GENERAL INSURANCE PRODUCTS AND MANAGEMENT

M.Com. , (Banking)

Semester – IV, Paper-VI

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M.Com(Banking) GENERAL INSURANCE PRODUCTS AND MANAGEMENT

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FOREWORD

Since its establishment in 1976, Acharya Nagarjuna University has been forging a head in the path of progress and dynamism, offering a variety of courses and research contributions. I am extremely happy that by gaining 'A' grade from the NAAC in the year 2016, Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels apart from research degrees to students from over 443 affiliated colleges spread over the two districts of Guntur and Prakasam.

The University has also started the Centre for Distance Education in 2003-04 with the aim of taking higher education to the door step of all the sectors of the society. The centre will be a great help to those who cannot join in colleges, those who cannot afford the exorbitant fees as regular students, and even to housewives desirous of pursuing higher studies. Acharya Nagarjuna University has started offering B.A., and B.Com courses at the Degree level and M.A., M.Com., M.Sc., M.B.A., and L.L.M., courses at the PG level from the academic year 2003-2004onwards.

To facilitate easier understanding by students studying through the distance mode, these self-instruction materials have been prepared by eminent and experienced teachers. The lessons have been drafted with great care and expertise in the stipulated time by these teachers. Constructive ideas and scholarly suggestions are welcome from students and teachers involved respectively. Such ideas will be incorporated for the greater efficacy of this distance mode of education. For clarification of doubts and feedback, weekly classes and contact classes will be arranged at the UG and PG levels respectively.

It is my aim that students getting higher education through the Centre for Distance Education should improve their qualification, have better employment opportunities and in turn be part of country's progress. It is my fond desire that in the years to come, the Centre for Distance Education will go from strength to strength in the form of new courses and by catering to larger number of people. My congratulations to all the Directors, Academic Coordinators, Editors and Lesson-writers of the Centre who have helped in these endeavors.

Prof. Raja Sekhar Patteti
Vice-Chancellor
Acharya Nagarjuna University

M.Com (Banking)

SEMESTER-IV: Paper - VI

GENERAL INSURANCE PRODUCTS AND MANAGEMENT (416CO21)

SYLLABUS

1. **Meaning of General Insurance** – The Evolution and Growth of General Insurance – Types of General Insurance – Fundamentals of General Insurance –Recent innovations. Organization and Management of General Insurance Companies– Regulatory Frame work for General Insurance in India.

2. **Fire Insurance**: Standard policies – Fire Insurance coverage – Consequential loss (fire) Insurance policies – Declaration policies, Marine Insurance: Marine Cargo policies – Hull policies – Institute cargo clauses – Institute hull clauses – Open policies – Accumulation of risk per location -Motor Insurance: Types of policies – Third party Insurance – Comprehensive coverage – Conditions and Exclusions – premium.

3. **Non-life miscellaneous insurances**: Personal Accident Insurance, Health Insurance and Medi claim policies, Liability Insurance, Burglary Insurance other Miscellaneous Insurances, Rural Insurance covers, Engineering Insurance and its Consequential loss covers, Aviation hull and Aviation liability.

4. **Under writing and Settlement of Claims**: Proposal forms – Cover notes – Certificates of Insurance – Endorsements – Moral and Physical Hazards – Statistics – Spreading of Risks – Premium Rating – Premium Loading

5. **Settlement of Claims**: Claim procedure – TPAs – Claim forms – Investigation / Assessment – Essential Claim Documents – Settlement Limitation, Arbitration, Loss Minimization and Salvage.

FURTHER READINGS:

1. Insurance Institute of India – IC34–GeneralInsurance
2. Insurance Institute of India– IC45-GeneralInsurance Underwriting
3. ModuleI,PrinciplesandPracticeofGeneralInsurance,TheInstituteofChartered Accountants of India: New Delhi.
4. H Narayanan, Indian Insurance :A Profile, Jaico Publishing House : Mumbai.
5. K.C.MishraandG.E.Thomas,GeneralInsurance-PrinciplesandPractice,CengageLearning: New Delhi.

TEXTBOOK

Insurance Institute of India – IC32 - Practice of General Insurance

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LESSON - 1

EVALUATION OF GENERAL INSURANCE

LEARNING OBJECTIVES:

After studying this lesson, you should be able to understand

- Meaning of General Insurance
- Evaluation and growth of General Insurance
- History and significance of General Insurance
- Types of General Insurance
- Classification of General Insurance

STRUCTURE:

1.1 Introduction
1.2 Significance General Insurance
1.3 Evaluation of General Insurance in India
  1.3.1 Nationalization of General Insurance
  1.3.2 Insurance Regulatory Authority (IRDA)
1.4 Growth of General Insurance
1.5 General Insurance Market Trends in India
1.6 Types of General Insurance in India
1.7 Top General Insurance companies in India
1.8 Summary
1.9 Technical Terms
1.10 Self -Assessment Questions
1.11 Reference Books

1.1 INTRODUCTION :

General Insurance:

Any non-life insurance including medical, automobile, or a certain piece of painting, and nowadays even mobile phone insurances come under the ambit of the General Insurance. Anything that is an asset is insured under the general insurance contracts so that if it is damaged or lost in the future somebody is there to take care of that loss and the policyholder is not unduly affected by the loss/damage caused. Just like Life Insurance, General Insurance is also paid in the form of a premium.

1.2 SIGNIFICANCE OF GENERAL INSURANCE :

The following are the significance of the General Insurance

- It protects assets
- The policyholder will have someone to turn to in case of any loss
- All the financial assets you hold dear shall be protected
- It gives a sense of relief to the policyholders

1.3 EVOLUTION OF GENERAL INSURANCE IN INDIA :

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.

General insurance arrived in India as a part of the East India Company's trade policy. In 1850 with the establishment of the Triton Insurance Company Ltd in Calcutta.the seeds of the General Insurance business in India were sowed. It was the first company of its kind to transact in all kinds of general insurance business in India. Thereafter the major development took place when Indian Mercantile Insurance Ltd was set up in 1907.

After 10 years of attaining independence in 1957, the General Insurance Council, a wing of the Indian association of insurance was created. The council framed a code of conduct to ensure that fair business practices are being carried out in India in the general insurance sector In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. After that, a tariff advisory committee was set up.

- **The history of general insurance in chronological :**

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.

Year 1850 - The British establish the Triton Insurance Company Ltd ,General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British.

Year 1907 - The Indian Mercantile Insurance Ltd, was set upIn 1907, the Indian Mercantile Insurance Ltd, was set up. This was the first company to transact all classes of general insurance business.

Year – 1957 ,General Insurance Council is formed in 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.

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

Year 1973 - General insurance business was nationalized ,In 1972 with the passing of the General Insurance Business (Nationalisation) Act, general insurance business was nationalized with effect from 1st 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 1st 1973.

1.3.1 Nationalisation of General Insurance :

The General Insurance Business in India was nationalized by the General Insurance Business (Nationalization) Act in 1972(GIBNA). The Government of India through the nationalization scheme bought 55 shares of the 55 Indian Insurance companies along with the undertakings of 52 insurers carrying on general Insurance business. The National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd., and the United India Insurance Company Ltd. were formed through the amalgamation of 107 insurers. The General Insurance Corporation of India (GICI) was founded in 1971 and began operations on January 1, 1973.

- **General Insurance Corporation** was formed by S.9(1) of the GIBNA and was incorporated on the 22nd of November 1972 under the Companies Act,1956. It was declared a private company limited by shares. GIC was established to supervise, control, and carry out all the work in the general insurance industry. The Government of India transferred all of its general insurance company shares to GIC as soon as it was founded. All of the government's nationalized undertakings were transferred to Indian insurance companies at the same time.
- **The process of re-opening :** 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.

