simple Reversionary Bonus: Calculated on the sum assured, this bonus amount is declared annually even by the best life insurance policy in India and is accrued to the policy every year, till it matures or a claim is filed.

(b) Compound Reversionary Bonus: When the previous year’s bonus adds up to the sum assured and the next year’s bonus is computed on this consolidated amount, it is referred to as compound reversionary bonus. This is because it is calculated as a percentage of the sum assured and all bonuses accrued earlier. The calculation is based on compound interest. However, since it is reversionary in nature, bonus is payable upon maturity or death of the policyholder as above.

(c)Interim Bonus: Usually, bonus declaration is to be done by the end of a financial year, however in cases where the death of the insured or policy maturity happens before that, the life insurance company declares an interim bonus. This is because while the policy might have accrued a bonus from the last financial year, the maturity or claim date falls between two bonus declaration dates. Hence there may be a short duration for which the policy may miss out on the bonus. To ensure that the policyholder or their beneficiaries are not at a disadvantage, a bonus is added on a pro rata basis as per interim bonus rates announced by the insurer.

(d) Cash Bonus: An insurance company might decide to dole out the yearly bonus accrued in cash to its policyholders when the year ends. Also known as cash bonus, it is calculated as a percentage of the annual premium and gives the insured an advantage in terms of receiving the bonus in hand as cash year on year unlike accruing it till maturity.

(e)Terminal Bonus: A one-time bonus also referred to as persistency bonus is paid by the best life insurance policy in India to the policyholder for running the policy for a determined period as per the insurer’s discretion. It is paid only when the policy matures or upon the death of the insured. Policies which have been surrendered or acquire paid-up value are excluded. This bonus is dependent on the performance of the policy over the years and is subject to the insurer declaring it, in order to benefit policyholders.

How is Life Insurance Bonus calculated?

Bonus is either computed as a percentage of sum assured or as a certain amount per ₹1000 of sum assured. For example, if the bonus is ₹ 50 per ₹1000 for a policy with a sum assured of ₹ 1 lakh, the annual bonus will be ₹ 5000. For a policy term of 10 years, the simple reversionary bonus comes out to be ₹ 50,000. The bonus rate is dependent on several factors such as return on company assets, bonuses declared in the previous year, claims filed, expected interest rates in the future and several other estimates.

It is important to note that bonus is paid only to policyholders of a participating life insurance policy. This applies to traditional plans such as endowment or money back plans. However, even such policies may sometimes forego the bonus to offer guaranteed addition to the insured, disclosed clearly upon purchase. Read the policy documents carefully when buying a life insurance plan and confirm the benefits offered by the insurer including the bonus, if any.

General insurance – Introduction

General insurance is the insurance of assets, financial assets included. If, due to a contingency which is covered under the plan, there is an economic loss, the loss is compensated by general insurance policies.

Top advantages of general insurance plans

General insurance plans are beneficial because of the following reasons –

- The plans cover financial losses and compensate you for the losses that you suffer. As such, general insurance plans provide you financial security even in the case of contingencies
- In some cases, general insurance plans are mandatory by law. For instance, motor insurance plans are mandatory as per the Motor Vehicles Act, 1988. Similarly, if you are travelling to Schengen countries, you mandatorily need a valid overseas health insurance plan. When you buy such mandated plans, you fulfill the legal obligation and save yourself from violation offence.
- General insurance plans help in protecting your savings in emergency situations. You can, therefore, use your savings to fulfill your financial goals.
- Health insurance plans, which are a type of general insurance plan, allow you tax benefits. The premiums paid for such plans are allowed as a deduction under Section 80D. This deduction helps in lowering your taxable income which, in turn, lowers your tax liability and helps you save tax.

Types of general insurance plans

There are a lot of general insurance plans available in the market. However, the popular and the most important ones are as follows –

Health insurance

Health insurance plans cover the medical expenses which you incur if you fall ill or are injured and need medical assistance. Since the cost of medicine is very high, health insurance plans prove very beneficial. They pay for the medical expenses thereby saving your finances from the strain of the costs incurred on your treatments.

Features of health insurance plans

Here are some of the common features of health insurance plans –

- Health plans can be taken to cover yourself as well as your family members
- Expenses incurred on room rent, surgery, nurse’s fees, doctor’s fees, ambulance, day care treatments, etc. are all covered under health insurance plans
- The premiums paid are allowed as a deduction. You can claim a deduction of up to INR 1 lakh by paying health insurance premiums for yourself, your family and dependent parents.
- There are different types of health insurance plans available in the market. These include the following –
    - Individual health plans which cover a single individual
    - Family floater plans which cover the whole family
    - Senior citizen plans which cover senior citizens
    - Critical illness plans which cover specified critical illnesses
    - Disease specific plans for specific diseases
    - Top-up and super top-up plans for supplementing an existing coverage
    - Hospital cash plans which pay a daily benefit in case of hospitalization

Certain benefits offered under Health Insurance Plans are:

- Pre & Post Hospitalization Benefit
- Cashless Treatment
- Day Care Treatment, etc.

You can also opt for additional Riders along with a Comprehensive Health Insurance Policy to enhance your health insurance plan even better. This may include,

- Room Rent Waiver
- Maternity Cover
- Critical Illness cover
- Hospital Cash
- Personal Accident Rider, etc.

Health Insurance is divided into 4 categories which includes comprehensive health insurance, family floater cover, surgery cover and individual cover.

Motor insurance

Motor insurance plans are general insurance plans for vehicles. These plans are mandatory as per law and have to be bought for every vehicle so that the vehicle is allowed to run on Indian roads.

Features of motor insurance plans

- There are two types of policies available in the market – third party liability and comprehensive
- Third-party plans are legally mandatory while comprehensive plans are voluntary
- Third-party plans cover only the financial liability suffered if you harm any individual or third party property
- Comprehensive plans also cover the damages suffered by your vehicle itself
- There are different motor insurance policies covering cars, two-wheelers and commercial vehicles

Motor Insurance category includes

(a) Car Insurance - The smartest thing to secure your car financially is by buying a car insurance policy. This would save your finances if your car meets with an accident, or falls prey to any natural disaster like floods, earthquake, theft, etc. There are 2 types of car insurance policy:

(i)**Third Party Liability Car Insurance** is nothing but the coverage guaranteed to the third party only i.e. Damage to another person's vehicle or property, bodily injuries and permanent disability during an accident by your vehicle. It is a mandatory over as per the law. We wouldn't recommend you to buy this basic third-party insurance if you really love your car from the bottom your heart. This type of coverage is best for people who think motor insurance is mandatory and buy this type just for the heck of it.

(ii)**Comprehensive Car Insurance** is an optional coverage and thus is not mandatory. This type of car insurance provides coverage for third-party and also for your car. It is best for those who want to cover the losses due to the accidents and also to recover losses due to theft and natural disasters, and not for those who take car insurance merely as a mandatory clause.

(b) Two Wheeler Insurance: There is nothing exciting than riding your bike wherever you wish to. Because for many, their two-wheeler is their personality. This makes it very important to insure your two-wheeler. Buying two-wheeler insurance would save your money against the financial losses if your bike was damaged in an accident or say, robbed. There are two types of two-wheeler insurance policy:

(i)**Third Party Two Wheeler Insurance** is nothing but the coverage guaranteed to the third party only .i.e. to another person's vehicle or property, bodily injuries and permanent disability during an accident by your two-wheeler and is mandatory by law. We wouldn’t recommend you to buy this basic third-party insurance if you really love your two-wheeler from the bottom your heart. This type of coverage is best for people who think two-wheeler insurance is mandatory and buy this type just for the heck for it.

(ii) **Comprehensive Two Wheeler Insurance** is an optional coverage and thus is not mandatory. This type of insurance provides coverage to third-party, to you as well as your vehicle. It is best for those who want to cover the losses due to the accidents and also to recover losses due to theft and natural disasters, and not for those who take two-wheeler insurance merely as a mandatory clause.

There are certain perks of buying motor insurance which includes personal accident cover, cashless services at network garages, roadside assistance, towing support, etc.

Fire insurance

Fire insurance policies cover the damages caused by fire and other related perils. The policy covers damages suffered by property or specified assets.

Features of fire insurance plans

- The policy covers the cost of repairs or replacement of the insured asset when it is damaged by fire or related perils
- There are different types of fire insurance policies which include the following –
- Valued policy
- Floating policy
- Specific policy

- Comprehensive policy, etc.
- A fire insurance plan also covers damages suffered due to lightning, floods, storms, cyclones, inundation, impact damage, missile testing operations, etc.
- If any third party property is damaged due to fire or other covered perils, the policy would cover such losses too
- There are various extensions which are available under fire insurance plans. These extensions come at an additional premium. You can add as many extensions that you like to enhance the coverage.

Marine Insurance

Marine insurance is also known as Cargo Insurance. It covers any loss or damage due to cargo, terminals, ships and other transport or cargo through which any property is acquired, transferred or is held between two points that can be the origin and the destination point. The various types of Marine Insurance includes,

(a) Cargo insurance

(b) Hull insurance

(c) Freight insurance

(d) Liability insurance, etc.

Travel Insurance

Travel insurance would help you tackle all the travel and medical contingencies while you travel abroad. It is utmost important to add travel insurance to your checklist while you plan your vacation, be it for leisure or business. Travel insurance is gaining back all its lost significance.

The main reasons to buy a Travel Insurance is to avoid unforeseen conditions like

Flight delay
Loss of baggage
Loss of passport
Medical emergencies
Emergency dental expenses
Hospital cash allowance
Accidental death
Hijack distress allowance
Financial emergency assistance, etc.

Other than the benefits listed above, it also offers coverage for expenses to take the insured's mortals back to the home country and many more.

Travel Insurance Category includes:

- International Travel Insurance
- Student Travel Insurance
- Group Travel Insurance
- Senior Citizen Travel Insurance
- Domestic Travel Insurance
- Asia Travel Insurance
- Corporate Travel Insurance

Home Insurance

A home offers the peace, serenity and warmth that you may be looking for after a tiring day at work. Therefore, buying a home insurance is utmost important. It offers protection to the entire structure of your house and ensures utmost security for all the belongings that you may collected over the years. There are certain home insurance policies that offer coverage till 5 years. You would have to pay a premium based on the value of the belongings in your home.

Home Insurance Covers the Structure and Content of your home from below

- Fire and Peril Cover:
  - Due to Fire, Explosion
  - Aircraft Damage
  - Lightning
  - Earthquake
  - Missile Testing Operations
- Natural Calamities:
  - Flood
  - Hurricane
  - Storm
  - Landslide and Rockslide
  - Cyclone, etc.
- Man Made Calamities
  - Riot
  - Strike
  - Theft or Burglary

Home insurance, however, doesn't include loss or damage due to nuclear perils, any consequential loss, damage due to war, damage or any loss due to pollution, contamination, etc. Also, valuables like bullion, gold and silver are not covered, however, if you wish to, then you can certainly opt for a special cover.

Rural Insurance

Rural insurance helps to fulfill the requirements of rural and agricultural businesses which is the base of rural insurance. The motive of this type of general insurance is to ensure that working capital as well as assistance is offered to the rural families. This can be done in the form of income generating assets.

Rural Insurance includes

- Livestock such as goat, sheep, cattle, etc.
- Agricultural pump sets
- Plantation like grapes, rubber trees
- Sub-Animals including silkworm, honeybee, etc.

Commercial Insurance

Commercial insurance is a type of general insurance that is usually offered to entities which are commercial like industries, businessmen, etc. It offers insurance cover to different business related requirements.

Commercial insurance provides insurance cover to industries like:

- Aviation
- Foods and beverages
- Oil and gas
- Textiles
- Telecom
- Construction
- Logistics sectors
- Pharmaceuticals
- Automotive, etc.

The various types of commercial insurance include:

- Marine insurance
- Liability insurance
- Energy insurance
- Employee benefits insurance

Financial lines insurance

Engineering insurance

Property insurance

International insurance solutions.

There is a list of various other types of general insurance products. They are crop insurance, corporate insurance, fire insurance, householder, shopkeeper, personal accident, property insurance, etc.

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SCHOOL OF MANAGEMENT STUDIES

UNIT – 3 – INSURANCE MANAGEMENT – SBAA1505

UNIT 3 INSURANCE CONTRACT

Nature of Insurance Contract – Features of Insurance Contract –Types of Insurance – Concept of Intermediaries – Market Players and their Roles – Agents, Brokers, and Surveyors &Loss Assessors – Health Third Party Administrators – Certification of Insurance Professionals, Training Organizations.

Meaning of Insurance Contract

A contract of insurance is an agreement whereby one party, called the insurer, undertakes, in return for an agreed consideration, called the premium, to pay the other party, namely the insured, a sum of money or its equivalent in kind, upon the occurrence of a specified event resulting in a loss to him. The policy is a document which is an evidence of the contract of insurance.

Definition of Insurance Contract

As per Anson, a contract is an agreement enforceable at law made between two or more persons by which rights are acquired by one more persons to certain acts or forbearance on the part of other or others.

The Indian Contract Act, 1872, sets forth the basic requirements of a Contract. As per Section 10 of the Act: "All agreements are contracts if they are made by the free consent of parties competent to contract, for a lawful consideration and with a lawful object, and are not hereby expressly declared to be void…..".

An Insurance policy is also a contract entered into between two parties, viz., the Insurance Company and the Policyholder and fulfils the requirements enshrined in the Indian Contract Act.

Essentials for a Valid Contract

(a)Proposal -In Insurance parlance, a Proposal form (also called application for insurance) is filled in by the person who wants to avail insurance cover giving the information required by the insurance company to assess the risk and arrive at a price to be charged for covering the risk (called "premium).

When a proposal form is submitted, the Customer does not make a proposal, but it is only "invitation to offer". The insurance company, based on the information furnished in the proposal form, assesses the risk (also called underwriting), and conveys the decision – if accepted, at what premium and on what terms and conditions. This is also called "counter offer" in insurance terminology by the insurance company to the Customer.

A medical examination is also conducted, where necessary, before making the counter offer. Where the insurance company cannot accept the risk, the proposal is declined. Where the insurance company conveys its decision to accept the risk quoting a premium, a proposal is made.

(b) Acceptance - When the Customer accepts the terms of the offer and signifies his assent by paying the First Premium (the amount payable as the consideration), the proposal is accepted by the Customer. A proposal of the insurance company (terms of offer), when accepted by the Customer, becomes a promise.

(c)Consideration – The amount equal to First Premium paid by the Customer becomes the consideration for the contract. This first premium would be the first instalment premium (either first annual, quarterly, half yearly or monthly premium.

In the case of monthly premiums normally 2 monthly premiums are collected along with the Proposal form. In the case of single premium, one lump sum is paid along with the Proposal.

Every promise and every set of promises, forming the consideration for each other, is an agreement;

(d) Competency to Contract - In the case of Insurance the person with whom the Contract is entered into is called "Policyholder" or "Policy Owner" who could be different from the subject matter which is insured. In Life insurance contracts, for example, the person whose life is insured could be different.

For example, the Policyholder could be the Father and the Life assured could be the son. In the case of Fire insurance, the Policy owner could be the Owner of a building and the subject matter of insurance would be the building itself.

The Policyholder must have attained the age of majority at the time of signing the proposal and should be of sound mind and not disqualified under any law. However, the life assured could suffer from the above infirmities.

(e) Free Consent - Two or more person are said to consent when they agree upon the same thing in the same sense. Both the insurance company and the Policyholder must agree on the same thing in the same sense. The Policy document issued to the Policyholder ("Customer") clearly defines the obligations of the insurer and the terms and conditions upon which the Insurance contract is issued.

Consent is said to be free when it is not caused by –

1, Coercion,

2. Undue influence,
3. Fraud,
4. Misrepresentation,
5. Mistake

The third and fourth grounds which vitiate consent are more relevant in insurance. Insurance contracts are based on the principles of 'utmost good faith'. The Policyholder is expected to disclose about the status of his health, family history, income, occupation or about the subject matter insured truthfully without concealing any material fact to enable the underwriter to assess the risk properly.

In case it is established by the insurance company that the Policyholder did not truthfully disclose any fact in the Proposal form which had a material impact on the decision of the underwriter, the insurance company has a right to cancel the contract.

(f) Lawful object: Every agreement of which the object or consideration is unlawful is void. The object of an insurance contract, i.e. to cover the risk by taking out an insurance policy, is a lawful object. The consideration or object of an agreement must be lawful,

The consideration or object of an agreement is unlawful under the following circumstances:

(a) Where a contract is forbidden by law or

(b) Where the contract is of such nature that, if permitted, it would defeat the provisions of any law or is fraudulent;

(c) Where the contract involves or implies, injury to the person or property of another; or

(d) Where the Court regards it as immoral, or opposed to public policy.

Every agreement of which the object or consideration is unlawful is void. The object of an insurance contract, i.e. to cover the risk by taking out an insurance policy, is a lawful object.

(g) Agreement must not be in restraint of trade or legal proceedings: Every agreement by which anyone is restrained from exercising a lawful profession, trade or business of any kind, is to that extent void. Every agreement, by which any party thereto is restricted absolutely from enforcing his rights under or in respect of any contract, by the usual legal proceedings in the ordinary tribunals, or which limits the time within which he may thus enforce his rights, is void to the extent.

(h) Agreement must be certain and not be a wagering contract: Agreements, the meaning of which is not certain, or capable of being made certain, are void. Agreements by way of wager are void; and no suit shall be brought for recovering anything alleged to be won on any wager, or entrusted to any person to abide the result of any game or other uncertain event on which may wager is made.

Anson defined wager as "a promise to give money or money's worth upon the determination or ascertainment of an uncertain event".

For example, if A agrees to pay B Rs.1,000, if it rains tomorrow, it becomes a gambling, since there is no certainty that it will rain tomorrow.

A wagering contract is void, it is not illegal. Further a contingent contract is defined under Section 31 of the The Indian Contract Act, 1872. Act as "a contract to do or not to do something, if some event collateral to such contract, does or does not happen".

For example, A contracts to pay B Rs.10,000 if B's house is burnt. This is a contingent contract. An insurance contract is a contingent contract and the example given above is nothing but Fire insurance. While all Wagering contracts are Contingent contracts, Section 30 of the The Indian Contract Act, 1872 has declared all Wagering contracts to be void.

Features of Insurance Contract

(a)Aleatory -Insurance contracts are aleatory. This means there is an element of chance and potential for **unequal exchange of value or consideration for both parties**. An aleatory contract is conditioned upon the occurrence of an event. Consequently, the benefits provided by an insurance policy may or may not exceed the premiums paid. **For example, an individual who has a disability insurance policy will collect benefits if she becomes disabled.** However, if no disability strikes,benefits are not paid**. Both insurance and gambling contracts are typically considered aleatory contracts.**

(b) Adhesion -Insurance contracts are contracts of adhesion. This means that the contract has been prepared by one party (the insurance company) with no negotiation between the applicant and insurer. In effect, the applicant "adheres" to the terms of the contract on a "take it or leave it" basis when accepted. Any confusing language in a contract of adhesion would be interpreted in favor of the insured. The purpose is to correct any advantage that may result for the party who prepared the contract**. A policy of adhesion can also be described as one which the insurance company can modify.**

(c)Utmost Good Faith-Insurance is a contract of **utmost good faith**. This means both the policy owner and the insurer must know all material facts and relevant information. There can be no attempt by either party to conceal, disguise, or deceive. A consumer purchases a policy based largely on the insurer and agent's explanation of the policy's features, benefits, and advantages. **Insurance applicants are required to make a full, fair and honest disclosure of the risk to the agent and insurer**. Concepts related to utmost good faith include warranties, representations, and concealment. These represent grounds through which an insurer might seek to avoid payment under a contract.

(d) Executory-An executory contract is one in which the covenants of one or more parties to the contract remain partially or completely unfulfilled. Insurance contracts necessarily fall under this strict definition; of course, it's stated in the insurance and agreement that the insurer will only perform its obligation after certain events take place (in other words, losses occur).

(e) Unilateral -Insurance contracts are unilateral. **This means that only one party (the insurer) makes any kind of enforceable promise**. Insurers promise to pay benefits upon the occurrence of a specific event, such as death or disability. The applicant makes no such promise. In fact, the applicant does not even promise to pay premiums. The insurer cannot require the premiums to be paid. Of course, the insurer has the right to cancel the contract if premiums are not paid.

(f) Conditional -An insurance contract is conditional. This means that the insurer's promise to pay benefits depends on the occurrence of an event covered by the contract. If the event does not materialize, no benefits are paid. Furthermore, the insurer's obligations under the contract are conditioned on the performance of certain acts by the insured or the beneficiary. For example, the timely payment of premiums is a condition for keeping the contract in force. If premiums are not paid, the company is relieved of its obligation to pay a death benefit.

(g) Personal contract -Life insurance is a personal contract or personal agreement between the insurer and the insured. The owner of the policy has no bearing on the risk the insurer has assumed. For this reason, people who buy life insurance policies are called policy owners rather than policyholders. Policy owners actually own their policies and can give them away if they wish. This transfer of ownership is known as assignment. To assign a policy, a policy owner simply notifies the insurer in writing. The company will then accept the validity of the transfer without question. The new owner is granted all of the rights of policy ownership

(h) Warranties and Representations-A warranty in insurance is a statement made by the applicant that is **guaranteed to be true in every respect**. It becomes part of the contract and, if found to be untrue, can be grounds for revoking the contract. Warranties are presumed to be material because they affect the insurer's decision to accept or reject an applicant.

A representation is a statement made by the applicant that they **consider to be true and accurate to the best of the applicant's belief.** It is used by the insurer to evaluate whether or not to issue a policy. Unlike warranties, representations are not a part of the contract and need be true only to the extent that they are material and related to the risk. Statements made by applicants for insurance are considered to be representations and not warranties.

(i) Misrepresentation and Concealments- A misrepresentation is a statement, whether written or oral, that is false. Generally speaking, in order for an insurance company to void a contract because of misrepresented information, the information in question must be material to the decision to extend coverage.

Concealment, on the other hand, is the failure to disclose information that one clearly knows about. To void a contract on the grounds of concealment, the insurer typically must prove that the applicant wilfully and intentionally concealed information that was of a material nature.

(j)Fraud - Fraud is the intentional attempt to persuade, deceive, or trick someone in an effort to gain something of value. Although misrepresentations or concealments may be used to perpetrate fraud, by no means are all misrepresentations and concealments acts of fraud. For instance, if an insurance applicant intentionally lies in order to obtain coverage or make a false claim, it could very well be grounds for the charge of fraud. However, if an applicant misrepresents some piece of information with no intent for gain (such as, for example, failing to disclose a medical treatment that the applicant is personally embarrassed to discuss), then no fraud has occurred.

(k) Impersonation (False pretenses) - When one person assumes the identity of another for the purpose of committing a fraud, that person is guilty of the offense of impersonation (also known as false pretenses). For instance, an individual that would likely be turned down for insurance coverage due to questionable health might request a friend to stand in for him (or her) in order to complete a physical examination.

(**l) Parol (or Oral) evidence rule -** This principle limits the effects that oral statements made before a contract's execution can have on the contract. The assumption here is that any oral agreements made before the contract was written were automatically incorporated into the drafting of the contract. Once the contract is executed, any prior oral statements will therefore not be allowed in a court of law to alter or counter the contract.

Types of insurance

The following are the various types of insurance businesses recognised under the Insurance Act, 1938:

(a) Life insurance business - Life insurance business covers the risk of contingencies dependent on human life. For example payment of an amount (called "sum assured") on the death of the life assured. Further, annuity contracts (which provide for periodic payments to life assured as long as the policyholder is alive) or the provisions of accident benefits also form part of life insurance business.

(b) General insurance business (also called "Non-Life" business) - All businesses other than Life are classified as General insurance business.

This is sub divided into the following 3 sub-categories:

(i) Fire insurance business- Fire insurance, as the name suggests covers the risks associated with loss due to a fire accident to properties.

(ii) Marine insurance business -Marine insurance means the business of effecting insurance contracts upon vessels of any description, including cargoes, freights and other interests which may be insured for transit by land or water or both and includes warehouse risks or similar risks incidental to such transit.

(iii) Miscellaneous insurance business- Miscellaneous insurance include all insurance businesses other than Fire and Marine insurance business (and Life insurance business). It includes Motor, Liability, Health and Burglary insurances. Generally, indemnity based health insurance policies (which reimburse hospitalisation expenses) were classified under the General insurance business. Under the Insurance Bill, Health insurance business has been categorised as a separate line of business than the General insurance business. Standalone health insurance companies have been licensed by IRDA to sell only health insurance policies, given the huge potential for this business.

Concept of intermediaries

A basic definition defines an intermediary as ‘action between two parties - mediatory’ or ‘situated or occurring between two things - intermediate’. The latter form refers more to a position within a process or level of achievement. The former, by contrast, refers to an intermediary as an agent in some form, as ‘one who acts between others - a do-between or mediator’, or as ‘something acting between things persons or things’. As actors then, what intermediaries do is mediate, they work in-between, make connections, enable a relationship between different persons orthings.

Indeed, in common parlance the meaning implied by the concept intermediary tends to refer to a neutral player trying to mediate between different sets of interests. The assumption of neutrality is however, problematic. Rather than focus on everything as an intermediary, the interesting question is to ask in what ways, where, when and how particular things, people, organisations etc. are/ become defined as ‘intermediaries. Further still, there is the question of the active role that intermediaries play in defining the relationship between otheractors.

In Insurance industries, an insurance intermediary is a person or a company that helps you in buying insurance. Insurance intermediaries facilitate the placement and purchase of insurance, and provide services to insurance companies and consumers that complement the insurance placement process. Traditionally, insurance intermediaries have been categorized as either insurance agents or insurance brokers.

Role of Intermediaries in Insurance Industry

As players with both broad knowledge of the insurance marketplace, including products, prices and providers, and an acute sense of the needs of insurance purchasers, intermediaries have a unique role – indeed many roles – to play in the insurance markets in particular and, more generally, in the functioning of national and international economies.

Intermediary activity benefits the overall economy at both the national and international levels: The role of insurance in the overall health of the economy is well-understood. Without the protection from risk that insurance provides, commercial activities would slow, perhaps grinding to a halt, thus stunting or eliminating economic growth and the financial benefits to businesses and individuals that such growth provides.

The role of insurance intermediaries in the overall economy is, essentially, one of making insurance – and other risk management products – widely available, thereby increasing the positive effects of insurance generally – risk-taking, investment, provision of basic societal needs and economic growth.

There are several factors that intermediaries bring to the insurance marketplace that help to increase the availability of insurance generally:

Innovative marketing - Insurance intermediaries bring innovative marketing practices to the insurance marketplace. This deepens and broadens insurance markets by increasing consumers' awareness of the protections offered by insurance, their awareness of the multitude of insurance options, and their understanding as to how to purchase the insurance they need.

Dissemination of information to consumers - Intermediaries provide customers with the necessary information required to make educated purchases/ informed decisions. Intermediaries can explain what a consumer needs, and what the options are in terms of insurers, policies and prices. Faced with a knowledgeable client base that has multiple choices, insurers will offer policies that fit their customers' needs at competitive prices.

Dissemination of information to the marketplace - Intermediaries gather and evaluate information regarding placements, premiums and claims experience. When such knowledge is combined with an intermediary's understanding of the needs of its clients, the intermediary is well-positioned to encourage and assist in the development of new and innovative insurance products and to create markets where none have existed. In addition, dissemination of knowledge and expansion of markets within a country and internationally can help to attract more direct investment for the insurance sector and relatedindustries.

Sound competition - Increased consumer knowledge ultimately helps increase the demand for insurance and improve insurance take-up rates. Increased utilization of insurance allows producers of goods and services to make the most of their risk management budgets and take advantage of a more competitive financial climate, boosting economic growth.

Spread insurers' risks - Quality of business is important to all insurers for a number of reasons including profitability, regulatory compliance, and, ultimately, financial survival. Insurance companies need to make sure the risks they cover are insurable – and spread these risks appropriately – so they are not susceptible to catastrophic losses. Intermediaries help insurers in the difficult task of spreading the risks in their portfolio. Intermediaries work with multiple insurers, a variety of clients, and, in many cases, in a broad geographical spread. They help carriers spread the risks in their portfolios according to industry, geography, volume, line of insurance and other factors. This helps insurers from becoming over-exposed in a particular region or a particular type of risk, thus freeing precious resources for use elsewhere.

Reducing costs - By helping to reduce costs for insurers, broker services also reduce the insurance costs of all undertakings in a country or economy. Because insurance is an essential expense for all businesses, a reduction in prices can have a large impact on the general economy, improving the overall competitive position of the particular market. Of course, the insurance cycle of "hard" and "soft" markets can have a significant impact on the benefits – both good and bad – of increased availability. Generally, however, increased availability benefits the consumer by leading to product competition, price competition, and improved services. By reducing insurance costs across markets, intermediaries make an important contribution to improving the economic conditions in acountry.

Market Players and theirRoles

There are many market players in insurance industries i.e.

a. Agents

b. Brokers

c. Surveyors & LossAssessors

d. Health Third PartyAdministrators.

The role of various players of insurance market is being discussed hereby:

(a)Insurance Agent

Insurance agent is the salesperson of the insurer. An agent is one who is licensed under Section 42 of the Insurance Act, 1938, and who receives or agrees to receive payment by way of commission or remuneration in consideration of his soliciting or procuring insurance business including business relating to the continuance, renewal or revival of policies of insurance.

[Sec. 2 (10) of Insurance Act, 1938.] In simple words, we can say that an insurance agent is a licensed representative of the insurer who agrees to work for the insurer in exchange of commission or remuneration. He plays a promotional job.

Functions of Insurance Agent:

To solicit and procure new business: An agent is bound to obtain certain specified amount of new business as required under the rules. He should always make effort in getting new insurance proposals beyond his prescribed limit.

To conserve the present business: In addition to procuring new business, he should ensure the continuation of the policies already issued and prevent them from lapsing on account of default in the payment ofpremium.

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 proposed by guiding him.

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. This becomes necessary to ascertain the extent of risk.

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.

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. This helps in future settlements ofpolicies.

To motivate 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 latepayments.

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

Inform the insured for appointing nominee(s): It is the duty of an agent to make sure that the nominees column is filled by the insured. This helps in future settlements of policies without any ambiguity.

To prepare the necessary documents : This proposer has to submit other important documents like birth certificate, medical certificate, etc. The agent can help the proposer by guiding him.

Other important duties of an agent:

1. Inform about the policies to theinsurer.
2. By knowing the requirements of prospects, providing him the best suitablepolicy.
3. Working hard withhonesty.
4. Introducing himself as an insurance agent, and if asked, to show hisI.D.
5. If asked by the insured, telling him about the rate ofcommission.
6. Calculating the amount of premium which is payable by theinsured.
7. Explaining the details of insurance application form to theprospect.
8. Informing the prospects about the refusal of insurance application by the insuranceagency.
9. Following the rules and regulations of insuranceauthority.
10. Providing insurance bond to the insured within 45 days.

Role of an InsuranceAgent

An insurance agent represents the insurer with whom he or she is attached. He solicits or procures insurance business only for such insurer. The responsibilities of an insurance agent broadly include thefollowing:

(a) Perform Need analysis for the customer – The agent is expected to sell the products of the insurance company, which suit the needs of the customer. For this purpose he has to analyse the needs of the customer, such as Insurance protection for family, Asset protectionneeds, Children’s marriage or education needs, Health insurance, Pension etc. Depending on the needs and the stage of the life cycle of the customer, the appropriate product of the insurer which suits the customer is recommended

(b) Explain the product benefits, premiums, exclusions and other terms and conditions so that the customer can take an informeddecision

(c) Assist the customer in getting the requisite documents for the purpose of seeking an insurance cover and clarify the doubts of the customer in the proposal form fillingprocess

(d) Bring to the notice of the insurer any adverse habits of the customer which will have a bearing on the insurer’s decision to accept a risk

(e) Inform the customer about the decision of the insurer to issue a policy orotherwise

(f) Provide assistance to customer at various stages of policy servicing and when a claim ismade

Qualification and training

Most insurance companies and independent firms prefer to hire young graduates who hold degrees in business or economics. Generally, companies do not prefer non-graduates for this post. However, there are certain exceptions to this condition. In case a non-graduate has previous work experience or has proven expertise in any business areas can be employed as an insurance agent.