1.3.2 Insurance Regulatory and Development Authority (IRDA) :

The Insurance Regulatory and Development Authority Act, 1999 (IRDAA) which came into being on the 19th of April in the year 2000 marked the next major milestone in the General Insurance sector in India. GIBNA and the Insurance Act of 1938 were both amended by the introduction of this Act. The exclusive license of GIC and its subsidiaries to carry on general insurance in India was revoked by an amendment to GIBNA. GIC was refortified as the Indian Reinsurer in November 2000, and its supervisory function over the four subsidiaries was terminated by administrative instruction. It ceased to be a holding company of its subsidiaries on March 21, 2003, when the General Insurance Business (Nationalisation) Amendment Act 2002 (40 of 2002) came into effect.

- **August 2000 The IRDA opened up the 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.

- December, 2000 the subsidiaries of the General Insurance Corporation of India were restructured as independent companies

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.

- **July, 2002 Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.**

Today there are 34 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 well-developed 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.

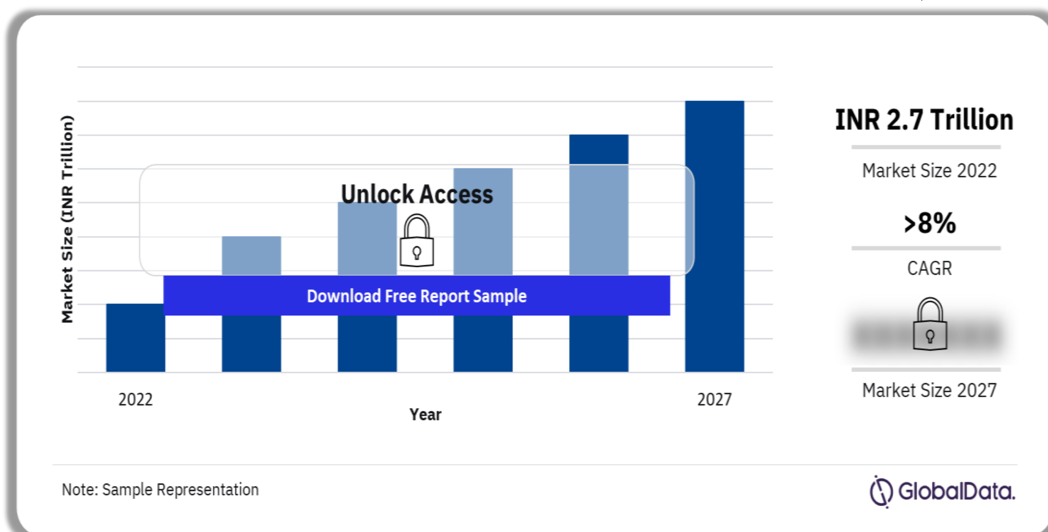
1.4 GROWTH OF GENERAL INSURANCE:

Today in India there are 34 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%.

- 7 trillion in 2022 and is expected to achieve a CAGR of more than 8% during 2023-2027. The India general insurance market research report provides in-depth market analysis, information, and insights into the India's general insurance segment.

India General Insurance Market Size and Trends by Line of Business, Distribution, Competitive Landscape and Forecast to 2027(Sample Picture)

India General Insurance Market Outlook,2022-2027 (INR Trillion)



The gross written premium of the India general insurance market was INR2.7 trillion in 2022 and is expected to achieve a CAGR of more than 8% during 2023-2027. The India general insurance market research report provides in-depth market analysis, information, and insights into the India's general insurance segment. It also provides values for key performance indicators such as gross written premium, loss ratio, retail, and commercial split, premium by line of business, and reinsurance premiums during the review period and forecast period.

1.5 GENERAL INSURANCE MARKET TREDNS IN INDIA :

ESG, personalization and hyper-personalization, inclusive insurance, gig insurance, and pet insurance are some of the key trends driving the India general insurance market.

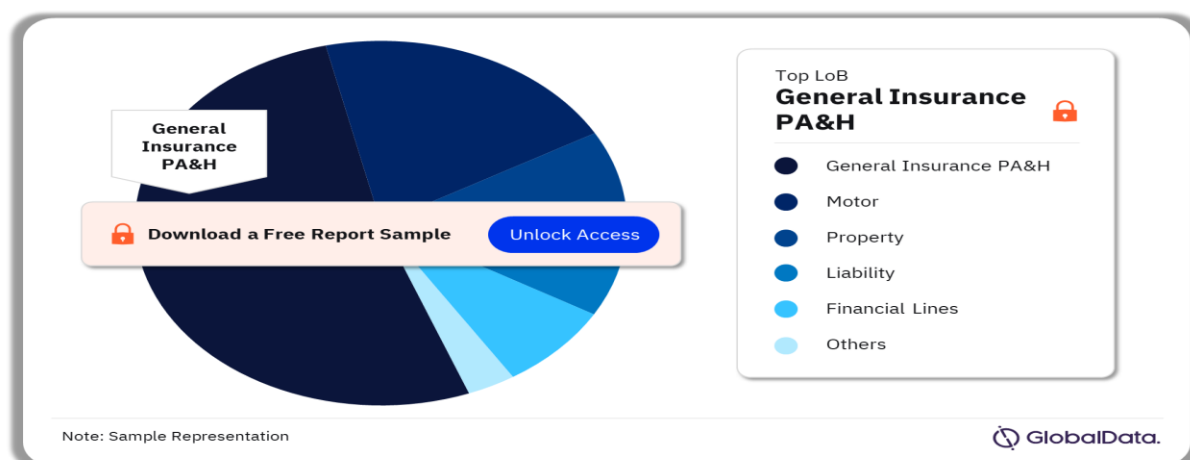
Gig Insurance: The growth of the gig economy in India has led to an increased demand for gig insurance as more individuals engage in freelance, part-time or temporary work arrangements. The insurers ICICI Lombard, Bajaj Allianz General, and HDFC Ergo offer gig insurance products. Insurers are introducing flexible and on-demand insurance policies to align with the dynamic nature of gig work. Various companies, such as Bajaj Allianz General, offer customized policies that allow gig workers to select coverage options based on their specific needs and duration of work. Gig insurance policies in India also provide income protection and business interruption coverage to safeguard gig workers' earnings in the case of accidents, illnesses or other unforeseen events. For instance, HDFC Ergo's gig-economy insurance covers loss of income and provides financial support during periods of temporary work discontinuation.

Pet Insurance: Pet insurance is witnessing significant growth in India due to the increasing number of pet owners recognizing the need for healthcare and financial protection for their pets. Insurers offering pet insurance in India provide comprehensive coverage for a wide range of veterinary expenses, including routine check-ups, vaccinations, surgeries, hospitalization, and even critical illness treatments. For example, Bajaj Allianz General's dog and cat Insurance policies cover medical expenses, including surgeries and treatments. Insurers are going beyond traditional coverage by offering value-added services that enhance the overall well-being of pets. For instance, Future Generally India provides access to services, such as pet concierge, behavioral training, and an emergency helpline; ensuring comprehensive support and assistance for pet owners.

- **India General Insurance Market Segmentation**

The key lines of business in the India general insurance market are property, motor, liability, financial lines, MAT, non-life PA&H, and miscellaneous. In 2022, general insurance PA&H accounted for the highest India general insurance market share. The growth of PA&H insurance in India can also be attributed to increasing awareness and demand among individuals. Premium collection from PA&H insurance is expected to remain strong over the next five years.