Experience in sociology and public speaking can prove as a benefit for the candidate to improve their sales skills. Proficiency insoftware and computer are significantly essential for an insurance agent as an educational, advertising, and communicationaltool.
While the criteria to become an insurance agent may differ from one company to another, all companies demand a candidate to acquire a license from IRDAI. To receive a license, applicants need to clear an examination and undergo pre-licensing training related to insurance practicing and laws.

Skills

A candidate who is conducting a job search in the insurance field needs to possess a specific skill set. Insurance is all about marketing and selling the right products to the clients.

This type of job requires a candidate to have excellent communication skills, need to be well-organized and possess the ability to analyse the customer's requirements. This will help an insurance agent to suggest the insurance policy that will fulfill their insurance needs effectively.

Individuals interested in becoming insurance agents will need to undertake training with an insurance company regarding its products and insurance regulations and laws.

An insurance agent needs to have the ability to demonstrate and listen carefully to the prospect. He/she should have the ability to take complex information and convert it into simple language that anyone can understand. This is another skill that most insurance companies look into a candidate.

Insurance agent's functions are mainly based on demonstrating, communicating, and convincing powers. An insurance agent with proficiency in these features has enormous scope to make a successful career in this field.

TYPES OF INSURANCE AGENTS:

The following are the different types of Insurance Agents recognized under the Regulations:

(a) IndividualAgent

(b) CorporateAgent

(c) Micro InsuranceAgent

Individual Agents

IRDA (Licensing of Insurance Agents) Regulations, 2000 as amended from time to time, contains provisions relating to licensing of individual Insurance Agents. The following are the different types of licencesissued within theRegulations:

(a) DirectLife

(b) Direct NonLife

(c) Composite Licence (both Life and Non-Life)

The following are the pre-requisites for a candidate intending to get a licenceissued (common for all types ofagents):

(a) **Minimum qualifications:** The minimum qualifications prescribed are a pass in 12th standard or equivalent examination conducted by a recognised Board/Institution. This condition is relaxed to a pass in 10th standard for applicants residing in a place where the population is not less than 5,000 (‘Ruralagents’)

(b) The applicant must not suffer from the following disqualifications:

a. That the applicant is notminor

b. That he is not found to be of unsound mind by a Court of competentjurisdiction

c. That he has not been found guilty of criminal misappropriation or criminal breach of trust or cheating or forgery or an abetment of or an attempt to commit any offence by a Court of competent jurisdiction and five years have not elapsed from the date ofconviction

d. That he has been found guilty of or has knowingly participated in or connived at any fraud, dishonesty or misrepresentation against an insurer or an insured during the courseof:

(i) Any judicial proceeding relating to any policy of insurance(or)

(ii) Winding up of an insurance company(or)

(iii) In the course of investigation of affairs of aninsurer

(e) That he does not violate the code of conduct prescribed under the Regulations

(c) **Practical Training:** The applicant shall undergo a minimum of 50 hours practical training on insurance related matters in life or general insurance business, as the case may be, spreading to 1 to 2 weeks. Where the application is for a composite licence, the training shall be 75 hours spread over 3 to 4 weeks covering both life and general insurance subjects. Where the applicant holds special qualifications such as membership of Institute of Chartered Accountants of India, Institute of Cost and Works Accountants of India, Institute of Company Secretaries of India, Insurance Institute of India or the Institute of Actuaries of India or a Masters degree in Business Administration of any institution recognised by Central Government or State Government, it is sufficient if the training is undergone for 25 hours (35 hours if the licenceis composite). The training can be undergone in any of the IRDA accredited traininginstitutions

(d) **Examination:** Every applicant shall undergo a pre-recruitment examination in life or general insurance business or both, as the case may be, conducted by the Insurance Institute of India or any other body authorised byIRDA.

(e) **AML & ULIP training:** In addition to the above, the insurer with whom the agent is attached provides a special training on Anti money laundering (under the IRDA's Anti money laundering Guidelines dated 31 March 2006) for all Insurance Agents. Training in Unit Linked Insurance Products (ULIP) is compulsory for life insurance agents before they are allowed to sell ULIPs on behalf of a life insurer (under the IRDA (Linked Insurance Products) Regulations, 2013)

(f) Payment of fees of Rs.250 along with the application for grant of licence enclosing proof of age, qualifications, training andexamination.

Renewal of licence

A licence is issued for a period of three years at a time. At the end of the third year, the licence is required to be renewed. The following are the conditions for renewal of licence:

(a) Completion of practical training for 25 hours for Life or General insurance, as the case may be or 50 hours for renewal of composite agency licence

(b) Payment of fees of Rs.250 towards renewal of licence. If the application for renewal does not reach atleast 30 days before the due date for renewal, an additional fee of Rs.100 by way of penalty is payable. If the application for renewal reaches after the expiry of licence, IRDA may consider the application for renewal upon imposition of a penalty ofRs.750.

(c) Maintenance of a minimum persistency of 50% during the licence period (as per IRDA's persistencyguidelines.

(d) The Agent does not suffer from any of the disqualifications mentioned in the previoussection

(e) Renewal training on Anti-money laundering as may be prescribed by the insurer from time to time

Authorization to sell for one insurer at a time

A licence issued under the provision of the above Regulations entitles an Insurance Agent to sell on behalf of one life insurer or one General insurer at a time. An identity card is issued by the concerned Insurer for this purpose. An Agent is entitled to change insurer but has to follow the process laid down in IRDA's circular on issue of a 'No objection Certificate" by the insurers.

Corporate Insurance Agent

Corporate entities represent an **insurance** company and sell its policies. ... When a bank becomes the **corporate agent** of an **insurance** company it is referred to as a bancassurance arrangement or partnership. Banks offer **insurance** policies to their customers based on their knowledge of their situation and needs.

Licensing of Corporate Agents

The IRDA (Licensing of Corporate Agents) Regulations, 2002 provides the licensing framework for Corporate Agents similar to the Regulations applicable to Individual Agents. The Corporate Agents regulations recognize agents who are one of the following entities (as against individual agents who are licensed under the IRDA (Licensing of Insurance Agents) Regulations, 2002):

(a) Firm

(b) Company under the Companies Act,1956

(c) Bankingcompany

(d) Co-operative society

(e) Panchayat or local authority

(f) Non-Government organisation

The licence is issued to the entity as against the individual under licensing of individual agents. However, the persons who are authorised to sell on behalf of a Corporate Agent will have to undergo the training and examination requirements similar to that of an Individual agent.

The Corporate agent shall have the following persons at the minimum as per the Regulations:

(a) Corporate Insurance Executive ('CIE') (b) Specified Persons ('SP') A Corporate Insurance Executive is the Director or Partner or one or more of its officers or employees so designated by it (where the applicant is a Company or a Firm). Where the applicant is any other person, the Chief Executive or one or more of his employees designated by him shall be the CIE. In either case, the CIE shall possess the minimum qualifications, undergo the practical training and pass the required examination.A Specified Person is responsible for soliciting or procuring insurance business on behalf of the Corporate Agent entity. He may be a Director or a Partner or one or more of its officers or other employees so designated by the Corporate Agent. The individual desirous of acting as a Specified Person shall also possess the requisite qualifications, undergo the practical training and pass the examination. A Certificate is issued to a Specified Person which authorises him to solicit or procure insurance business on behalf of the Corporate Agent. There may be as much number of Specified Persons as the Corporate Agent requires depending upon the business requirements. The minimum qualifications, practical training and examination requirements are similar to that of an individual agent. A Corporate Agent is also allowed to act for only one life insurer (Direct-Life) or one general insurer (Direct-Non-Life) or Composite Corporate Agent (one Life and one General at atime)

As per the IRDA guidelines on Corporate Agents, dated 14 July 2005, two types of Corporate Agents are recognized:

(A) Exclusive Corporate Agents – i.e. those entities whose primary activity is solicitation or procuration of insurance business. Such entities shall be Public Limited companies under the Companies Act, 1956, with a minimum paid up capital of Rs.15 lakhs deposited in a Scheduled Commercial Bank. Further entities belonging to Banking or Insurance Groups alone are allowed to form Exclusive CorporateAgencies

(B) Non-exclusive Corporate Agents – entities which are already engaged in some other business and would like to take up insurance agency as a subsidiary activity. Further a Group to which the applicant Corporate Agent belongs to, can be granted only one corporate agency licence. In other words, any proposal from an applicant, some of whose group entities are already engaged in insurance business, such as corporate agent, broker, insurer etc., shall not be normally granted a corporate agency licence. IRDA does not normally grant any exception unless the entities are licensed by Reserve Bank of India with substantial client base or otherwise have assets, turnover or net worth of Rs.15 Crores.

Requirements for becoming a Corporate Agent:

(a) Formation or existence of an entity as required under the Regulations asabove

(b) Identification of persons possessing the minimum qualifications to become a CIE or SP (a minimum of 1 CIE and 2 SPs are normally insisted by IRDA at the time of licensing). The actual number of persons will depend on the business plan of the applicant corporate agent. CIEs or SPs can also be changed or added (in addition to minimum)subsequently

(c) Document evidencing constitution of the Corporate agent entity (e.g. Memorandum and Articles of Association) shall contain "procuring or solicitation of insurancebusiness" as one of the mainobjects

(d) Proof of CIE and SPs having undergone the practical training and passed the required examination

(e) Either CIE or one of the SPs must possess one of the following additional qualification:

(i) An Associate/Fellow of the Insurance Institute of India,Mumbai.

(ii) an Associate/Fellow of the Institute of Chartered Accountants of India, New Delhi; with diploma in Insurance and RiskManagement.

(iii) an Associate/Fellow of the Institute of Costs and Works Accountants of India, Calcutta;

(iv) an Associate/Fellow of the Institute of Company Secretaries of India, NewDelhi;

(v) an Associate/Fellow of the Actuarial Society of India,Mumbai;

(vi) possessing Certified Associate ship of Indian Institute of Bankers(CAIIB)

(vii) MBA (Two year) Course / PG Diploma (One year) course in Insurance from Amity School of Insurance & Actuarial Science,Noida

(viii) PG Diploma (One year) course in Insurance from Institute of Insurance and Risk Management,Hyderabad

(ix) MBA (Two year) course in Insurance from National Insurance Academy,Pune

(x) PGMBA (Two Year) course in Insurance from National Law University,Jodhpur

(xi) PGMBA (Two year) course in Insurance from MET,Mumbai

(xii) MBA (Two year) course in Insurance from Birla Institute of Management Technology, Noida the persons with above qualifications (except at (a) shall undergo a "Workshop for Insurance executives" at National Insurance Academy, Pune orInsurance

Institute of India, Mumbai or Institute of Insurance and Risk Management, Hyderabad as prescribed by the Authority.

(f) In the case of exclusive Corporate Agencies, proof of formation of a public company, injection of a capital of Rs.15 lakhs and depositing the money into aBank

(g) Fee of Rs.250 for issue of licence to the Corporate Agent and Rs.500 for issue of Certificate for each Specified person Renewal of licence. A license is issued for a period of 3 years and shall expire at the end of the term, unless renewed. The annual fee to the Authority in such manner as may be specified by the regulations for renewal of an individual agency license. The conditions for renewal of licence for a corporate agent is similar to that of an individual agent, including maintenance of a minimum persistency of 50%

Micro Insurance Agent

Micro insurance Agents are a special category of insurance agents who support financial inclusion, i.e. the distribution of financial services at an affordable cost to the masses. Micro insurance contracts are typically low sum assured contracts which provide for the sum assured to be paid either on death – both natural and accidental, or an Endowment (which also provides a sum assured on maturity in addition to death) or a health insurance.

Only a Non-Governmental organisation or a Self Help Group Micro Finance Institutions or Associations not formed for Profit are entitled to become Micro Insurance Agents. Such Agents can distribute the products of one life insurer or one general insurer or both. A Micro insurance agent shall employ Specified persons with the prior approval of the Insurer to distribute the micro insurance products on its behalf. All the Micro insurance agents and their Specified persons shall be imparted 25 hour training by the insurer in local vernacular language in the areas of insurance selling, policyholder servicing and claimsadministration.

A Micro insurance agent can sell only a Micro insurance product and not any other type of insurance products. However an Agent who is licensed to sell all products of an insurer can sell the Micro insurance products of such insurer, if any. An Insurance Broker who can sell any product of any insurer, can sell Micro insurance products of any insurer as well.

All Micro insurance policies may be reckoned for the purpose of fulfillment of social obligations of an insurer pursuant to the provisions of the Insurance Act and Regulations. Where a micro insurance policy is issued in a rural area and falls under the definition of social sector, such policy may be reckoned for both under rural and social sectorobligations as well.

Insurance Broker

Regulation 2(i) of the IRDA (Insurance Brokers) Regulations, 2002, defines Insurance Broker as a person for the time being licensed by the Authority under Regulation 11, who for remuneration arranges insurance contracts with insurance companies and/or reinsurance companies on behalf of his clients. Licensing of Insurance Brokers Every Insurance Broker shall possess a valid and subsisting licence to act as an Insurance Broker issued by IRDA. The framework for licensing of an Insurance Broker is similar to that of a Corporate Agent. However, as we have seen earlier a Broker differs from an Agent in the sense that a Broker represents customers interests and is required to select the best product amongst all insurance companies, while an agent represents an insurer at any point in time (one in life and one in general insurance) and will present the product of only such insurer(s) with whom the agent is attachedwith.

Categories of Insurance Brokers

(a) Direct Broker(Life)

(b) Direct Broker(General)

(c) Direct Broker (Life &General)

(d) Reinsurance Broker (Reinsurance Life orGeneral)

(e) Composite Broker (Life and/or General + Reinsurance)

A Direct Broker is authorised to recommend the products of any of the life insurance companies or general insurance companies to their clients, as the case may be.

A Reinsurance broker arranges for reinsurance contracts between direct insurers and reinsurance companies.

Reinsurance is a contract under which insurance companies can pass on the risk they assume under the policies issued by them, to yetanother insurance company (called reinsurer). Therefore, the insurance company which issues the policy becomes the Policyholder under the reinsurance contract entered into with a reinsurer.

A broker can be an intermediary who can arrange reinsurance contracts with reinsurance companies.

Except for GIC, the National Reinsurer, all the other reinsurance companies doing business in India are located abroad. Therefore the role of reinsurance brokers in getting a best deal for insurance companies cannot be undermined.

A Composite Broker is one who arranges for both insurance contracts both for retail and institutional clients as a Direct Broker as well as for insurance companies as a reinsurance broker.

Role of an Insurance Broker Regulation 3 of the IRDA (Insurance Brokers) Regulations, 2002 summarises the functions of a Direct Broker:

(a) Since a Broker represents a client, he is expected to obtain detailed information on client's business and risk management philosophy and familiarise himself with the client'sbusiness

(b) Render proper advice to the client in selecting the appropriate insurance as well as terms of insurance

(c) Possessingadetailedknowledgeofinsurancemarketstobeinapositiontoadvicehisclient

(d) Submitting quotation received from insurance companies for consideration of aclient

(e) Providing the information required about the client or the subject matter to be insured, to enable insurer to properly assess the risk and give a premiumquotation

(f) Updating customer about the progress of the proposal submitted and providing written acknowledgements

(g) Assisting clients in paying premiums under Section 64VB of the Insurance Act,1938

(h) Assisting clients in negotiation of claims and maintenance of claimrecords

Regulation 4 lists down the functions of a Reinsurance Broker:

(a) Familiarising himself about the client's business and risk retentionphilosophy

(b) Maintaining clear records of insurer to assistreinsurers

(c) Rendering advice based on technical data on the reinsurance covers available in the international insurance and the reinsurancemarkets

(d) Maintaining a database of available reinsurance markets including solvency ratings of individualreinsurers

(e) Rendering consultancy and risk management services forreinsurance

(f) Selecting and recommending a reinsurer or a group ofreinsurers

(g) Negotiating with a reinsurer on client'sbehalf

(h) Assisting in the case of commutation of reinsurance contracts placed withthem

(i) Acting promptly on instructions from a client and providing it written acknowledgement and progressreports

(j) Collecting and remitting premiums and claims within such time as agreedupon

(k) Assisting in the negotiation and settlement of claims

(l) Maintaining proper records ofclaims

(m) Exercising due care and diligence at the time of selection of reinsurers and international reinsurance brokers having regard to their respective security rating and establishing respective responsibilities at the time of engaging theirservices

The person entitled to become an Insurance Broker can be an individual, firm, a Company under the Companies Act, 1956; a Co-operative Society registered under the Co-operative Societies Act, 1912 or under any other law for the registration of Co-operative Societies or such other persons as IRDA recognises to act as an insurance broker.

Normally, IRDA encourages only Companies to take up Insurance Broking.

Requirements for licensing of an Insurance Broker

(a) Application for broking licence, duly filled in and signed by the authorised signatory, along with supportingdocuments

(b) Memorandum and Articles of Association shall contain "solicitation or procuring insurance business as an Insurance Broker" as the mainobject

(c) Appointment of a Principal Officer who is the Director or the Chief Executive Officer appointed exclusively to carry out the functions of an insurance broker. Such a Principal Officer is subject to minimum qualifications as prescribed under the Regulations and shall undergo theoretical and practical training from IRDA accredited training institutes and has passed the examination conducted by National Insurance Academy, Pune or any other examiningbody.

Atleast two employees of the applicant entity who have the minimum qualifications as prescribed by the Regulations and has undergone the practical training and passed the examination as mentioned above. Only such employees are authorised to solicit or procure insurance business on behalf of the insurancebroker.

(d) An insurance broker may have as many numbers of authorized employees fulfilling the above conditions, as required depending on the businessplan.

(e) The entity formed shall be solely engaged in the business of insurance broking and no other business

(f) The non-resident equity in insurance broking entity shall not exceed26%

(g) Minimum capital requirements for the broking entity: Direct Broker `50 lakhs Reinsurance Broker `200 lakhs Composite Broker `250lakhs

(h) A minimum of 20% of the initial capital shall be kept in a Bank deposit which shall not be released without the prior approval ofIRDA

(i) A professional indemnity insurance policy shall be taken by the broker as prescribed in the Regulations. IRDA may suitable cases allow a newly licensed broker to product the policy within 15 months from the date of issue of originallicence

(j) Payment of Registration fee as follows: Category of Insurance Broker Amount of Registration fee payable Direct Broker `20,000 Reinsurance broker `25,000 Composite Broker`40,000

(k) Qualifications and Disqualifications The Principal Officer and each of the employees authorised to sell on behalf of the Insurance Broker shall possess one of the following minimum qualifications:

(a) Bachelor’s or Masters Degree in arts, science or social sciences, engineering or its equivalent, law or itsequivalent

(b) Master’s Degree in Business Administration or its equivalent from any institution or university

(c) Associate or Fellow of the Insurance Institute of India or Institute of Risk Management or Institute of Chartered Accountants of India or Institute of Cost and Works Accountants of India or Institute of Company Secretaries of India or Institute of Actuaries of India or a Certified Associate of the Indian Institute ofBankers

(d) Such other qualification as may be prescribed by IRDA the Insurance Broker shall not suffer from any of the disqualifications which are similar to the disqualifications prescribed for an individualagent

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(d) Such other qualification as may be prescribed by IRDA The Insurance Broker shall not suffer from any of the disqualifications which are similar to the disqualifications prescribed for an individualagent

Annual Fee Every Broker shall pay an Annual Licence Fee as follows:

Category of Insurance Broker	Amount of annual license fee payable per annum
Direct Broker	A sum calculated at the rate of 0.50 per cent of the remuneration earned in the preceding financial year subject to minimum of INR 25000 and maximum of INR 100000.
Reinsurance broker	A sum calculated at the rate of 0.50 per cent of the remuneration earned in the preceding financial year subject to minimum of INR 75000 and maximum of INR 300000
Composite Broker	A sum calculated at the rate of 0.50 per cent of the remuneration earned in the preceding financial year subject to minimum of INR 125000 and maximum of INR 500000

Renewal of licence

A licenceissued to an Insurance Broker is valid for 3 years unless suspended or cancelled before the expiry of the 3 year period. The licence shall be renewable for a further period of 3 years subject to the following conditions:

(a) Application for renewal has to be submitted 30 days in advance of the date of expiry of licence

(b) Additional fee of Rs.100 in case the application reaches after the 30 days but before the expiry oflicence

(c) Additional fee of Rs.750 in case the application reaches after the expiry of the licence for valid reasons to the satisfaction ofIRDA

(d) Principal Officer and every employee authorised to sell on behalf of the insurance broker to undergo 25 hours of theoretical and practical training by IRDA accredited traininginstitutes

Difference between Insurance Agent and Insurance Broker

The basic difference between an Insurance Broker and an Insurance Agent is that while an Insurance Broker represents the client, while an Insurance Agent represents the insurance company. As a corollary to the above, an Insurance Broker is licensed to recommend the products of any insurance company, whereas Insurance Agent at any point in time can sell the insurance products of only one insurance company with which he is attached.

Surveyors or a Loss Assessor

A Surveyor or a Loss Assessor is relevant for general insurance business, where assessment of the loss of the subject matter insured is very important for deciding the claim amount. As general insurance contracts are indemnity contracts in nature, the amount paid by the insurance company cannot exceed the amount of actual loss incurred.

The job of the Surveyor or a Loss Assessor is therefore to arrive at the exact amount of loss incurred and his role is critical to a general insurer. Every person who is a student-member of the Institutes of Surveyors and Loss Assessors intending to act as a Surveyor or Loss Assessor is required to be licensed by IRDA before he starts performing his functions for any general insurer. A licence issued for a Surveyor or a Loss Assessor shall be valid for a period of 5 years after which it is required to be renewed.

A Surveyor and Loss Assessor shall be categorized into 3 categories;

The three categories are Licentiate, Associateship and Fellowship which is awarded by the Institute of Surveyors and Loss Assessors. The nature of surveyor or loss assessment work which can be undertaken would depend upon the categorisation. Further IRDA shall also allot the department or the area work for the Surveyor and Loss Assessor from time to time. Requirements for issue of a licence for Surveyor or Loss Assessor Regulation 3 of the Insurance **Surveyors and Loss Assessors (Licensing, Professional and Code of conduct) Regulations, 2000 specify the requirements for issue of alicence:**

(a) He holds a degree in any branch of engineering (or) Post graduate diploma in general insurance issued by Institute of Insurance and Risk Management (or) a Degree in Agriculture (or)

(b) He is a member of the Institute of Chartered Accountants of India or the Institute of Cost and Works Accountants of India(or)

(c) He possesses actuarial qualifications or holds a degree or diploma of any recognised university or an institute in relation to insurance(or)

(d) He holds a diploma in insurance granted or recognised by the Government(or)

(e) He holds such other technical qualifications as prescribed by IRDA(and)

(f) He does not suffer from any of the disqualifications mentioned in section 42(4) Where the entity is a company or a firm, all the directors or partners shall possess one of the qualifications as prescribed above and none of the directors or partners suffer from any of the disqualifications mentioned as above(and)

(g) Payment of fees based on the categorisation of the applicant(and)

(h) Has undergone practical training as a Student-member under a licensed Surveyor and Loss Assessor (who shall be a Fellow or Associate member of the Institute) for a period of 12 months as contained in Chapter VII (persons who have more than 15 years experiencein risk management and general insurance are exempt from this training)(and)

(i) Has passed the Surveyor examination conducted by the Insurance Institute of India or such other institute recognised by IRDA(and)

(j) Has undergone the special training provided by the Indian Institute of Surveyors and Loss Assessors for 100 hours for Fellowship, 50 hours for Associate and 25 hours for Licentiate level (and)

(k) He attends seminars and workshops organised by the Institute for a minimum number of seminars, viz., 10 seminars for fellowship, 8 for Associateship and 5 for Fellowship level Where the applicant is a company or firm, all the directors or partners, as the case may be, shall possess one or more of the qualifications specified above and does not suffer form any of the disqualifications mentioned in Section 42D(4) of the Insurance Act, 1938. Atleast 2 Directors or partners shall be members of the institute and shall hold the licence to act as a surveyor and loss assessor. The level of membership or the department to which the directors or partners belong to shall become the level of membership or the department for the company or firm. Employees of the company of the firm, who are licensed as surveyor and loss assessor shall undertake survey only in those areas allotted to them based on the level of membership and the department to which they are eligible as per their individual licence. However this eligibility is subject to the level of membership or the department of the company or the firm (which is dependent on the directors/partners eligibility asabove).

The following are the further conditions prescribed:

(a) Foreign equity in the Surveyor and Loss assessor entity shall not exceed26%

(b) Common directors or partners between two Surveyor and Loss assessor entitiesprohibited

(c) One Promoter or Subscriber can have only one Surveyor and Loss assessorlicence

(d) Main objects clause of the deed of constitution shall contain the activity of “to carry our insurance survey and lossassessment”

(e) Name of the Company or firm shall contain the words “Insurance Surveyors and Loss Assessors”

The Fees payable for issue of licence are as follows:

Sr.No.	Level of membership in the Institute	Individual licence	Corporate licence
1	Fellowship	₹10,000	₹15,000
2	Associateship	₹7,500	₹20,000
3	Licentiate	₹5,000	₹15,000

IRDA, on being satisfied that the applicant is eligible for issue of a licence shall send intimation to the applicant together with an identity card mentioning the particular class or category of general insurance business, namely, fire, marine cargo, marine hull, engineering, motor, miscellaneous and loss of profit, for which the Authority has grantedlicence.

Role of a Surveyor or Loss Assessor

The primary responsibility of a Surveyor or a Loss assessor is to estimate the liability of the loss incurred by the Policyholder who has taken an insurance cover, to enable the insurance company to arrive at the amount to be indemnified to the Policyholders under the terms of insurance contract. The following are the specific duties and responsibilities as enshrined under the Regulations:

(a) Declaration of conflicts of interest: In case the surveyor is interested in the subject matter under loss assessment or in the policyholder whose subject matter is being assessed, he must declare the conflict to the insurer and stay away from the assessment exercise. For example, if the Surveyor is the son of the Policyholder whose car has been damaged in a fire accident, such a Surveyor cannot assess the loss of the car of his Father, in view of the conflict of interest. He must declare this relationship to the insurer concerned and not conduct the survey proceedings in suchcases

(b) Maintenance of confidentiality and neutrality in the loss assessment exercise. He has to keep the interests of both the insurer and the policyholder inmind

(c) He must investigate the causes and circumstances of the loss inquestion

(d) He must personally conduct a spot survey and comment upon excess insurance or under insurance

(e) Advise the insurer about loss minimisation or loss control efforts or security and safety measures which can be adopted to ensure that the incidence of loss is reduced or avoided in future

(f) Pointing out discrepancy in policy wordings, ifany

(g) Satisfying the queries of the insured or the insurer in connection with the claim orloss

(h) Recommending applicability of depreciation and its percentage andquantum

(i) Commenting on salvage and its disposal either the insurance company or the insured can appoint a licensed surveyor for any loss exceeding `20,000, within 72 hours of knowledge of loss to the insured. Notice of such appointment shall be sent to the insurance company or the insured, as the case may be. The Surveyor and Loss Assessor shall undertake survey only in the department for which license was In case there is any dispute or difference by the insured, another licensed surveyor shall be appointed to conduct the survey at the cost of the insured. Dispute on the quantum of loss may be referred to arbitration. A surveyor shall submit his report within 30 days of his appointment. In exceptional cases, the surveyor may seek extension of time up to 6 months from the insurer, under intimation to the insured. Where the report is incomplete, the insurer may seek additional report within 15 days of submission of the report by the Surveyor. Under such circumstances, the Surveyor shall submit the additional report within 3 weeks of request from theinsurer.

THIRD PARTY ADMINISTRATORS-HEALTH

A Third Party Administrator ('TPA') is a person appointed by an insurance company to render services in connection with health insurance business or health cover, excluding the insurance business of an insurer and soliciting or procuring insurance business directly or through an intermediary or an insurance agent.

TPAs are normally engaged to provide services in connection with hospitalisation of an insured under a health insurance policy taken through a general insurance company or a standalone health insurance company or under health insurance rider covers offered by life insurance companies. They also offer certain other services like arranging for medical examination of the insuredbeforeapolicyisissuedbyaninsurancecompanyetc.Requirementsforbecominga

TPA A person can act as a TPA only with a valid licence issued by IRDA to perform the functions of a TPA.

The requirements for obtaining a licence are as follows:

(a) Entity: The person applying for a licence shall be an entity which is a Company under the Companies Act,1956

(b) Primary object: The main object as per the Memorandum and Articles of Association shall be to carry on business in India as TPA in the health services. Further engaging in any business other than TPA isprohibited

(c) Minimum paid up capital: Rupees One crore and maintenance of working capital of Rs.1 croreat alltimes.

(d) One of the Directors to be registered with Medical Council: One of the directors of the TPA shall be a qualified medical doctor registered with Medical Council ofIndia

(e) Foreign equity restricted to 26%: TPA entity shall not have foreign holdings in excess of 26%

(f) Transfer of shares in excess of 5%: Prior approval of IRDA necessary before affecting any transfer of shares in excess of 5% either through direct transfer or through issue of fresh equity shares to new or existingshareholders

(g) Fee: A processing fee of Rs.20,000 shall be payable along with the application. A further sum of `30,000 shall be payable as licence fee before the licenceisissued

A licence granted under these Regulations shall be valid for 3 years, after which, upon payment of a renewal of `30,000, may be renewed for a further period of 3years.

Intimation of certain changes to IRDA

Every TPA shall inform the appointment of a new Chief Executive Officer ('CEO') or Chief Administrative Officer ('CAO') or a Director on the Board of TPA to IRD within 30 days of appointment .

Every TPA shall inform IRDA the details of head office or branch offices closed or relocated within 15 days of such closure or relocation

Qualifications of CEO or CAO

Every person proposed to be appointed as a CEO or a CAO of the TPA shall possess the following qualifications:

(a) He shall hold a degree in arts, science, commerce or management or health or hospital administration ormedicine

(b) A pass in the Associateship examination conducted by the Insurance Institute of India or such equivalent examination as decided byIRDA

(c) Completion of 100 hours of practical training with institutions recognized byIRDA

(d) He shall not be of unsound mind or undischarged insolvent or a person who had been subject to imprisonment for a period of 3 months by a Court on the grounds of misfeasance, misconduct or forgery etc. Decision making on claims by TPAs prohibited A TPA is prohibited from taking any decisions on any claims. A TPA can only assess and recommend admission of a claim or otherwise based on the guidelines provided by the insurer in terms of the agreement entered with them. Once the insurer takes a decision on the claim and communicates it to the TPA, the TPA shall clearly state as follows in their communication to the Policyholder who has registered a claim: "As per the instructions of the insurer the claim is being settled/denied for Rs. on account of . For any further clarifications, you may directly contact theinsurer."

Bar on Non-insurance healthcare schemes

The TPA shall offer health services only in accordance with the IRDA (Third Party Administrators) Regulations, 2001 and shall not provide any services:

(a) directly or indirectly to non-insurance healthcare schemesor

(b) directly to health insurance schemes promoted, sponsored or approved by entitiesnot

(c) being insurance companies, such as Governments, PSU'setc.

(d) directly or indirectly to the policyholder or insured, except the health services as per the agreement with theinsurer.

Agreement between a TPA and an Insurance company

a. The insurer and the TPA shall themselves define the scope of the Agreement, the health and related services that may be provided by the TPA and the remuneration therefore. Provided that there shall be a clause in the Agreement for its termination by either party on grounds of mutual consent or any fraud, misrepresentation, inadequacy of service or other non-compliance or default fraud. Provided further that, there shall be no element in the Agreement which dilutes, restricts or otherwise modifies the stipulations of the IRDA in respect of Policy Holder welfare, protection, service standards and turnaround-timeparameters.

b. The remuneration to the TPA shall be based on the services rendered to the insurer and shall not be related to the product/policy experience or the reduction of claim costs or loss ratios of the insurer.

c. A copy of the Agreement entered into between the TPA and the Insurance Company or any modification thereof, shall be filed, within 15 days of its execution or modification, as the case may be, with theAuthority.

d. More than one TPA may be engaged by an insurance company and, similarly, a TPA can serve more than one insurancecompany

e. The Authority from time to time may prescribe minimum standard clauses to be included in the agreement between insurer andTPA.