India General Insurance Market Analysis by Lines of Business, 2022 (%) :

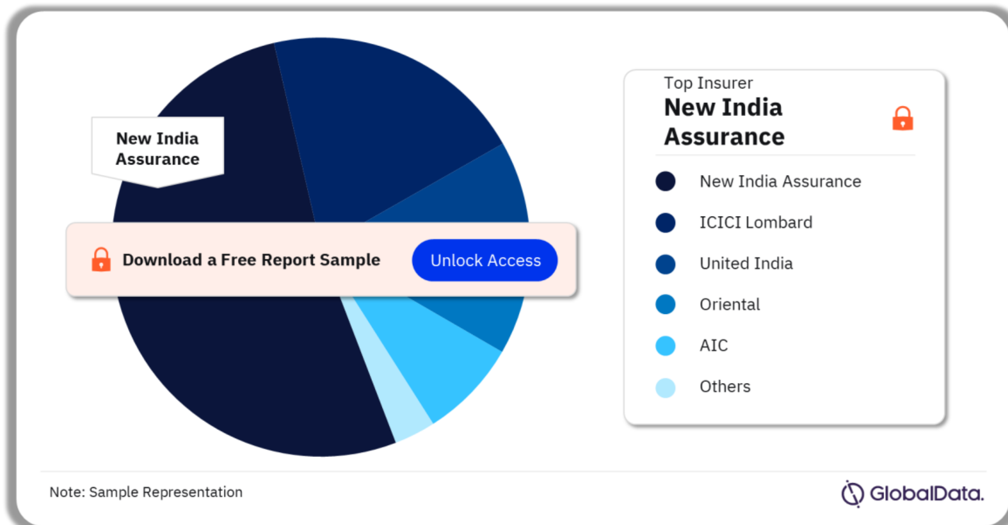


- **India General Insurance Market Segmentation by Distribution Channel**

The key distribution channels in the India life insurance industry are insurance brokers, agencies, e-commerce, bank assurance, direct marketing, and others. In 2022, insurance brokers were the largest distribution channel in India's general insurance market. Agencies which include individual general insurance agents and stand-alone health insurance agents were the second-prominent distribution channel.

- **India General Insurance Market - Competitive Landscape**

The leading general insurance companies in the India general insurance market are New India Assurance, ICICI Lombard, United India, Oriental, AIC, Bajaj Allianz General, HDFC ERGO, National Insurance, Star Health, and TATA AIG General among others. In 2021, New India Assurance was the leading general insurer in India.



1.6 TYPES OF GENERAL INSURANCE IN INDIA :

Fire, marine, motor, accident, and other non-life insurance are all types of general insurance. General insurance protects us and the things we value, such as our houses, automobiles, and belongings from fire, flood, storm, earthquake, theft, car accidents, and travel disasters, etc.

- ➢ A contract between two parties, whereby one party agrees to indemnify or cover the loss suffered by the other party for a consideration of some money(premium) is known as Insurance. Insurance policies protect against the numerous forms of uncertainty that might occur in a person's life. Insurance provides certainty, protection, shares risk and assist in capital formation.
- ➢ General insurance refers to insurance contracts that do not fall under the coverage of life insurance. Fire, marine, motor, accident, and other non-life insurance are all types of general insurance. General insurance protects us and the things we value, such as our houses, automobiles, and belongings from fire, flood, storm, earthquake, theft, car accidents, and travel disasters, etc.

- **General Insurance can be of following types:**

1. Motor Insurance:

Motor Vehicle insurance protects vehicles from unexpected and unfortunate events. Motor vehicle insurance can be purchased both online and offline from businesses authorized by the Insurance Regulatory and Development Authority of India (IRDAI). The Motor Vehicles Act requires both individual and commercial vehicle owners to insure their vehicles. Failure to

obey this guideline may result in monetary penalties and legal concerns. The government has made motor insurance necessary for protection and the safety of the owner and others. And the yearly premium is less in comparison to the benefits it provides in the event of a disaster. The rate of premium under motor insurance is standardised. In India, if you are driving a vehicle whether a 2-wheeler or 4-wheeler, insurance is a must. You will be legally entitled to drive a vehicle only if your vehicle is insured. There are two types of motor insurance:

Third Party Liability :

As per the Motor Vehicles Act, it is the minimum requirement you need to have to drive a vehicle. It covers losses faced in a situation where in your vehicle damages any third party such as public property or any other person's vehicle.

Comprehensive Package Policy:

A Comprehensive Package Policy covers both third-party damages and liabilities and damages/losses caused to you and your vehicle. The losses may arise due to an accident, theft, fire, natural calamities, and others.

2. Health Insurance:

The health insurances cover all kinds of expenses incurred in the cases of hospitalization which is caused due to an accident or illness. When it comes to health insurance, one can opt for a standalone health policy or a family floater plan that offers coverage for all family members.

Health Insurance is a contract between an insurer and an individual or a group in which the insurer agrees to provide health insurance at an agreed upon price, which is premium. Premium can be paid in instalments or in lump-sum depending upon the policy taken.

Health insurance claims can be made either immediately in cash or through payment after treatment. In India, health insurance is accessible in the form of Mediclaim coverage, which is offered to an individual or to any group, association or corporate bodies.

3. Home Insurance:

The Home Insurance policy covers all the losses that can occur to the house and all the contents in it in case of any made or natural causes that lead to its perils. It can broadly be classified into 3 categories:

- Structure Insurance- Ensures the structure of the house
- Contents Insurance- Covers the contents of the home for eg. Furniture
- Comprehensive Insurance- Encompasses both the structure and contents insurances into one policy.

4. Travel Insurance:

Travel Insurance covers losses while travelling that may be caused due to the loss of luggage, trip cancellation, or flight delay. It also supports cashless hospitalization if you are hospitalized during a trip.

5. Commercial Insurance:

Businesses, traders, retail shops, and other sorts of business enterprises purchase commercial insurance plans to protect themselves against specific hazards. Commercial insurance comes in a variety of forms e.g. Fire and burglary Insurance, Group Mediclaim Insurance, etc.

6. Burglary Insurance :

Burglary insurance falls under the classification of insurance of the property. A burglary occurs when someone uses force to unlawfully enter someone else's property, even if they do not steal anything. The loss of damages of household goods and properties and personal effects due to theft, larceny, burglary, house-breaking and acts of such nature are covered under Burglary Insurance. The actual loss is compensated.

The following conditions must be fulfilled:

- Insurable interest must exist at the time of loss, but not necessarily at the time when the policy was taken.
- The principle of CausaProxima will apply to it.

7 . Crop Insurance :

Crop insurance is a contract which protects agriculturists against financial losses caused by crop failures due to drought or flood. It compensates for crop losses or damage caused by a variety of factors such as hail, drought, frost, flood, and disease. Damages and losses relating to the production of rice, wheat, millets, oil seeds and pulses etc., are covered under crop insurance. Insurance can also act as a catalyst since lenders are more inclined to give loans to farmers who are insured, allowing them to make productivity-boosting investments.

8. Cattle Insurance :

When a sum of money is secured to the assured in the event of death of animals like bulls, buffaloes, cows, etc., it is known as Cattle Insurance. Cattle insurance policies cover cattle deaths caused by fire, traffic accidents, electricity, drowning, snake bite, strangling, poisoning, and accidental external causes. This insurance protects indigenous crossbred and exotic cattle held by private owners and financial entities, such as bank-financed, military dairy farms, cooperative dairies, and corporate dairies.

This insurance provides protection for two categories of risks :

- Cattle death: It encompasses loss of life due to accident or injury, as well as sickness caused by surgical infection.
- Permanent Impairment Health coverage: It protects against the risk of permanent and complete disability of cattle.

9. Sports Insurance :

Sport and recreation organisations must protect their assets with appropriate insurance. Sports insurance is contract which is meant to protect amateur and professional athletes covering their sporting equipment, personal effects, legal liability and personal accident risks. The policy protects the players during scheduled competition or club-approved training. Most athletic clubs require players to have insurance policies, and the cost of the premium is paid at the time of registration. Sports insurance covers one or more sports, such as angling, badminton, golf, etc.

10. AmartyaSenSikshaYojana

Amartya Kumar Sen, born 3 November 1933, is an Indian economist and philosopher who has taught and worked in the UK and the US since 1972. In Kolkata, he created a scheme that provides insurance coverage of up to Rs. 1 million to students whose parents have died in an accident.

The General Insurance Company's insurance provides for the education of dependent children. If the insured parent/legal guardian sustains any physical harm as a consequence of an accident caused by external violent and visible methods, and if such damage is the sole and direct cause of his/her death or permanent complete disablement within twelve calendar months of its occurrence. The insurer shall indemnify the insured student for all covered expenses incurred from the date of the occurrence of such accident until the expiry date of the policy or completion of the duration of the covered course, whichever occurs first, and such indemnification shall not exceed the sum insured as stated in the policy schedule.

11. Rajeshwari Mahila Kalyan Bima Yojana

Rajeshwari Mahila Kalyan BimaYojana aims at providing relief to the family members of insured women in case of their death or disablement. This policy gives economic security to women. This policy is for all women between the ages of 10 and 75, regardless of their income, profession, or occupation. This insurance has been designed to provide relief to the family members of insured women in the event of their death or disablement as a result of all types of accidents and/or death and/or disablement as a consequence of issues particular to women only.

1.7 TOP GENERAL INSURANCE COMPANIES IN INDIA :

- **Digit General Insurance** : It is India's 1st digital insurance company and covers a range of life insurance products including 2-wheeler. Car, health, home, travel, and mobile insurances.
- **Liberty General Insurance :** Starting in 2013, the insurer is one of the best insurance companies in India. Industrial, commercial, and retail insurance solutions are available. Car insurance, two-wheeler insurance, health insurance, and commercial insurance are among the most sought-after insurance products on the market.
- **National General Insurance :** Starting in the year 1906, the oldest existing general insurance company in India was awarded the best auto insurer in the year 2017.
- **Reliance General Insurance** : Reliance General Insurance is one of India's most well-known insurance businesses, established at 139 locations with more than 28,900 intermediaries across the country. The insurer's insurance products can be classified as health travel, vehicle, house marine, and so on. The insurer does not stop at insurance and claims; it also encourages customers to maintain a healthy lifestyle. The company believes that everyone should have access to an inexpensive insurance.
- **SBI General Insurance** : SBI General Insurance was founded in 2010 as a strategic partnership between two financial behemoths, the State Bank of India (SBI) and the Insurance Australia Group (IAG). The insurer is one of India's most well-known insurance businesses, offering a wide range of commercial and retail insurance products at reasonable costs. Health, motor, personal accident, vacation, and home insurance are among the many policies available.

Apart from these, there are other big players in the market such as Kotak Mahindra General Insurance, Edelweiss General Insurance, Bajaj Allianz General Insurance, Oriental General Insurance, United India General Insurance, Tata AIG General Insurance. There are also certain specialized Insurance Companies in India such as the Agricultural Insurance Company of India which is designed to offer specialized insurance policies to suit the needs of the farmers. As well as there is Export Credit Guarantee Corporation of India Limited to cover export credit risks faced by banks, MSMEs, and other financial institutions.

1.8 SUMMARY :

The ambit of General Insurance ambit is wide , any non-life insurance including medical, automobile, or a certain piece of painting, and nowadays even mobile phone insurances covers , anything that is an asset is insured under the general insurance contracts. General Insurance protects assets , policyholder will have someone to turn to in case of any loss , All the financial assets you hold dear shall be protected , it gives a sense of relief to the policyholders .

General insurance arrived in India as a part of the East India Company's trade policy in 1850. In Independence India in 1957, the General Insurance Council, a wing of the Indian association of insurance was created which the General Insurance came into effect in 1968 . The General Insurance corporation of India came into existence in1971 and begun in operations 1st January 1973. Mortar Insurance, Health insurance, Travel Insurance, home insurance, commercial insurance are types of G.I .

1.9 TECHNICAL TERMS :

1. G.I: General Insurance
2. GIBNA act 1972 : General Insurance Business Nationalization Act 1972
3. GICI: General Insurance Corporation of India established in 1972
4. IRDA Act 1999: Insurance Regulatory and Development Authority was established in 1999 which came into force in 2000 for Regulating all Insurance companies in India, including
5. General insurance business.
6. Market Segmentation: Market segmentation is a marketing strategy in which select groups of consumers are identified so that certain products or product lines can be presented to them in a way that appeals to their interests.

1.10 SELF ASSESSMENT QUESTIONS :

1. What is the object and nature of the General Insurance?
2. Briefly write about significance of General Insurance in India?
3. What are the types of General Insurance? Its characters
4. Explain the growth of Indian General Insurance Market ?
5. Write about the historical background of the General Insurance Market in India ?

1.11 REFERENCE BOOKS :

1. Inside the Insurance Industry – Third Edition Paperback – 22 January 2014 by Kevin L Glaser (Author)
2. Insurance Institute of India – IC 34 General Insurance
3. Insurance Institute of India – IC 45 General Insurance Underwriting
4. KC Mishra and G.E Thoms, General Insurance – Principles and practice, Cenegage Learning: New Delhi.
5. IRDA act 1999 , Insurance Regulatory and development authority act of 1999

DR. PRASAD CHUNDI

LESSON - 2

FUNDAMENTALS OF GENERAL INSURANCE

LEARNING OBJECTIVES:

After conclusion of this lesson, you should be able to understand

- Fundamentals of General Insurance
- Objectives of General Insurance
- Principle of utmost good faith
- Meaning and scope of material facts of General Insurance
- Classification of General Insurance

STRUCTURE :