Change of TPAs for servicing of Health Insurance Policies

a. A change in the TPA by the insurer shall be communicated to the policyholders 30 days before giving effect to thechange.

b. The contact details like helpline numbers, addresses, etc. of the new TPA shall be made immediately available to all the policyholders in case of change ofTPA.

c. The insurers shall take over all the data in respect of the policies serviced by the earlier TPA and make sure that the same is transferred seamlessly to the newly assigned TPA, if any. It shall be ensured that no inconvenience or hardship is caused to the policyholders as a result of the change.

In this regard, the following aspects shall receive special attention:

i. Status of cases where pre-authorization has already been issued by existingTPA.

ii. Status of cases where claim documents have been submitted to the existing TPA for processing.

iii. Status of claims where processing has been completed by the TPA and payment is pending with the insurer/TPA.

Data and related issues

a. The TPA and the insurer shall establish a seamless flow of data transfer for all theclaims.

b. The respective files shall be handed over to the insurer within 15 days of the claim settlement or rejection.

CERTIFICATION OF INSURANCE PROFESSIONALS AND TRAINING ORGANISATIONS

It would be noted across the IRDA regulations on insurance agents and intermediaries that undergoing training is mandatory condition in most of the cases as one of the prerequisites to licensing. The training can be imparted only by IRDA approved training institutions. While institutions like Insurance Institute of India, Indian Institute of Risk Management, and National Insurance Academy are associated with the insurance industry to provide training inputs on an ongoing basis to the various functionaries within the industry, the IRDA accredited training institutes play a major role in training insurance distributors like Individual agents, corporate agents, Insurance Brokers etc.

The Salient Features of Instructions as Issued By IRDA for Accredited Training Institutes A Training facility can be provided by either IRDA accredited Agents Training Institutes ('ATIs') or by the Insurer's own accredited Training college (which is a part of the insurance company's organisation). Further a Training can be provided either offline or online by such Institutes. An accreditation is provided to Training Institute by IRDA subject to the following conditions:

(a) Institutes which are engaged in training for financial / insurance products for more than 3 years are eligible to apply for starting an offline/online institute. However this will not apply to in-house institutes of insurers

(b) Only entities registered as Company under the Companies Act and Society and trusts registered under Societies Registration Act shall be eligible to apply for accreditation as ATls.

(c)The accreditation will be given on need basis. The existing private ATls will be granted a one-time permission as assessed by the Committee to relocate the centers within the state. The existing ATls will also be eligible for reallocation of the centres within the state based on the assessments made by the Standing Committee.

(d) For a new location if more than one private Agents Training Institutes apply for accreditation, internal grading and marking system will be applied to give accreditation on merits. The ATls shall register themselves with PF Commissioner and scrupulously follow the statutory provisions regarding the contribution of the PF amount to the accounts of the employees.

(e) The initial approval will be for a period of 3 years and consideration of further renewal next 3 years would depend on the satisfactory compliance of requirements of accreditation. Accreditation of any centre which has not conducted any pre recruitment training for one year continuously will be liable for cancellation. For renewal cases the ATIs are required to apply with all documents/details 3 months in advance of expiry of accreditation.

How Training shall be conducted for Distributors The 50 hours training which is normally required to be conducted for all Individual Agents, Specified Persons of Corporate Agents and Authorised employees of Insurance Brokers etc., shall be as follows: The training shall be based on the books prescribed by the Authority for life insurance i.e. IC-33 and for nonlife insurance IC-34.

(a) The training duration for new license is 7 days minimum including Sundays but excluding national holidays with 8 hours per day excluding lunch and tea break applicable for full time batches.

(b) For the part-time batches the training can be imparted 4 hours daily excluding tea break and the minimum duration of the training will be 14 days including Sundays but excluding national holidays. In case of composite training duration are 11 days & 22 days respectively for full time and part time training.

(c) Any candidate to qualify for the exam must complete 50 hours or 75 hours training as applicable. For renewal of license candidate must attend 25 hours training in each stream i.e. life or non-life separately in 4 days or 8 days respectively. Product related training and market survey shall not be included in this statutory training. The product training, if any, to be given by the insurance company should be conducted separately and over and above the minimum training hours prescribed by the Authority.

Attendance

The attendance record of the trainees should be maintained at the Institute for necessary inspection at any given point of time. Faculty (a) Every Institute should have at least one qualified permanent full-time faculty for each stream i.e. for Life and Non-Life having any of the qualifications as prescribed below:-

1. I 0 years of experience in the managerial cadre with any insurer.
2. The qualified surveyors, Engineers with B.Tech Degree from recognized universities, CA, CS and ICWAl qualified professional*
3. LOMA level 1 Qualification*.
4. Associate from Insurance lnstitute of India*.
5. Post graduation qualification in insurance provided by university recognised by UGC like PG diploma in insurance, MBA in insurance, Associate from CII, London and Diploma from IIRM, Hyderabad*.
6. Qualified students of post graduate diploma in insurance earlier approved by IRDA in year 2003 offered by IRDA (a)approved institutes*.

(b) attendance register of the faculty members should be maintained at the training institutes.

(c) The record of the payment made to faculty should be maintained at the training institute i.e. batch-wise payment detail should be maintained. In case the employment of the faculty is full time, record of monthly wages payment should be maintained. All payments to faculty will be made through bank.

(d) The faculty should provide details of the other Institutes with whom they have been empanelled as parttime/guest faculty. The faculty must also inform the other Institutes of his/her leaving one institute and joining any other training institute. Any change in main qualified permanent faculty must be intimated to the Authority within one month.

(7) The Agents Training Institutes must impart pre recruitment training to only those candidates who are sponsored by insurers by online allotment of training slot and training completion certification on portal.

(8) The Agents training institutes are permitted to undertake courses on insurance, sponsored by Insurers or being conducted by Ill, NIA, IIRM, Actuarial society of India, CII London or any other insurance related training. Agents Training Institute must have at least one classroom dedicated for pre recruitment training.

(9) For the purpose of accreditation of private Agents Training lnstitute the proof of ownership or tenancy of the premises in the name of Agent Training institute are sufficient for accreditation. In case of in-house Agents Training institute where the training centre is situated in the branch approved by IRDA, copy of IRDA approval of branch is acceptable.

(10) Infrastructure: It is mandatory for every Agent Training lnstitute to have at-least one classroom with a minimum carpet area of 200 sq. Feet apart from office room and wash room, dedicated to 50125 hours training. Every Agent Training lnstitute must provide one computer for each classroom to practice the online exam mock test. The classroom should have comfortable seating arrangements permanently available.

(11) Batch size the maximum number of candidates permitted in a batch for training will be 40. To reduce the cost of training, Agent Training Institutes may include candidates from different insurers in the same batch provided the total number does not exceed maximum number of candidates permitted.

(12) The insurance institute of India shall regularly send their officials to oversee the proper conduct of the training at the institutes and would not sponsor candidates to those institutes that are not maintaining the required standards of and facilities for the training. In-house training centers will be subject to regular inspections and audit by the insurer concerned in addition to inspection by officials of the Authority and

(13) The training institute must display the certificate of accreditation to impart training issued by the Authority at the training institute.

(14)The institute should not allow a franchisee to conduct courses on its behalf, even with the faculty of the Institute. The institute should conduct the training only on its approved premises with proper infrastructure.

(15) No marketing fee/consultancy fee payment is permitted for getting the training batches.

(16) It will be the responsibility of the insurance Company to check the status of the institute before sponsoring any candidates for training.

(17) In case of the cities where there are no accredited institutes or the institute is situated 50 Km away an insurance company

intends to appoint agents, it will be the responsibility of the insurance company to conduct training. The employed faculty only of the in-house training centers may impart training at such places. No temporary/guest faculty is permissible for the in-house training centers of the insurers. The insurers may seek prior approval to conduct such batches from the Authority.

(18) The Institutes must keep with them one set of original records of the training at the place where the training is being imparted. The institute with multiple locations must keep copy of all training records at head office of the institute however original record has to be kept at respective center only.

(19) The Institute should confine its activities generally within 50 KM radius only to the place city for which it has been given the approval. No training for the candidates outside the said place city is permitted. If during the course of the inspection by the officials of the Authority, it is found that the institute is not maintaining dedicated class-room, the accreditation of the institute will stand cancelled without giving any notice.

(20) The institute may ensure that the batch size/batches taken by the institute are commensurate with the infrastructure1 facilities available and approved by the Institute.

(21) In order to ensure prompt compliance and smooth monitoring all the insurers are advised to nominate a nodal officer at corporate level who will be responsible for communicating with Authority in the area of training on the lines of designated officers for licensing.

(22) The existing Institutes should report compliance with these instructions within 15 days from the date of issuance of these guidelines. The institutes must inform the authority the location and contact details of head office of the institute.

(23) The Insurance companies/ATls are advised to consider the current address of the candidates for nomination to a particular location. Training institutes are allowed to admit candidates from the same district where the AT1 is located or any other district which shares the boundary with the district of the ATI.

SATHYABAMA

INSTITUTE OF SCIENCE AND TECHNOLOGY

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SCHOOL OF MANAGEMENT STUDIES

UNIT – 4 –INSURANCE MANAGEMENT – SBAA1505

UNIT 4 REGULATORY ENVIRONMENT

Regulation of Insurance Business – Insurance Act -Insurance regulatory and Development Act – Powers and Functions of IRDA, Relevant Regulations and Guidelines issued by IRDA, Licensing, Audit & Supervision, Investments, Amalgamation and Transfer, Grievance Redressal, Ombudsman – Rural and Social Sector Obligations, Micro Insurance, Financial Inclusion.

REGULATION OF INSURANCE BUSINESS IN INDIA

This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a committee under the chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein, among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies beallowed to enter by floating Indian companies, preferably a joint venture with Indian partners. Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market. The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulationsunderSection114AoftheInsuranceAct,1938andhasfrom2000onwardsframed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests. In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002. Today there are 24 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 23 life insurance companies operating in the country.

Beside IRDA Act and Insurance Act, 1938, there are some common Act/Regulation to the General and Life Insurance Business in India and some Acts have been made for specific requirement of Life Insurance/General Insurance Acts/Regulations common to General and Life Insurance Business in India The following Acts regulate the Insurance Business in India.

• Insurance Act,1938

• IRDA Act,1999

• Insurance Amendment Act,2002

• Exchange Control Regulations(FEMA)

• Insurance Co-opSociety

• Indian Stamp Act,1899

•Consumer Protection Act,1986

• Insurance Ombudsman

Regulations governing/ affecting Life Insurance Business in India

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

• LIC Act,1956

• Amendments to LICAct

Regulations Affecting General Insurance Business in India

The following Acts affect, circumscribe or regulate in some way or the other, some aspect of the General Insurance 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

• Workmens' Compensation Act,1923

• ESI Act,1948

• Public Liability Insurance Act.1991

Why Regulation of Insurance Businesses is required?

Any industry wherein the stakes of the public are high would come within the purview of a Regulation – reason being that failure of such companies could result in serious implications on the economy of the country at large. Insurance business involves collection of money from various Policyholders, investing them properly, honouring the obligations of the Policyholders and providing an efficient service. It is important to ensure that the entities providing these services stick to their commitments. Failure to honour commitments by such entities could have major repercussions on the financial services industry. After liberalisation and entrance of Private players in Insurance business and Seeing the large numbers of customers and high risk potential, Government of India constituted the Insurance Regulatory and Development Authority in Year1999.

CONSTITUTION OF INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY

The IRD Act has established the Insurance Regulatory and Development Authority ("IRDA" or "Authority") as a statutory regulator to regulate and promote the insurance industry in India and to protect the interests of holders of insurance policies. The IRDA Act also carried out a series of amendments to the Act of1938 and conferred the powers of the Controller of Insurance on the IRDA. 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 etc. The Authority consists of a chairperson, not more than five whole-time members and not more than four part-time members. Every Chairperson and member of IRDA appointed shall hold office for a term of five years. However, Chairperson shall not hold office once he or she attains 65 years while whole time members shall not hold office beyond 62 years. Central Government may remove any member from office if he or she is adjudged insolvent or is physically or mentally incapacitated or has been convicted of an offence involving moral turpitude or has acquired financial or other interests or has abused his position. Chairperson and the whole time members shall not for a period of two years from the date of cessation of office in IRDA, hold office as an employee with Central Government or any State Government or with any company in the insurancesector.

POWERS /FUNCTIONS OF IRDA Under Section 14 of the IRDA Act, IRDA has the following powers:

(a) Issue of Certificate of Registration to insurance companies, renew, modify, withdraw, suspend or cancel the certificate ofregistration

(b) Protection of interests of policyholders in matters concerning assignment of policies, nomination, insurable interest, claim settlement, surrender value and other terms and conditions of insurancecontract

(c) Specification of requisite qualifications, practical training and code of conduct for insurance agents andintermediaries

(d) Specification of code of conduct for surveyors and lossassessors

(e) Promoting efficiency in the conduct of insurancebusiness

(f) Promoting and regulating professional organizations connected with insurance and reinsurancebusiness

(g) Levying fees and other charges for carrying out the purposes of theAct

(h) Calling for information from or undertaking inspection of insurance companies, intermediaries and other oganisations connected with insurance business

(i) Control and regulation of rates, advantages, terms and conditions that may be offered by general insurancecompanies

(j) Specifying the form and manner in which books of account shall be maintained by insurance companies andintermediaries

(k) Regulation of investments of funds by insurancecompanies

(l) Regulation of maintenance of margin ofsolvency

(m) Adjudication of disputes between insurers and insurance intermediaries

(n) Supervising the functioning of Tariff AdvisoryCommittee

(o) Specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professionalorganizations

(p) Specifying the percentage of insurance business to be undertaken by insurers in rural or socialsectors

(q) Such other powers as may beprescribed.

Powers of IRDA with reference to control of management of insurance companies, takeover of management, mergers, acquisitions and winding up Section 52A empowers IRDA to make a report to Central Government if the affairs of a Life insurance Company are carried on in any manner prejudicial to the interests of policyholders.

Based on the Report, the Central Government is empowered to appoint an Administrator to manage the affairs of the life insurance company.

A report shall be filed by such Administrator to the Central Government giving his recommendations on the way forward, including the options of transfer of business to an existing insurer or winding up, as he deems fit.

Central Government is empowered to take such action as it deems fit based on the Report of the Administrator.

Section 52H empowers Central Government to acquire the undertaking of any insurer based on a report from IRDA on failure to comply with directions or if the insurance company is being managed in a manner detrimental to the public interest or in the interests of public or policyholders it is appropriate to doso.

Central Government may make a scheme for transfer of undertaking of the insurer to another insurer in such cases and decide the appropriate compensation in such cases.

The Central Government may constitute a Tribunal comprising of a Chairman (a person who is or has been a Judge of the Supreme Court or a High Court) and two other members (one of whom has experience in insurance and the other a Chartered Accountant) for thispurpose.

Section 53 empowers the Tribunal to order for winding up in accordance with the Companies Act, 1956, if based on a petition presented by shareholders holding not less than one-tenth of the whole body of shareholders and holding not less than one-tenth of the whole share capital or by not less than fifty policyholders holding life insurance policies in force for not less than three years of total value of not less than `50,000, the Tribunal is satisfied to do so. In addition, IRDA may also apply to the Tribunal for winding up on the following grounds:

(a) That the insurance company failed to deposit or keep deposited with Reserve Bank of India, the amount required to be deposited under Section 7 or Section98

(b) That the insurance company has failed to comply with any requirement of the Insurance Act or has continued contravention for a period of three months after notice of such failure or contravention has been conveyed to the Company byIRDA

(c) That it appears from returns or statements filed by the Company or from the results of the Company that the company is deemed to beinsolvent

(d) That the continuance of the company is prejudicial to the interests of the policyholders or to the public interestgenerally

It may be noted that Section 54 of the Act prohibits voluntary winding up of insurance companies, except for the purpose of effecting an amalgamation or reconstruction of the company or on the ground that by reason of its liabilities it cannot continue its business. This provision overrides the provisions of the Companies Act, 1956 on this point. An appeal against the Tribunal formed under the Insurance Act shall lie with the National Company Law Appellate Tribunal

Opening of places of business requires prior approval of IRDA Section 64VC requires every insurance company to take a approval in advance in IRDA for opening any place of business or for relocation of an existing place of business outside the same city, town or village. The approval is required to be sought for opening of any offices, whether called as Branch office, Head Office, Administrative office, Satellite office or any other similarnames.