2.1 Introduction

2.2 Objectives

2.3 Principles of utmost good faith

2.4 Insurance is an intangible product

2.4.1 Definitions of utmost good faith and trust

2.5 Material fact in risk assessment

2.6 Facts which must be disclosed

2.7 Facts need not be disclosed

2.7.1 The principle of utmost good faith is supported by three legal doctrines

2.7.2 Duty of duration of disclosure

2.8 Breach of utmost good faith

2.9 Principle of Insurable Interest

2.10 Principle of Indemnity

2.11 Summary

2.12 Technical Terms

2.13 Self-Assessment Questions

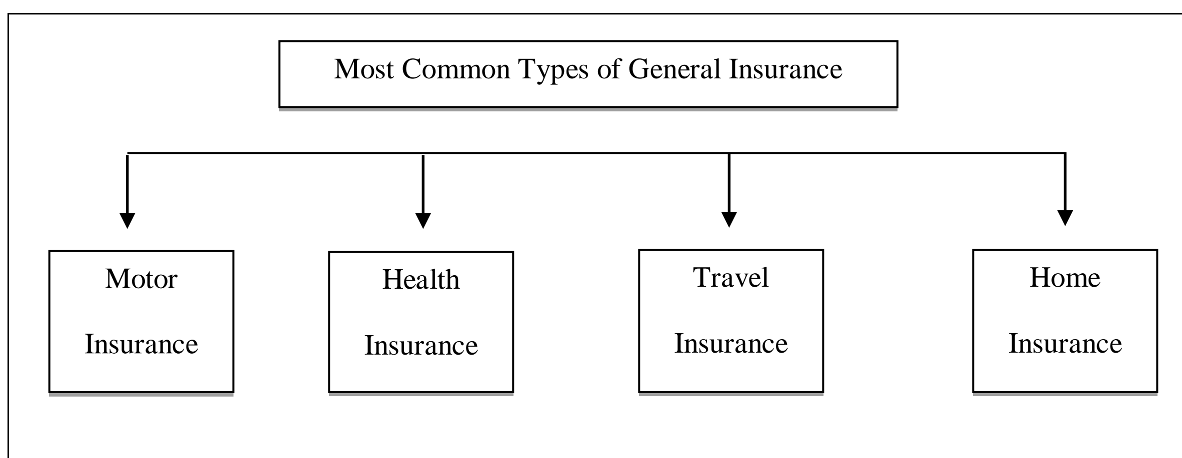
2.14 Reference Books

2.1 INTRODUCTION :

General insurance, also known as non-life insurance, comprises of motor insurance, health insurance, home insurance, shop insurance, marine insurance, travel and every other form of insurance. It is defined as any insurance which is not deemed to be life insurance. After studying, the life insurance and its importance, the over aspect of insurance other than ‘Life Insurance’ would is General Insurance. In this chapter, we cover various aspect of General Insurance such as Principles of utmost Good faiths material fact Principle of Insurable Insures and Principle of Indemnity. General Insurance comprises of insurance of property against fire, burglary etc, personal insurance such as Accident and Health Insurance, and liability insurance which covers legal liabilities. Suitable general Insurance covers are necessary for every family. It is important to protect one’s property, which one might have acquired from one’s hard earned income. Losses created to catastrophes such as the tsunami, earthquakes, cyclones etc. have left many homeless and penniless. Such losses can be devastating but insurance could help mitigate them. Property can be covered, so also the people against Personal Accident. A Health Insurance policy can provide financial relief to a person undergoing medical treatment whether due to a disease or an injury.

- General insurance, also known as non-life insurance, comprises of motor insurance, health insurance, home insurance, shop insurance, marine insurance, travel and every other form of insurance. It is defined as any insurance which is not deemed to be life insurance.
- General insurance covers any non-life insurance, such as health, vehicle, art, and these days, even cell phone insurance. All assets are covered by general insurance contracts so that the policyholder is not excessively impacted by the loss or damage sustained and that, in the event that an asset is lost or destroyed in the future, someone will be available to handle the loss. General insurance also requires payment in the form of premiums, much as life insurance.
- Importance of General Insurance
  - Protects assets
  - There will be someone the policyholder may contact in the event of a loss.
  - Precious financial assets will all be safeguarded.
  - The policyholders feel relieved as a result.
- **Basics of General Insurance**

General insurance is non-life insurance. Any insurance plan which does not fall under the category of life insurance is a part of general insurance. India has multiple numbers of general insurance providers. The most common type of general insurance plans are:



❖ **Motor Insurance (car, bike and all motorised vehicles)**

An insurance policy that covers both the driver and the vehicle is known as motor insurance. Being a contract, it must fulfill the conditions outlined in the Indian Contract Act 1872 for a legal contract, just like any other.As per the Indian Motor Vehicles Act, 1988, third party liability insurance is mandatory for all vehicles operating on Indian roads. It is advisable to purchase a comprehensive motor insurance plan for giving complete protection to your vehicle.

According to Motor Vehicle Act, a Motor Vehicle or Vehicle is any mechanically propelled vehicle that satisfies the following requirements-

a. Used on public roads wheather the power comes from an internal or external source
b. Have a chassis to which a body has not been attached; and
c. A trailer.

Here a few instances which are covered under motor insurance:

1) Accidental Damage
2) Fire and Explosion

3) Theft
4) Natural/Man-made Calamities
5) Personal Accident/Permanent/Partial Disablement
6) Third-Party Liability/Damage to Third Party Person/Property
7) Add-on Rider - Zero Depreciation Cover, No Claim Bonus Cover, Emergency Assistance Cover, Return to Invoice, Engine and Gearbox Protection, Key Replacement Cover, Cost of Consumables Cover, Loss of Use - Downtime
8) Cashless and Reimbursement Facilities

❖ **Health Insurance**

Health insurance is a type of general insurance which provides cover against any medical/health/accidental/emergency related incidents.Health insurance is a great way to safeguard one's income since it shifts the risk to the insurer. In addition to safeguarding an individual's financial interests, a well-managed health insurance scheme would guarantee wellbeing by granting access to preventative medical treatment. Health insurance plans can be customized as per your budget and risk. Also, health insurance plans offer cover up to the insured amount. Here a few instances which are covered under health insurance:

1) In-patient Hospitalization
2) Pre and Post Hospitalization Expenses
3) Emergency Ambulance Cover
4) Sum Insured Restoration
5) Organ Donor Expenses
6) AYUSH
7) Mental Health
8) Recovery Benefit
9) Domiciliary Hospitalization
10) Rider - Critical Illness Rider, Personal Accident Cover, etc.

➢ **Travel Insurance**

Travel insurance is a type of general insurance which provides cover against travel-related perils such as loss of baggage/passport, medical emergencies, flight cancellation, etc in a foreign or domestic country. It is advisable to purchase a travel plan 15 days before your trip begins. People who travel outside of India run the danger of experiencing medical issues that need to be treated in a hospital, losing their luggage, becoming sick, and getting into accidents that result in injuries. Here a few instances which are covered under travel insurance:

1. Country-Specific Plans - Asia, Schengen, USA, and Canada
2. Worldwide Cover
3. Emergency Medical Expenses
4. Accidental Related Emergency
5. Dental Treatment
6. Medical Evacuation
7. Hospital Daily Cash Allowance
8. Accidental Death
9. Hijack Distress
10. Loss of Passport/Baggage
11. Missed/Cancelled Flight
12. Medical and Body Repatriation

13. Permanent Disablement
14. Financial Emergency Assistance
15. Bail Bond

- **Home Insurance**

Homeowners insurance, also referred to as home insurance, guards your house, other buildings on the land, and personal belongings from theft, vandalism, and unanticipated damage. An additional kind of homes insurance is renter's insurance.Home Insurance is a type of general insurance which provides cover to your home against damages from theft, burglary, natural calamities like floods, fire, earthquake, storm and manmade events like riots, arson etc. Here a few instances which are covered under home insurance:

1. Fire
2. Burglary and Theft
3. Electrical Breakdown
4. Natural Calamities
5. Manmade Hazards
6. Accidental Damage
7. Alternate Accommodation
8. Terrorism Optional Coverage
9. Riders - electronic Equipment Cover, Jewellery and Valuables, Pedal Cycle and Public Liability.

2.2 OBJECTIVES

At the end of this lesson you will be able to know:

- Various additional principles applicable to General Insurance Contract
- In case any of these principles are missing the insurance contract will become void

2.3 PRINCIPLES OF UTMOST GOOD FAITH :

Both the parties to a commercial contract are by law required to observe good faith. Let us say that you go to a shop to buy an electrical appliance. You simply will not enter, pay and pick up any sample piece but will check two, three or even more pieces. You may be even ask the shopkeeper to give a demonstration to ensure that it is in working condition and also ask several questions to satisfy yourself about what you are buying. Then when you go home you find it does not work or is not what you were looking for exactly so you decide to return the item but the shopkeeper may well refuse to take it back saying that before purchasing you had satisfied yourself; and he is possibly right. The common law principle “Caveat Emptor” or let the buyer beware is applicable to commercial contracts and the buyer must satisfy himself that the contract is good because he has no legal redress later on if he has made a bad bargain. The seller cannot misrepresent the item he has sold or deceive the buyer by giving wrong or misleading information but he is under no obligation to disclose all the information to the buyer and only selective information in reply to the buyers queries is required to be given. But in Insurance contracts the principles of “Uberrima fides” i.e. of Utmost Good Faith is observed and simple good faith is not enough. Why this difference in Insurance contracts?