Powers of IRDA for imposition of penalties for default in complying with the Act (Section 102) Section 102 empowers IRDA to impose a penalty not exceeding Rupees five lakhs for each of the following failures by an insurancecompany:

(a) Failure to furnish any document, statement, account, return or report toIRDA

(b) Failure to comply with the directions (Section 34 empowers IRDA to issue directions if it is satisfied to do so in the interests of public or for prevention of affairs being conducted detrimental to policyholders or to secure proper management of anyinsurer)

(c) Failure to maintain the required solvencymargin

(d) Failure to comply with the directions on the insurance treaties Further Section 105B empowers IRDA to impose a penalty not exceeding Rupees Five lakhs for failure to comply with Section 32B, while Section 105C empowers IRDA to impose a penalty not exceeding Rupees Twenty five lakhs for failure to comply with Section 32C, with cancellation of certificate of registration for continuingfailure.

Regulation/Guidelines relating to Licensing Audit and Supervisions of Insurance Companies Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Regulations, 2000, contains the provisions relating to licensing of Insurance companies in India. These provisions have been amended from time to time and provide detailed guidelines for registration as Insurance Company in

India. For supervising the operations of Insurance Companies in India, IRDA has issued various guidelines from time to time and discussed under relevant chapters. As per the Insurance Regulatory and Development Authority (Registration of Indian Insurance Companies) Regulations, 2000 (as amended), every entity wishes to work as an Insurance Company needs to apply with IRDA in the prescribed format.

IRDA (Licensing of Insurance Agents) Regulations, 2000 & IRDA (Licensing of Corporate Agents), 2002

These Regulations provide for the conditions of licensing for individual insurance agents under Section 42. The Regulations cover the following:

(a) Prescription of application for IRDA licensing along with the feesrequired

(b) Prescription of minimum qualifications for becoming an insurance agent – 12th standard or equivalentexaminationiftheAgentresidesatplaceswithpopulationof5,000ormoreasper census and a pass in the 10th standard or equivalent examination for candidates residing in any other place

(c) Practical training requirements from an approved training institution for 50 hours covering various insurance subjects. Further, the training hours for an agent who is going for a composite licence – i.e. one life and one non-life licence, the training requirement is 75 hours Where the applicant possesses professional qualifications such as membership of the Institute of Chartered Accountants, Cost an Works Accountant or Company Secretaries, Actuaries or an MBA, the number of training hours is reduced to25.

(d) Pre-recruitment examinations to be conducted by the Insurance Institute ofIndia

(e) Prescription of codes of conduct for Agents In the case of Corporate Agents, i.e. where the entity licensed as an agent is a Company or firm, it must have at the minimum a Corporate Insurance Executive and Specified Persons who are employees of the Corporate Agent entity and who will have to possess minimum qualifications, undergo the practical training and pass the examination conducted by the Insurance Institute of India. A licenceissued under these Regulations is valid for a period of 3 years after which it shall be renewed for continued eligibility for Agents to solicit or procure insurance business. Insurance Surveyors and Loss Assessors (Licensing, Professional Requirements and Code of Conduct) Regulations, 2000, Insurance Surveyors and Loss Assessors (Licensing, Professional Requirements and Code of Conduct) Regulations, 2000, as amended by, Insurance Surveyors and Loss Assessors (Licensing, Professional Requirements and Code of Conduct) (Amendment) Regulations, 2013 contains provisions relating to registration, regulation and supervision of Insurance and loss surveyors in India. Insurance Regulatory and Development Authority (Health Insurance) Regulations, 2013 Insurance Regulatory and Development Authority (Health Insurance) Regulations, 2013 contains the provisions relating to registration and other requirement relating to third party administrator inIndia.

IRDA (SCHEME OF AMALGAMATION AND TRANSFER OF LIFE INSURANCE BUSINESS) REGULATIONS, 2013 AND IRDA (SCHEME OF AMALGAMATION AND TRANSFER OF GENERAL INSURANCE BUSINESS REGULATIONS, 2011)

Under the provisions of the Act, a Scheme of amalgamation or transfer is possible only between two life insurance companies or two general insurance companies, It is not possible for a life insurance company to be acquired by a general insurance company or vice versa, since separate insurance companies are required to be formed for transacting life and general insurance businesses.

The Regulations require submission of every proposal for implementation of proposed amalgamation to be submitted to IRDA for a prior approval along with the draft Scheme of amalgamation. However, before submission of the application, notice of intention to submit the application shall be submitted one month before filing the application for approval for every proposal for implementation as above along with a statement on the nature of amalgamation or transfer along with the following documents:

(a) Draft of the agreement for the proposed amalgamation ortransfer

(b) BalanceSheetsofboththetargetinsurancecompanyandtheacquiringinsurancecompany

(c) Financial Condition Report. Solvency Statements and Incurred but not Reported(IBNR) Report of both the insurance companies

(d) Report by an Independent Actuary (who has not been connected with any of the two insurance companies during the past 3 years) on the proposed amalgamation ortransfer

(e) Executive summary of the proposed amalgamation or transfer along with the terms on which the transaction has beencontemplated

(f) Report on the manner in which the interests of Policyholders will be protected and the compliance with the applicable laws including the Competition Act, 2002 The financial statements shall be prepared as on the appointed date, i.e. date fixed for the purpose of giving effect to the scheme of amalgamation or transfer and IRDA may cause an independent actuarial valuation of the insurance businesses of the transacting parties. IRDA would then consider issue of an in-principle approval for the proposed amalgamation ortransfer.

Upon receipt of the in-principle approval, the transacting parties shall inform their respective Policyholders about the proposed Scheme of amalgamation or transfer as follows:

(a) Keeping the Scheme open for inspection for Policyholders at the Headoffice;

(b) Uploading the Scheme in the website of the transactingparties;

(c) Statement on nature and terms of amalgamation to be published in one leading National and one vernacular Newspaper and filing copies withIRDA;

(d) Informing all the Policyholders individually giving notice about the application for the proposed amalgamation or transfer. Upon receipt of the in-principle approval from IRDA, the transacting parties would seek other legal clearances or regulatory approvals, including the following: (a) Filing of the Scheme of arrangement, along with the in-principle approval of IRDA, before the relevant Court or Tribunal for confirmation of the Scheme of arrangement under Sections 391 to 394 of the Companies Act, 1956; (b) Filing applications before the Foreign Investments Promotion Board or Reserve Bank of India for seeking necessary approvals; (c) If the insurance companies have a foreign insurance company as a promoter who is regulated in their country of origin, necessary regulatory approvals for the proposed Scheme from the concerned regulator. (d) Such other approvals, including the approval of Securities and Exchange Board of India or the Competition Commission ofIndia.

Upon receipt of all the legal clearances or other regulatory approvals, the transacting parties shall submit all the other approvals to IRDA for seeking their final approval. A final approval is then considered by IRDA keeping in mind the stipulations laid down by the Court/Tribunal and other regulatory authorities and the following considerations:

(a) compliance with the solvency margin requirements after the proposedtransfer

(b) compliance with other applicablelaws

(c) protection of interests ofPolicyholders

(d) orderly growth of the insurance industry and shall accordingly grant the finalapproval.

Upon receipt of final approval from IRDA, the following are the consequences:

(a) The scheme of amalgamation and transfer shall take effect from such date as may be specified by IRDA while granting the finalapproval;

b) The final approval shall be binding on all Policyholders, Creditors or employees of both the transacting parties;

(c) The assets and liabilities of the transferor insurer shall vest with the transferee insurer from the effective date oftransfer;

(d) Publication in one national and one vernacular newspaper confirming completion of the process of amalgamation or transfer. In respect of amalgamation or transfer completed between two life insurance companies, the transferee insurer shall file a certified true copy of the scheme, deed or agreement under which the amalgamation or transfer has been effected along with a declaration from the Chairman and the Principal Officer listing down the various payments made or to be made to any person on account of the amalgamation or transfereffected

IRDA GUIDELINES FOR GRIEVANCE REDRESSAL In order to enforce timely redressal of Customer grievance, the Insurance Regulatory and Development Authority (IRDA) has issued guidelines for grievance redressal by insurance companies. A Grievance is defined as an expression of dissatisfaction by a customer on the action or inaction on the standard of service or deficiency of service of an insurance company or any intermediary and asks for remedial action. It is distinguished from inquiry or a request which is seeking information or requesting for a service and are not considered as Grievances. Every insurance company shall have a designated senior officer at the level of CEO or Compliance Officer of the Company as the Grievance Officer. Further every office of the insurer shall also have a designated Grievance officer for suchoffice.

The process for handing a Grievance is as follows:

(a) Every grievance shall be acknowledged within 3 working days of receipt of grievance, containing the name and designation of the person who will deal with thegrievance

(b) The Grievance redressal procedure including the time taken for resolution of disputes shall be mentioned in theacknowledgement

(c) Normally a Grievance shall be resolved within 3 days. However, where it is not possible to resolve within 3 days, the insurer shall resolve the complaint within 2 weeks and shall send a final letter ofresolution

(d) Where a complaint is rejected, the reasons shall be clearly stated alongwith the recourse available if the customer is stilldissatisfied

(e) Further if the insurer shall inform the customer that if the customer does not come back within 8 weeks from the date of providing resolution, the grievance shall be treated asclosed

(f) A grievance can be closed only if the following conditions aresatisfied:

1. Where the insurance company has acceded to customer's grievance, upon acceding to the request of thecustomer

2. Where the insurance company rejects the customer's grievance, upon receipt of a communication from customer accepting the company'sresolution

3. Where the insurance company rejects the customer's grievance and the customer does not respond within 8 weeks of receipt of resolution, upon completion of the 8weeks

4. In all the above instances, the Grievance Redressal Officer shall certify that the Insurance company has discharged its contractual, statutory or regulatory obligations Every insurance company shall publish the Grievance Redressal Procedure in the website of the insurance company. The Policyholders Protection Committee of the Insurance Company shall receive reports concerning Grievances and shall monitor the process of handlinggrievances.

IRDA (Obligations of Insurers to Rural and Social Sectors) Regulations, 2000 (as amended from time to time) IRDA (Obligations of Insurers to Rural and Social Sectors) Regulations, 2000 provides that every insurance company is required to undertake a minimum percentage of business providing insurance coverage to persons residing in rural areas and providing coverage to persons who are engaged in social sector. Rural areas have been defined as those places which have been classified as rural areas as per the latest census. The obligations of insurers under Rural Sector is calculated as a percentage of the total number of policies sold by an insurance company and is dependent on the age of the insurance company as follows: For a life insurance company, the percentage with 7% (2%) in the first financial year of operations, increases to 12% (5%) in third financial year and 16%(5%) in the fifth financial year and 20% (7%) in the tenth financial year. Note: figures in brackets indicate obligations of general insurance companies. In respect of Social sector, the obligation is in terms of number of Lives assured covered under an Insurance policy belonging to social sector occupations as defined in the Regulations. The number of lives required to be covered under this sector is also dependent on the age of the insurance company as follows: For both Life and General insurance companies, the numberof lives to be covered increases from 5,000 lives in the first financial year to 20,000 lives in the fifth financial year and 55,000 lives in the tenth financial year Social Sector is defined unorganised sector, informal sector, economically vulnerable or backward classes and other categories of persons, both in rural and urban areas.

IRDA (Micro Insurance) Regulations, 2005 A micro insurance products is designed to meet the needs of persons, especially residing in rural areas, whose primary requirement is basic insurance coverages in life, such as payment of insurance benefit upon death of the bread winner, to the family or Health insurance etc. The intention is provide a low cost product to such persons. A life micro insurance product is therefore a pure term insurance product, or an endowment assurance product or a health insurance product with or without accident benefit. A general micro insurance product includes health insurance, insurance coverage on huts, livestock, tools or instruments or any personal accident contract. Minimum and maximum amount of sum assured have been prescribed for each product category under Schedule I and Schedule II to the Regulations. For any of the product categories the sum assured cannot be less than `5,000 or more than `50,000. A Non Governmental Organisation or a Self Help Group or a Micro Finance Institution or a Non-profit organisation (Companies registered under Section 25 of the Companies Act, 1956) can be appointed by an insurer to act as a Micro Insurance Agent.

The Regulations provide for a tie up between a Life insurance company and a General insurance company for offering both life and general micro insurance products together to a customer. A micro insurance product may be distributed by a licensed agent or an insurance broker, but a Micro insurance agent is prohibited from distributing any insurance product other than micro insurance products.

A micro insurance agent is allowed to act as an agent for micro insurance products of one life insurance company and one general insurance company at a time by entering into an agreement with them. The insurers concerned shall impart 25 hours training on micro insurance products, customer service, claims etc. to the Micro insurance agents.

A micro insurance agent shall appoint Specified persons who are authorised to sell on behalf of the Micro insurance agent (who can be a NGO or SHG or MFI as above) All insurance companies are expected to issue polices in vernacular language to facilitate customer understanding of the policy terms and conditions. Where it is not possible a write up in vernacular language must be attached with the policy document. A micro insurance agent may be paid a remuneration not exceeding10% for single premium sreceived,20%(15%for general insurance companies)for the premiums received during all policy years. All micro insurance products sold shall be reckoned for the purpose of social sector obligations of an insurance company. Where the micro insurance product is also sold in a rural area, it shall be counted both for rural and social sector obligations separately. Exposure draft to Micro Insurance (Modification) Regulations On comprehensively examining the existing business model adopted under Micro Insurance vis-a-vis the extant regulations on Micro Insurance,

IRDA proposed to review the IRDA (Micro Insurance) Regulations, 2005. Accordingly, an exposure draft on Micro Insurance (Modification) Regulations was issued in July, 2012 for further and wider deliberations on the subject. As on August, 2013, the modified rules are yet to be published by IRDA.

IRDA GUIDELINES TO FINANCIAL INCLUSION Insurance Regulatory & Development Authority (IRDA) has been making immense efforts to educate and Regulatory Environment – Specific Legislations 83 empowers the common citizens about insurance industry in India and their rights & responsibilities. IRDA has been at the forefront of insurance sector deepening, protecting the rights of policyholders, regulating insurance companies & advisors and bringing about insurance inclusion in India for all segments esp. the poor.

Some of the steps taken by **IRDA for financial inclusion include**

1. National Strategy for Financial Education the Insurance Regulatory and Development Authority (IRDA) has released the draft National Strategy for Financial Education for comments and feedback in Year 2012. The final strategy is yet to be notified by the IRDA. The National Strategy recognises that financial literacy and financial education play a vital role in financial inclusion and inclusive growth and envisages ways towards creating awareness and educating consumers on access to financial services, availability of various types of products and their features; changing attitudes to translate knowledge into responsible financial behaviour; and making consumers of financial services understand their rights and obligations. The National Strategy seeks to create a financially aware and empowered India. It aims at undertaking a massive Financial Education campaign to help people manage money more effectively to achieve financial well being by accessing appropriate financial products and services through regulated entities with fair and transparent machinery for consumer protection and grievance redressal.

2. Website on Insurance Education In an attempt to increase insurance awareness levels across the country, the authority has taken a number of consumer education initiatives and has recently launched an exclusive insurance education website www.policyholder.gov.in This website has self-explanatory menus and gives information in simple language on topics such as: • Buying insurance

• Making aclaim

• Policyholder Protection and Grievance Redressal

• Handbooks in 13languages

• Do's and Don'ts for apolicyholder

• Comic series • Consumer Affairs AnnualBooklets

3. Grant of Corporate Agency license to Department of Postal To promote financial inclusion, insurance regulator Insurance Regulatory and Development Authority (IRDA) has granted corporate agency license to the Department of Post for distributing insuranceproducts.

4. Emphasis on educating insurance agents to weed out mis-selling India's Insurance Regulatory and Development Authority (IRDA) has been chalking out an ambitious plan to combat mis-selling, a menace that has been haunting the industry for about a decade now, especially after the emergence of equity-oriented insurance products. During fiscal year 2012, the regulatorreceived 1 lakh complaints on mis-selling. IRDA has been emphasizing specialized training to the country's 2.5 million insurance agents after they clear the basic examination to qualify as a licensed agent to sell insurance products. The training, aimed at instilling seriousness among insurance agents about sales as a career and stop unfairly selling insurance schemes just to earn commissions.

IRDA REGULATION RELATING TO PRODUCTS APPROVAL An insurance company cannot launch any product unless the product specifications are filed with IRDA and are approved by them. This procedure is popularly called "file and use" procedure under the IRDA Regulations. This procedure is required to be followed whenever a new product is launched or whenever an existing product is withdrawn or modified. IRDA have recently issued the following two Regulations, subsuming all the existing notifications with reference to Product design:

(a) IRDA (Non-Linked Insurance Products) Regulations,2013

(b) IRDA (Linked Insurance Products) Regulations, 2013 A linked life insurance product is one which combines the benefit of insurance coverage and investment in one product. Under this type of product, the balance amount available after appropriation of charges, including the mortality charges, in invested in market linked investments. For example, investment in listed equities or bonds. The Policyholder, in addition to providing the fundamental risk coverage, a linked insurance product also provides an investment management service and the value of investment is reflected in the form of Net asset value from time to time. The risk on the investment portion lies with the Policyholders. A non-linked life insurance product, on the other hand, does not provide the investment management service on behalf of the policyholders. Typically, the following are the benefits under a non-linked insuranceproduct:

(a) Covers risk of mortality – i.e. risk of dying early – provides sum assured on death, e.g. Term insurance policies or whole life insurance policies which provide sum assured only ondeath

(b) sum assured which can be provided on survival to the maturity of the policy, e.g. Endowment Policies which provide for sum assured on death or on maturity whichever isearlier

(c) Annuity contracts, which covers the risk of living longer, by providing periodic payments as long as the policyholder isalive

(d) Health insurance contracts, which cover the risk of hospitalization (General insurance companies also offer health insurance contracts on indemnitybasis)

(e) Rider benefits e.g. Accident Death Benefit rider (where an additional sum assured is paid on death due toaccident)

Consumer Disputes Redressal Agencies

(a) District Consumer Disputes Redressal Forum established by the State Government in each district of the State. The State Government may establish more than one District Forum in a district. It is a district level court that deals with cases valuing upto Rs.20 lakhs.

(b) State Consumer Disputes Redressal Forum established by the State Government takes up cases valuing less than Rs.1 Crore.

(c) National Consumer Disputes Redressal Commission established by the Central Government , which works as a national level Court and deals with amounts more than Rs.1 Crore. None of the above fora can entertain a complaint unless it is filed within two years from the date on which the cause of action had arisen. Notwithstanding the above, a complaint may be entertained after the period of two years, if the complainant satisfies the concerned forum that he had sufficient cause for not filing the complaint within such period and the reason for condonation of the delay is recorded by the concerned forum.

Filing of complaints A complaint may be filed by the consumer to whom the goods are sold or services are provided. Any recognised consumer association One or more consumers with same interest The central government or state government Power of Civil Court to District Forum The District Forum shall have the powers of Civil Court while trying a suit in respect of the following matters:

(a) The summoning and enforcing attendance of any defendant or witness and examining the witness on oath

(b) The discovery and production of any document or other material object producible as evidence.

(c) The reception of evidence on affidavit

(d) The requisition of the report of the concerned analysis or test from the appropriate laboratory of from any other relevant source.

(e) Any other matter which may be prescribed. Relief to the Complainant If the complaint is proved the Forum shall order to remove defect pointed out by the appropriate laboratory from the goods in question or to replace the goods with new goods of similar description which shall be free from any defect or to return to the complainant the price, or, as the case may be, the charges paid by the complainant or to pay such amount as may be awarded by it as compensation to the consumer for any loss or injury suffered by the consumer due to negligence of the opposite party or to remove the defect in goods or deficiency in the services in question. The following relief may be provided to the Complainants:

(a) to discontinue the unfair trade practice or the restrictive trade practice or not to repeat them;
(b) not to offer hazardous goods for sale;

(c) to withdraw the hazardous goods from being offered for sale;

(d) to cease manufacture of hazardous goods and to desist from offering services which are hazardous in nature;

(e) to pay such sum as may be determined by it, if it is of the opinion that loss or injury has been suffered by a large number of consumers who are not identifiable conveniently;

(f) to issue corrective advertisements to neutralise the effect of misleading advertisement at the cost of the opposite party responsible for issuing such misleading advertisement;

(g) to provide for adequate cost to parties. Appeal An appeal shall be filed within thirty days. Delay in filing appeal may be condoned if there is sufficient cause.

Limitation Period

Limitation period shall apply within two years from the date on which the cause of action has arisen. 1. Redressal of Public Grievances Rules, 1998 The main objective of these Rules is to provide for a speedy redressal of certain grievances specific to insurance sector. This is an alternative dispute resolution mechanism which is managed by insurance companies to solve the disputes arising within the industry. The Governing Body of the Insurance council shall consist of representatives of each of the insurance companies, which shall ordinarily be the Chairman or the Managing Director or one of the Directors of the insurance companies.

Ombudsman

The Governing body shall appoint one or more persons as Ombudsman for the purpose of resolving insurance disputes. Persons eligible to be appointed as Insurance Ombudsmen Only the following persons shall be eligible to be appointed as Insurance Ombudsmen:

(a) Persons who served in the capacity of Chairman or Managing Director in Public Sector Insurance Companies

(b) Persons who have served the Indian Administrative Service or the Indian Revenue Service
(c) Persons who are retired Judges of the Supreme Court or the High Courts An Ombudsman shall be appointed by the Governing body from a panel prepared by a Committee comprising of:
(a) Chairman, IRDA

(b) Two representatives of Insurance council including one each from Life Insurance business and from General Insurance respectively

(c) One representative of Central Government

Term of office and Remuneration of Ombudsmen

An Ombudsman shall serve for a term of three years and shall be eligible for reappointment. However, an Ombudsman shall not hold office after he or she attains the age of 65. The Ombudsman shall be paid a salary of `80,000 per month and any pension to which he is entitled from Central Government or Statement Government or any other organization or institution shall be deducted from his salary.

Powers of Ombudsman

An Ombudsman is empowered to entertain the following disputes:

(a) A complaint as specified under Rule 13

(b) Partial or total repudiation of claims by an insurer

(c) Dispute with regard to the premium paid or payable in terms of the policy

(d) Dispute on the legal construction of policies with regard to claims

(e) Delay in settlement of claims

(f) Non-issuance of any insurance document to customers after receipt of premium Procedure for making a complaint Any person who has a grievance against the insurer may himself or through the legal heirs make a complaint in writing to the Ombudsman within whose jurisdiction the branch or office of the insurer complained against is located. The Complaint shall be in writing duly signed by the complainant or through his legal heirs and shall state clearly the name and address of the complainant, the name of the branch or office of the insurer against which the complaint is made, the fact giving rise to the complaint, supported by the documents, if any, relied on by the complainant, the nature and extent of the loss caused to the complainant and the relief sought from the Ombudsman.

In order that a complaint is entertained before the Ombudsman, the following conditions must be satisfied:

(a) The complainant must have first exhausted the remedies available within the insurance company for settling the grievance and approach the Ombudsman only if either the insurance company rejects the grievance or complainant not satisfied with the reply or the insurer fails to respond within one month of submission of the grievance

(b) No complaint can be preferred before the Ombudsman after one year from the date of rejection or final letter from the insurance company on the representation made by the complainant

(c) If the complainant has not preferred alternative legal remedies and the proceedings are not pending before any Court or Consumer forum Recommendations by the Ombudsman After hearing both the parties and the submissions made, the Ombudsman can make his recommendations on the case. Copies of recommendations shall be sent to the complainant and the insurance company concerned. Such recommendation shall be made not later than one month from the date of receipt of the complaint. If the complainant accepts the recommendation, a copy of the acceptance is communicated to the insurance company concerned. The insurer shall comply with the terms of recommendation not later than 15 days of receipt of the recommendation. Award Where the complaint is not settled by agreement, the Ombudsman shall pass an Award which shall be in writing shall state the amount awarded to the complainant. The amount of compensation shall not grant an award exceeding `20 lakhs (including ex-gratia and other expenses) All Awards shall be passed within 3 months of receipt of the complaint and issue a copy of the Award to both the insurer and complainant. The complainant shall furnish to the insurer within a period of one month of date of receipt of the award, a letter of acceptance that the award is in full and final settlement of the claim. Thereafter, the insurer shall comply with the award within 15 days of receipt of the acceptance letter and shall intimate the compliance to the Ombudsman.

Policyholder litigations before Insurance Ombudsman, Mumbai

As per the Annual Report for 2012-13 published by the Office of the Insurance Ombudsman, Mumbai, out of the total number of 131 entertainable complaints received against life insurance companies, 63 complaints pertained to partial or total repudiation of claims, 53 towards non issuance of Policy document to customers and 14 pertained to delay in settlement of complaints. In respect of General insurance companies, as per the above Report, out of the total number of 1,477 entertainable complaints, 1,328 complaints were regarding partial or total repudiation of claims and 71 were regarding disputes with regard to the premiums paid or payable in terms of the policy.

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SCHOOL OF MANAGEMENT STUDIES

UNIT – 5 –INSURANCE MANAGEMENT – SBAA1505

UNIT 5 INSURANCE CUSTOMERS

Individual and Corporate Insurance Customers – Nature of Insurance Customers, Mind set as to Insurance – Investment or Risk Management – Compulsion Vs. Voluntarism – Ethical Behaviour – Risk Management Attitude, Avoidance, Prevention, Reduction, Retention or Transfer – Factors influencing Policyholder Satisfaction – Retention of Customers by Insurers.

Individual Insurance Customer

Individual Insurance is a health policy that you can purchase for just yourself or for your family. Individual policies are also called personal health plans. The person one who buys policies for his/her personal use is said to be as Individual Insurance Customers**.**

Corporate Insurance Customers

A Corporate insurance may be defined as a type of insurance which can be used by large organizations to cover up various operational risks such as theft, financial losses, employees' health benefits and accidents. Such an insurance plan is also known as business insurance and it is of great benefit for the officers who are involved or were involved with the company and obviously for the company itself. In this regard, it should be noted that the protection has certain limits. The officials of the company are held responsible for any personal actions which will not be covered by this insurance.

Types of Corporate Insurance

Corporate Insurance is a provision through which organizations can cover their losses. They are

(a) **Property Insurance** – In case the property of an organization gets damaged by incidents such as natural calamity, fire, workers unrest, vandalism etc., and property insurance can help cover the losses. Some Inusrance plans cover all types of incidents with an exception of very few ones under their all-risk policies. On the other hand, there is another type of property insurance that is known as peril specific policies which provide financial cover only for those losses that are listed in the policy.

(b) **Professional Liability Insurance**: This type of insurance is also called Errors and Omission Insurance and protects the business formal types of negligence claims and certain mistakes. It differs from one industry to another and is addressed through an industry specific customized policy. This type of corporate insurance is mandatory for any organization that deals with accounting, finance, consulting, healthcare, law and practice.

(c)**Workers' Compensation Insurance** – A company should add workers compensation insurance in its insurance; is the moment its first employees is hired. It covers the medical treatment expenses of the employee and provides compensation in case of death or disability of the employee while he/she is working for the company.

(d) **Group Health Insurance** – One of the most important corporate insurance. Group Health Insurance offers healthcare benefits to a group of people i.e. the employees of an organization. Generally this insurance plan is uniform in nature and offers the same benefits to all the members of the group.

(e)**Product Liability Insurance** – If you have a business which manufactures products for mass consumption in the general market, then you should definitely have Product Liability Insurance. Even if the manufacturer is sure that the products are flawless and safe, you ever know if the product will end up causing damage to someone. Thus the best option to protect a manufacturing business is with the help of this specific type of corporate insurance.

(f) **Business Interruption Insurance**: There are likely to be incidents when certain events and occurrences can interrupt the normal course of your business. This insurance will help cover up the losses one faces in this interruption period. Business interruption insurance is the best for a retail store or for the type of business in which one needs a physical endpoint to get in touch with the customers.

Nature of Insurance Customers

1. **They are in control** – with the price transparency created by aggregators, lots of new entrants to the market and the ease of swapping providers, the insurer is now at the consumer's beck and call
2. **They are well educated** – with the ease of online pre-purchase research and the plethora of alternative information sources such as blogs and social media about insurance products available, there is not the same level of need for brokers and financial advisers as previously
3. **High experience expectations** – they are used to the personalised, consistent, easy and often fun experience offered by the data giants of the day (online and retail industries in particular) and these expectations transfer to their insurance provider
4. **They expect authenticity** – any communication must be relevant, personalised and engaging, for example Aviva's Drive app encourages good driving and delivers personalised scores for premium discounts, rather than communicating for the sake of it.

Mindset as to Insurance

As insurers try to transform themselves and stay competitive amid this dynamic environment, there are six distinct levers that determine the success of these efforts. These six levers constitute the six dimensions of what we might call the Insurance Cube, to understand the buyers' mindset. The first three faces of the cube are trends in technology, regulations, and business models. The other three are factors such as speed, efficiency and risk.

(a) Regulatory Compliance - Insurance industry regulations change often and compliance is mandatory. For instance, there are regulations such as CCPA and GDPR for data privacy and security; accounting standards such as IFRS and GAAP. Insurance providers need to be extremely vigilant in adhering to the strict guidelines imposed by these regulations in order to be compliant.

(b)Technology Readiness -The right technology can put an organization ahead by enabling it to derive distinct competitive advantage. An organization that uses an Open Source API or micro services can potentially be more flexible, robust, and agile with more autonomous teams that can deliver change quickly. Technologies such as cloud, IoT, and Block chain can greatly enhance operations and enable the organization to provide highly differentiated customer experiences with sophisticated digital capabilities.

(c) Business Models -Given changing consumer demands as well as an evolving technology landscape, insurance companies need to constantly re-invent themselves by exploring new business models. Whether it is adoption of a new value chain or delivering new-age "phygital" (physical + digital) experiences, companies need to think like disruptors. The disruption may not be just in the immediate industry but could also be a cross-industry disruption. For example, lot of the insurance carriers is moving away from agent-based physical selling to phigital selling.

(d) Risk -Every business has to deal with a certain number of risks such as location risks, market risks, concentration risks etc., and insurance is no different. Given the fast pace of change, companies might also face certain talent risks or the risk of technology debt. Each of the risks listed above has the potential to snowball into a major issue that could threaten the organization's survival. Given this, the ability to mitigate risks and prepare back-up plans is key to survival for insurance players.

(e) Efficiency- Running a highly efficient business is a huge operational advantage for insurance companies. Efficiency, whether it is cost efficiency or operational efficiency, can be achieved in a number of ways such as through cost takeout by rebadging existing deals. Automation is an important tool to increase operational efficiency. On the people front, building a futuristic workforce by enabling people with the right tools, data, and training can help to greatly increase productivity and efficiency. Leveraging ecosystem partnerships can help streamline processes and make the organization more efficient. For instance, a leading international reinsurance and insurance group was keen to bring in efficiencies through new age technologies to help achieve cost optimization.

(f) Speed - In a competitive environment, the speed at which a company responds to change matters. Quick product introductions provide a first mover advantage. Similarly, it is important that timeline-based market commitments are honored. Distributed agile adoption can help greatly speed up response times for insurance companies.

While each of these factors is definitely interconnected, evaluating a company on each of these separately can provide a useful framework to determine competitive readiness. It can also be a useful guide to help determine strategies for the future.

Investment of Risk Management

Risk management is the process of identification, analysis, and acceptance or mitigation of uncertainty in investment decisions. Risk is inseparable from return in the investment world. ... Alpha is a measure of excess return; money managers who employ active strategies to beat the market are subject to alpha risk.

Principles of Investment Risk

(a) **Prediction is Very Difficult -** Especially if it's About the Future Asset management firms are paid to make predictions, and every prediction has a margin of error. Investment risk management seeks to understand these margins of error and to use this understanding to aid the decision-making process in the presence of uncertainty

(b**) Investing is Not a Game -** Over even longer periods than the decades since 1900, history indicates that virtually all financial markets ultimately do not survive. Even over periods where financial markets were continuously in operation, the rules governing these markets were in constant flux. Investing in financial markets is not a game in which the rules are clearly specified and known in advance.