Firstly, in Insurance contracts the seller is the insurer and he has no knowledge about the property to be insured. The proposer on the other hand knows or is supposed to know everything about the property. The condition is reverse of ordinary commercial contracts and the seller is entirely dependent upon the buyer to provide the information about the property

and hence the need for Utmost Good Faith on the part of the proposer. It may be said here that the insurer has the option of getting the subject matter of Insurance examined before covering the risk. This is true that he can conduct an examination in the case of a property being insured for fire risk or of getting a medical examination done in the case of a health policy. But even then there will be facts which only the insured can knowe.g., the history of Insurance of the property whether it has been refused earlier for Insurance by another company or whether it is also already insured with another company and the previous claim experience. Similarly a medical examination may not reveal the previous history i.e. details of past illness, accidents etc. Therefore Insurance contracts insist on the practice of Utmost Good Faith on the part of the Insured.

It is one of the fundamentals of insurance law and relates to a wide range of routine financial activities. One of the main ideas that controls the interaction between the insured party and the insurer is the principle of utmost good faith. Both parties have an obligation to operate with good faith and transparency in all of their interactions, which is known as uberrimaefidei. When pertinent information is withheld or deliberate dishonesty takes place, there may be a breach of the utmost good faith

Definition,

"Principle of utmost good faith is an affirmative obligation to willingly and truthfully disclose, whether solicited or not, all information relevant to the risk being offered."

2.4 INSURANCE IS AN INTANGIBLE PRODUCT :

Any type of Insurance is an intangible product. It cannot be seen or felt. It is simply a promise on the part of Insurer to make good the loss incurred by the Insured if and when it occurs.

Thus the Insurer is also obliged to practice Utmost Good Faith in his dealings with the Insured. He cannot and should not make false promises during negotiations.

He should not withhold information from the Insured such as the discounts available for good features e.g., fire extinguishing Appliances discount in fire policies or that Earthquake risk is not covered under the standard fire policy but can be covered on payment of additional premium. In the recent Earthquake disaster in Gujarat a number of Insured failed to get any relief from Insurance Companies as Earthquake risk was not covered. Utmost Good Faith can be defined as "A positive duty to voluntarily disclose, accurately and fully all facts material to the risk being proposed whether requested for or not". In Insurance contracts Utmost Good Faith means that "each party to the proposed contract is legally obliged to disclose to the other all information which can influence the others decision to enter the contract".

2.4.1 The following can be inferred from the above two definitions:

(1) Each party is required to tell the other, the truth, the whole truth and nothing but the truth.
(2) Unlike normal contract such an obligation is not limited to any questions asked and
(3) Failure to reveal information even if not asked for gives the aggrieved party the right to regard the contract avoid.

How is this duty of Utmost Good Faith to be practiced? And what are the facts that the proposer has to disclose? The answer to both the question is simply the proposer must disclose to the insurer all material facts in respect of the subject matter of Insurance.

2.5 MATERIAL FACT IN RISK ASSESSMENT:

Information that is significantly relevant to the risk assessment process is referred to as a material fact. These details affect the insurer's choice about policy underwriting, coverage parameters, and premium pricing. For both policyholders and insurers, it is imperative that the definition of a relevant fact be made clear. Or we can say material fact is every circumstance or information, which would influence the judgement of a prudent insurer in assessing the risk or those circumstances which influence the insurer decision to accept or refuse the risk or which effect the fixing of the premium or the terms and conditions of the contract must be disclosed.

Importance of Material Fact in Risk Assessment

- **Accuracy in Underwriting**- A precise evaluation of risk is crucial in the insurance sector. Important facts give insurers the data they need to assess and calculate the risks involved in covering a person or organization. With this accuracy, insurers may customize policies to fit particular risk profiles, guaranteeing reasonable rates and suitable coverage.
- **Effect on Insurance Rates**- Important information immediately affects how premiums are determined. These details are examined by insurers in order to evaluate the possibility of a claim and establish the right premium amounts. A transparent and fair insurance market is promoted by full disclosure, which enables policyholders to buy insurance at prices that appropriately reflect their risk profile.

2.6 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 Company has 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

- **Some examples of Material facts are**

  (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 fire fighting 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 thatthe 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 if it is likely to increase the choice of an accident, Bad habits such asdrinking etc.

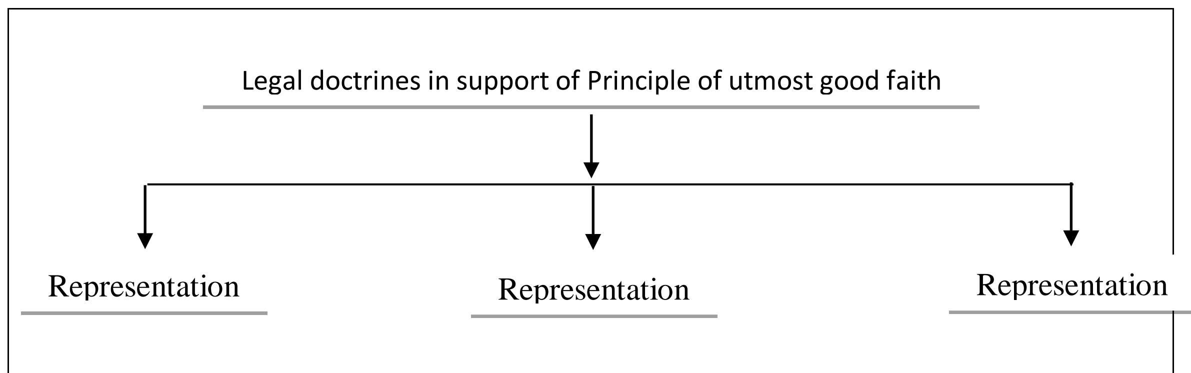
  (e) Burglary Insurance: Nature of stock, value of stock, type of security precautions taken.

As mentioned this is not an exhaustive list but only a few examples.
Details of previous losses is a material fact which is relevant to all policies.

2.7 FACTS, WHICH NEED NOT BE DISCLOSED :

a. **Facts of Law:** Everyone is deemed to know the law. Overloading of goods carrying vehicles is legally banned. The transporter cannot take excuse that he was not aware of this provision.
b. **Facts which lessen the Risk:** The existence of a good fire fighting 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.
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 insurers 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 penalized.
f. **Facts covered by policy condition:** Warranties applied to Insurance polices i.e. there is a warranty that a watchman be deployed during night hours then this circumstance need not be disclosed.

2.7.1 The principle of utmost good faith is supported by three legal doctrines-



- **Representation-** It is a declaration by the insurance applicant. If a representation is both (i) significant and factual and (ii) relied upon by the insurer, the insurance contract may be voidable at the insurer's discretion. The insurer may refuse to pay mediclaim if it is discovered that high blood pressure is pre-existing, for instance, if a mediclaim policy is provided on the proposal form with no history of high blood pressure or circulatory system disorders.
- **Concealment-** The deliberate omission of a crucial fact by the applicant from disclosure to the insurer is known as concealment. Refusing to talk when compelled to do so or withholding important facts is concealment.
- **Warranty-** A warranty is an assurance that something will happen (promissory warranty) or that something has already happened (affirmative warranty). There is also occasionally a difference between explicit guarantees, which are written, and implicit warranties, which are generally recognized.