(c) **Clarity is Imperative -** There is a separation of duties between investment managers and their clients. It is rare that a client will hire an investment manager and place no constraints on investment activities. Typically, some part of the capital markets will be specified: a mutual fund might be required to invest in US small cap growth equities; a sovereign wealth fund might hire a manager to put money to work in the European credit markets. The investment manager must clearly indicate which risks it will take and which risks it will not. The client must understand which decisions the manager is making and which decisions the manager is leaving to the client.

Compulsion Vs.Voluntarism

What are Deductibles in Car Insurance?

Deductible is part of the claim and is to be paid by the policyholder before the insurance company takes the responsibility of the remaining claim.

Types of Deductibles :

Deductibles are of two types:

a) **Compulsory Deductible in Car Insurance-** The compulsory deductible amount is fixed by the insurer and has to be paid compulsorily by the policyholder whenever any claim arises. As per IRDAI, the amount of Compulsory Deductible for four-wheelers less than and equal to 1500cc is Rs.1000 and Greater than 1500cc is Rs.2000. The insurer may charge a higher deductible if the car is older and presents a larger risk of claim or for cars with higher cubic capacities or in other circumstances where the risk of claim is perceived to be higher. There is no lowering of premium for compulsory deductibles and premium is calculated taking into consideration other factors such as IDV, make and model.

b) **Voluntary Deductible In Car Insurance -** This is the limit chosen by the policyholder to meet a part of the claim from his own pocket before raising it to the insurer. The amount depends on the policyholder who chooses the limit factoring in his affordability and risk. Choosing a higher amount of Voluntary Deductible causes a lowering in premiums through discounts.

Difference between Compulsory Deductible and Voluntary Deductible

Compulsory Deductible	Voluntary Deductible
It is compulsorily fixed by the insurers	This is chosen by the policyholder and is not mandatory
The level of compulsory deductible has no effect on the premium rate	Higher the level of Voluntary Deductible, lower is the premium rate
In case of claim, only the compulsory deductible level needs to be paid which is low	In case of claim, the policyholder has to pay both the compulsory deductible part and the voluntary deductible chosen, the total of which is higher

Ethical behavior in insurance

Ethical Issue in insurance Business Currently there is high level of market indiscipline going on in insurance business. In the pursuit of the operators in this market to get their own share from the market, they engage in all sorts of unethical practices such as; rate cutting, thrashing basic facts that policy holders should know from them. They are more concerned in the premium they will get from the insured and not in carrying risk which is supposed to be the primary objective.

One of the legal principles that bind insurance business is that every insured should contribute equitably to the insurance pool in proportion to the risk they are bringing into the pool. One of the standards is being misplaced since clients are charged different rates for the same risk. Another implication of this is that it leaves little reserve in the hand of underwriters after removing running cost of the policies and management expenses. And this in turn makes it very difficult for underwriters to meet their major obligation which is claims settlement. Unluckily this has led to loss of greater percentage of the industry's revenue and as result poor performance of this business due to under – pricing of its products and services.

Ethics play key role in making trust and a good relationship, doing things in the right way that it should be done. A lot of insurance companies in India urge ethics but they do not act it. The mindset of businessmen as "business is business" has done lot of harm to their business. It has rendered them to be irresponsible and personally insensitive. Players in this market are supposed to put themselves in the shoes of their customers and should work with empathy. The nature of insurance business has to do with trust between them and their clients. In this case ethics in insurance business can be measured in terms of the standards on which insurance transactions are based.

Below are mentioned some of the challenging issues found in Insurance sector:

a) **Premium Collection issues**: This is another challenge identified to be affecting this business in India. These intermediaries are the distributing channels that stand between the insured and insurers. It has been reported that insurance brokers and agents are fund of collecting premium from insured and not remitting to insurance companies. These people use premium for other things and quickly run to remit when claim occur and if claim does not occur they refuse to remit the premium.

b) **Problem of solvency**: Cash flow problem is a confrontation to insurance business in India. It can be said that these sectors live from hand to mouth. Based on this investors are chased away from this market as no one is ready to embark on an investment that will not be viable.

c) **Lack of Standards**: It has been observed that there is lack of standard for this business in India, despite the fact that there are recognized regulating bodies. Every player in this market act the way they like and want without observing the laid down protocols. The standard kept in place for the operation of this business has long been misplaced.

d) **Poor Attitude of Government** The government does not encourage insurance practitioners. Over the years they have not been able to release any relevant incentive to the operators into this business. The failure of government to inject fund into this business has made it impossible for them to attract investors as they cannot pay dividend not to talk of declaring bonus to shareholders.

e) **Poor Management** A sizeable number of practitioners managing insurance business both the top management and low level management are under – qualified. They are not competent enough to manage this business. And this has really done a great harm to the business as insurance business itself is a technical business and should not be handled by just anybody but the right people, these are people that have passion and vision for the business not just those that pop in to see what is happening.

f**) Lack of Integrity and Trust** Successful insurance companies evolve around trust which is absent. The major if not the only reason of insured taking up an insurance policy is to have their claims settled should in case of mishap. The image of insurance company can simply be determined by their ability and attitudes to claims settlement.

Challenges for personnel in claims administration;

• long procedure involved in processing claims

• fraudulent aspect of the insured's

• inadequate human resources

• inadequate material resources

• circumstantial determinism

• relationship management

• lack of understanding of insurance terms by and conditions by insured's

• bad negotiation by distributing channels

• inflexibility in the part of supervisors

• insincerity on the part of repairers

• logistics problem

• inability of insured's to produce documents to process their claims

• Delay in remitting premium by insurance brokers

• Untimely notification of renewal notice to insured's by underwriters

• Cash flow issue

Ethical issues are found common in insurance business.

1. Failure in identifying the customer's needs and recommend products and services that meet their needs.
2. Conflicts between personal benefits and proper performance of employees responsibilities
3. Unethical remarks about competitors, their products, or their employees or agents
4. Lack of expertise or skills to competently perform one's duties
5. Misrepresenting in terms and conditions while selling products to customers.
6. Failure to provide prompt, honest responses to customer inquiries and requests
7. Failure to provide products and services of the highest quality in the eyes of the customer
8. Conflicts of interest involving business or financial relationships with customers, suppliers or competitors

9. Failure to identify the customer's needs and recommend products and services that meet those needs.
10. Misrepresenting or concealing limitations in one's abilities to provide services.
11. Failure to provide prompt, honest responses to customer inquiries and requests.

Unethical Insurance Practices

(a) **Failure to communicate**- An insurance company may fail to notify you when it makes a decision regarding your insurance, or the company may fail to return your calls or emails after an accident.

(b) **Delaying settlement**-Similarly, an insurance provider may delay your claim for settlement without a justifiable cause. Often, providers hope they can delay the settlement until you either forget or give up on your personal injury case.

(c)**Unreasonable demands**-In connection with delaying settlement, an insurance company may make unreasonable demands meant to stall the settlement process, such as asking you for an unreasonable number of documents and claiming the process cannot begin until the company receives all these documents. If you fail to meet these demands, the insurance company may deny your claim.

(d)**Changing or cancelling the insurance policy**-An insurance company may make sudden changes to its policy in response to a claim you filed, making it impossible for your claim to go through. Often, companies will cite the new policy as a reason to deny your claim. In other cases, a company may cancel the policy altogether after you try to file a claim.

(e)**Unethical investigating**-In investigating your claim, the insurance company may use unethical or even illegal methods. Sometimes the company may fail to properly investigate your claim, or simply refuse to investigate at all and tell you your claim is denied.

(f) **Withholding policy information** -Your insurance company should disclose the entire policy to you, including any policy limits. Withholding information or refusing to inform clients of policy limits constitutes an unethical insurance practice.

(g) **Conflict of interest** -When an insurance adjustor tries to handle both your claim and the claim from the other party, a conflict of interest necessarily arises. This conflict of interest may lead to the insurance company receiving money from the other party in exchange for helping them, which means the company will shortchange you in favor of the other party.

(h) **Unreasonably low settlements** - If an insurance company offers you a settlement that seems unreasonably low, you may be a victim of an unethical insurance practice. In this case, you should wait to accept the offer until you have consulted an attorney.

(i) **Threats**-An insurance company may refuse to pay unless the client does something or doesn't do something. This constitutes a threat, and is unethical.

(j**) Restrictive definitions**-In some cases, an insurance company may fail to pay the client because the situation does not meet the company's set of criteria. For example, an insurance company may refuse to pay a client who has had a heart attack if the client's medical condition does not meet the definition of a heart attack as laid out in the insurance company's policy.

(k) **Overcharging** -Watch for agency fees or extra expenses that come in addition to the initial payment demanded by an insurance company, or expenses that are not specified in the quote given by the insurance company.

(l)**Recognizing unethical insurance practices**- To be on the safe side always demand a written quote from your insurance company for any transactions. This quote should include the name and contact information of the insurance company and agent or agency. If your insurance policy changes, you should receive an endorsement summary outlining the new policy. Likewise, after paying for a home or auto policy, you should receive a written declaration page and an ID card for your car insurance policy. Don't pay for any additional fees that aren't spelled out in the insurance quote, and don't use a service (such as roofing, auto repair, etc.) you feel your insurance provider is pressuring you into using.

Insurance avoidance

Avoidance — a risk management technique whereby risk of loss is prevented in its entirety by not engaging in activities that present the risk. For example, a construction firm may decide not to take on environmental remediation projects to avoid the risks associated with this type of work.

Reduction mean in insurance

Reduction in coverage means a change made by the insurer which results in a removal of coverage, diminution in scope or less coverage, or the addition of an exclusion. Reduction in coverage does not include any change, reduction, or elimination of coverage made at the request of the insured.

Risk Retention

It is nothing than presuming that we are going to incur certain losses on a particular issue but at the same time are not willing to transfer such risks to another party. For example in an individual case a person's decides to bear all the losses caused to his property by himself and never cares to get his property insured means all the risk shall be retrained by that particular individual and in case of any eventuality he shall only be paying from his own pocket for the losses caused to his property.

Factors influencing Policyholder satisfaction

Insurance is a contract between the policy holder and the insurer such that the insurer company guarantees any event in the insurance range and in return, the policy holder should continuously pay a fee for the so-called insurance.Insurance services are in definition intangible and according to the declarations; they are promises and contracts held by a selling median to the customer which requires making trust between the seller and the customer from the initial point of the contract.

It is important to mention that service providers are very effective in the segments of selling insurance. They can examine the viewpoint of the customers about the goods and services of the company. Being confident about the quality of the quality offered in services for the insurance company is very critical leading to the surveillance of the company. In this respect insurance companies should predict special integrated plans for attracting the buyers and maintaining the existing policy holders so that they can increase customers' satisfaction to be able to proceed in the competitive world of today by presenting better/higher quality services.

The penetration index of insurance in the commercial insurance segment of Iran is 1.02% being as much as 47.5% of the gross national product (GNP) in total social/commercial insurance segments. Services quality There should be an obvious concept of quality in order to understand the concept of one services quality.

Quality is defined as preparedness of the services or goods for the user which requires design quality, accordance, accessibility and suitability of the location of presenting services. The international standards institute has defined "quality" as 'all of the properties/specifications of a product/service which have the ability of satisfying customers' need. Customers evaluate services quality by comparing what they expect/predict with what the services presenter practically offers. Therefore, services quality may be defined as the difference between customers' expectations from the services and their understanding of the real performance of the services.

Customers evaluate services quality from five various dimensions, that is, assurance, empathy, reliability, responsiveness and tangibility. There are various reasons which show why organizations should look for presenting higher-quality services to their customers some of which are: increasing customers’ expectations; competitors’ activities; environmental factors; easy access to the internet; the concept of services; and the difficulty of its understanding by the customers.

Presenting better services to the customers, causes repeated shopping, extending word of mouth advertisements and the organization’s profitability .Customers evaluate service quality by comparing what they expect with what the service provider actually presents. Therefore, quality may be defined as the difference between customers’ expectations and their understanding of the actual performance of the company.

Parasuraman et al. (1985) classified more than 200 features of service quality. These features were obtained via interviews with the customers of four different service departments, that is, banks, the organizations presenting credit cards, service companies of repair and Vazifehdust and Farokhian 2027 maintenance, and phone communications center.

They presented a standard for evaluating service quality according to 10 potential factors by using these 200 features which are:

(a) **Tangible factors:** Loans, appearance and the facilities of the provider such as staff's appearance and make up, equipment’s modernity, etc.

(b**) Reliability**: the extent which makes the services believable such as the organizations’ fame and validity, staff’s behavior, etc.

(c) **Responsiveness**: The ability to reaching the complaints and improving the services in an effective manner.

(d) **Credibility:** The ability of presenting services at the first time in a correct manner.

(e) **Competence**: The ability of the staff to offer their information, knowledge and skills in presenting effective services.

(f) **Courtesy**: Being respectful with friendly behavior to the customers.

(8) **Security**: Lack of risk and doubt.

(9) **Availability**: The ease of access and making relationships with the organization in order to solve the customers' needs.

(10) **Communications**: Acknowledging the customers about how to present services such that they are understandable for the customers.

(11)**Understanding the Customers**: The identification of customers' needs/wants, paying special attention to them and knowing loyal customers.

Retention of Customers by Insurers

(a) **Offer a solid product** -This almost goes without saying, but it's still absolutely crucial. It all starts with the products you offer. They must be helpful to your customers, otherwise, there's little hope of retaining customers in the long term.

(b)**Understand who your customers are and what drives them**-You can't think about retention until you know what's important to your prospects and customers. Customer segmentation is the practice of categorizing customers according to common characteristics—e.g. price-sensitive customers, service-sensitive customers, etc. This is the bedrock of your agency: Your sales and marketing strategies will be built around your customers' needs and expectations.

(c)**Understand where your referrals come from** - Referrals are an important part of customer retention because if a customer comes to your agency through through a referral, they have a much higher likelihood of staying with your agency long-term. This is also true for customers who refer others to you. Capitalize on this longevity by setting up a referral program that's going to benefit your customers in the long run. (This will also benefit your business, of course.) This program could be as simple as giving referrers a gift card or a percentage off their premiums. The most important thing about a referral program is that it should be "in the faces" of customers, so they know how they will benefit from providing referrals. Every communication your agency sends needs to highlight friend and family referrals, so it is always top-of-mind.

(d)**Be an expert communicator** - Stay in front of customers at all times to develop relationships with them. The most important aspect of communication with both customers and prospects is to have a cadence of regular communication through various methods of outreach: via phone, email, mail, text, etc.In that same vein, one of the biggest mistakes an agent can make in regard to communication is to sign on new customers without having an explicit process in place for contacting them. When this happens, you have no idea whether that customer is happy, dissatisfied, or on the verge of churning. It also gives other agents an opportunity to get in front your customers, and you risk losing their business. Other recommended methods of communication include:

Have annual or semi-annual meet-and-greets—this allows and even incentivizes people in the community to stop by your agency in person.

Survey customers about your agency's services and products. There are a number of free survey tools available online, or it can be as simple as having your producers asks customers a few questions over the phone. This will help you address shortcomings and learn more about your customers, including how they feel about your pricing, products, and overall customer service.

(e)Focus on multi-lining customers signed into multiple products - People who have only one product offering from your agency are more likely to cancel than those who have multiple products. The more products you can get them signed onto, the more likely they are to stay with you. Have your producers dedicate a specific time block each week to focus on upsell opportunities. This way your agency's offerings become much more "sticky," helping increase your overall retention.

(f)Reduce lapsing cancellations by providing an autopay option-When customers forget to pay bills, their services/contracts are immediately cancelled—it's a common cause of customer loss. Setting up an automatic payment option can help reducing lapsing. Consider offering discounts to encourage customers to sign up for autopay.

(**g)Set expectations when onboarding customers -**From the day a customer signs up, explain the benefits of sticking with you for the long-term. For example, set the expectation during on-boarding that customers will be incentivized when renewal time comes—such as a reduction of their deductibles after the first year. This way you're greatly improving your chances that a customer will remain loyal, and potentially heading off rate shopping when that policy comes up for renewal. Another thing to mention when on-boarding customers is to share that, when it comes to claims, a more tenured customer may have an easier time through the claims process because they have a longer track record.