2.7.2 Duration of Duty of Disclosure :

The duty of disclosure remains in force throughout the entire negotiation stage and till the contract is finalized. Once the contract is finalized than the contract is subject to ordinary simple good faith. However when an alteration is to be made in an existing contract then this duty of full disclosure recovers in respect of the proposed alteration. Throughout the duration of the policy, it starts when the insured applies for insurance for the first time. This indicates that any changes in circumstances that may have an impact on the risk or conditions of coverage during the insurance period are covered by the responsibility of disclosure, which is not restricted to the time of application.

The duty of disclosure also revives at the time of renewal of contract since legally renewal is regarded as a fresh contract.

- **For example**: a landlord at the time of proposal has disclosed that the building is rented out and is being used as an office. If during the continuation of the policy the tenants vacate the building and the landlord subsequently rents it out to a person using it as a god own then he is required to disclose this fact to the Insurer as this is a change in material facts and effects the risks.

2.8.1 BREACHES OF UTMOST GOOD FAITH :

Breaching the principle of utmost good faith may result in major repercussions, such as the insurer pursuing legal action, refusing claims, or cancelling the insurance. Throughout the whole insurance relationship, it is imperative that the insured and the insurer respect the values of integrity and openness.

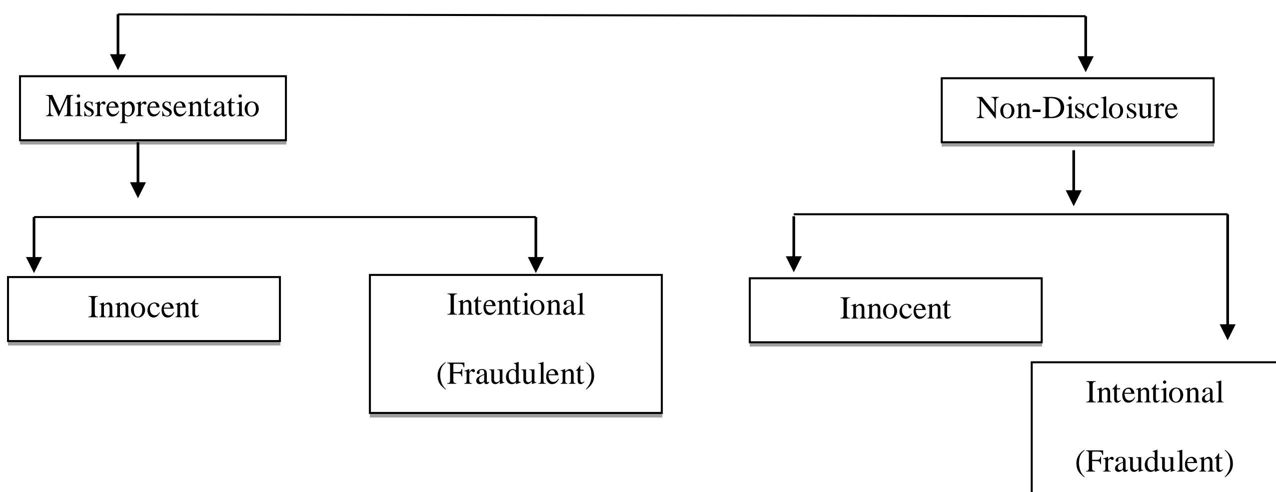
Breaches of Utmost Good Faith occur in either of 2 ways.

(1) Misrepresentation, which again may be either innocent or intentional. If intentional then they are fraudulent

(2) Non-Disclosure, which may be innocent or fraudulent. If fraudulent then it is called concealment.

It is important to distinguish between the two: Misrepresentation and Non-Disclosure

Breach of Utmost Good Faith.



Misrepresentation:
Giving inaccurate or misleading information to the insurer—during the application process or at any time throughout the insurance term—is seen as a violation of the highest ethical standards. This covers falsehoods in declarations, records, or assurances given to the insurance company.

- **Innocent :**This occurs when a person states a fact in the belief or expectation that it is right but it turns out to be wrong. While taking out a Marine Insurance Policy the owner states that the ship will leave on a specific date but in fact the ship leaves on a different date.
- **Intentional:** Deliberate misrepresentation arises when the proposer intentionally distorts the known information to defraud the insurer. The selfish objective is somehow to enter the contract or to get a reduction in the premium e.g., If anapplicant for motor Insurance stated that no one under 18 would drive the vehicle when in fact his 17 years old son drives frequently. Such a misrepresentation would be material as it would effect the decision of the insurer.
- **Non-Disclosure :**
  Innocent : This arises when a person is not aware of the facts or when even though being aware of fact does not appreciate its significance e.g.
  A proposer at the time of effecting the contract has undetected cancer therefore does not disclose it orA proposer had suffered from Rheumatic fever in his childhood but he does not disclose this not knowing that people who have this are susceptible to heart diseases at a later age.
- **Deliberate:** This is done with a deliberate intention to defraud the insurer entering into a contract, which he would not have done had he been aware of that fact.
  A proposer for fire Insurance hides the fact knowingly by not disclosing that he has an outhouse next to his building, which is used as a store for highly inflammable material.

2.9 PRINCIPLE OF INSURABLE INTEREST :

An object or person is considered to have an insurable interest when losing it would put the owner through financial difficulties or any other type of loss. One of the essential ingredients of an Insurance contract is that the insured must have an insurable interest in the subject matter of the contract. Insurance without insurable interest would be a mere wager and as such unenforceable in the eyes of law. The subject matter of the Insurance contract may be a property, or an event that may create a liability but it is not the property or the potential liability which is insured but it is the pecuniary interest of the insured in that property or liability which is insured. **The concept is the basis of the doctrine of insurable interest** and was cleared in the case of Castellain v/s Priston in 1883 as follows. "What is it that is insured in a fire policy? Not the bricks and materials used in building the house but the interest of the Insured in the subject matter of Insurance." The subject matter of the contract is the name given to the financial interest, which a person has in the subject matter and it is this interest, which is insured

Insurable Interest is defined as ….
The legal right to insure arising out of a financial relationship recognized under the law between the insured and the subject matter of Insurance". There are four essential components of Insurable Interests

- There must be some property, right, interest, life, limb or potential liability capable of being insured.

- ❖ Any of these above i.e. property, right, interest etc. must be the subject matter of Insurance.
- ❖ The insured must stand in a formal or legal relationship with the subject matter of the Insurance. Whereby he benefits from its safety, well-being or freedom from liability and would be adversely affected by its loss, damage existence of liability
- ❖ The relationship between the insured and the subject matter must be recognized by law.

2.10 PRINCIPLE OF INDEMNITY :

Indemnity according to the Cambridge International Dictionary is “Protection against possible damage or loss” and the Collins Thesaurus suggests the words “Guarantee”, “Protection”, “Security”, “Compensation”, “Restitution” and “Reimbursement” amongst others as suitable substitute for the word “Indemnity”. The words protection, security, compensation etc. are all suited to the subject of Insurance but the dictionary meaning or the alternate words suggested do not convey the exact meaning of Indemnity as applicable in Insurance Contracts. In Insurance the word indemnity is defined as “financial compensation sufficient to place the insured in the same financial position after a loss as he enjoyed immediately before the loss occurred.” Indemnity thus prevents the insured from recovering more than the amount of his pecuniary loss. It is undesirable that an insured should make a profit out of an event like a fire or a motor accident because if he was able to make a profit there might well be more fires and more vehicle accidents. As in the case of Insurable Interest, the principle of indemnity also relies heavily on the financial evaluation of the loss but in the case of life and disablement it is not possible to be precise in terms of money.

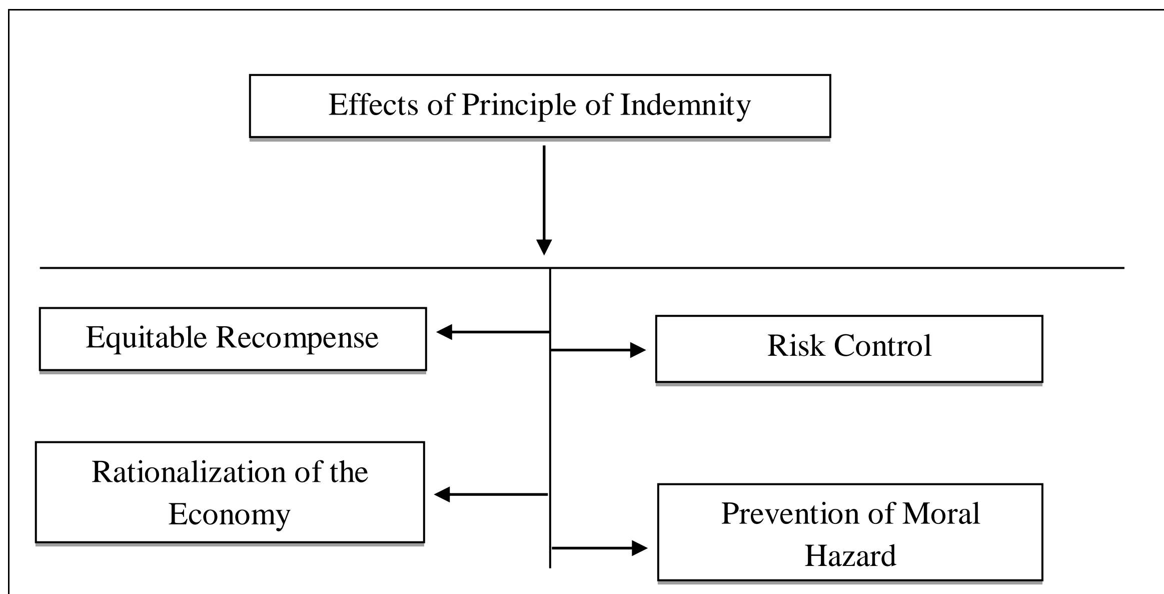
The term "indemnity" refers to a method by which insurance companies offer monetary compensation in an effort to restore the insured's financial situation to what it was before to the loss. "Indemnity" means "making good the loss" in its literal sense. The concerned insurer should refill the insured's lost amount upon the occurrence of the covered event for which the insurance policy is taken out.

Example-

Mr. J. Arvind held a Rs. 10 Lakhs auto insurance policy. The vehicle sustained damage in an accident. The amount lost was estimated to be Rs. 2 Lakhs. The compensation to be given will be based on the amount of loss, which is Rs. 2 lacs, in accordance with the principle of indemnity. If the compensation is more than Rs. 2 Lakhs Mr J. Arvind stands to gain from the loss.

Effects of Principle of Indemnity

- **Equitable Recompense:**
  A fair and reasonable recompense for the insured party's actual financial loss is guaranteed by the indemnity concept. By doing this, the balance between the insurer and the insured is preserved and overcompensation is avoided.
- **Risk Control:**
  By prohibiting people from purposely generating losses in order to profit from insurance benefits, indemnity encourages competent risk management. It harmonizes the insured's interests with the idea of re-establishing financial stability following a covered loss.
- **Rationalization of the Economy:**
  Insurance is more financially sensible when indemnity is included. It makes sure that insurance is understood as a tool for lessening the financial effect of unanticipated catastrophes rather than as a speculative investment.



- **Prevention of Moral Hazard:**
  The principle of indemnification helps avoid situations where insured parties can take excessive risks knowing they are shielded from the full repercussions of those risks by capping reimbursement to the actual loss experienced.

2.11 SUMMARY :

After studying, the life insurance and its importance, the over aspect of insurance other than 'Life Insurance' would is General Insurance. In this chapter, we cover various aspect of General Insurance such as Principles of utmost Good faiths material fact Principle of Insurable Insures and Principle of Indemnity. General Insurance comprises of insurance of property against fire, burglary etc, personal insurance such as Accident and Health Insurance, and liability insurance which covers legal liabilities.Insurance allows businesses to take risks and invest in new ventures, knowing that they are protected in case of unforeseen events. This security encourages innovation and growth, leading to job creation and economic development. In conclusion, taking insurance is an essential part of managing one's financial risk

2.12 TECHNICAL TERMS :

1. **Principles Of Utmost Good Faith :** Both the parties to a commercial contract are by law required to observe good faith.
2. **Insurance Is An Intangible Product:** Any type of Insurance is an intangible product. It cannot be seen or felt. It is simply a promise on the part of Insurer to make good the loss incurred by the Insured if and when it occurs.
3. **Material Fact In Risk Assessment :** Material fact is every circumstance or information, which would influence the judgement of a prudent insurer in assessing the risk.
4. **Principle Of Insurable Interest :** One of the essential ingredients of an Insurance contract is that the insured must have an insurable interest in the subject matter of the contract
5. **Principle Of Indemnity :** Indemnity is "Protection against possible damage or loss" to property / asset tangible or intangible in nature.

2.13 SELFASSESSMENT QUESTIONS :

1. Briefly explain about principle of utmost good faith ?
2. Insurance is an intangible product ? describe
3. What are the material facts of risk assessment ?
4. What is principle of In demnity ?

2.14 REFERENCE BOOKS :

1. H Narayanan , Indian Insurance: A profile , Jaico publishing house: Mumbai
2. K.C Mishra and G.E Thomas, General Insurance – Principles and practice ,Cengage Learning, New Delhi.
3. Model 1 Principles and practice of General Insurance, The Institute of Chartered Accountants of India, New Delhi.
4. Insurance Institute of India – IC 45 General Insurance Underwriting

Dr. PRASAD CHUNDI

LESSON - 3

RECENT INNOVATIONS

LEARNING OBJECTIVES :

After completion of this lesson, you should be able to understand

- ➢ Recent innovations in insurance sector
- ➢ Objectives of innovations
- ➢ Technology driven services
- ➢ Black chain technology and security
- ➢ The sharing economy and insurance
- ➢ Robo-advice and AI, Emerging technologies

STRUCTURE :

3.1 Introduction
3.2 Concept of Innovation
3.3 Innovation Definition
3.4 Insurance intermediation and distribution models
3.5 Block Chain Technology In Insurance sector
3.6 Sharing Economy and Insurance
3.7 Robo-advice and Artificial Intelligence
3.8 Data Aggregation and analytics in Insurance
3.9 Top 5 Technology Trends in the Insurance Industry
3.10 Innovation in Insurance - Competitive Landscape
3.11 Summary
3.12 Technical Terms
3.13 Self-Assessment Questions
3.14 Reference Books

3.1 INTRODUCTION :

- **Technology and Innovation in the Insurance Sector**.

  "Insur tech" is the term being used to describe the new technologies with the potential to bring innovation to the insurance sector and impact the regulatory practices of insurance markets. Innovation through new technologies is a key driver of change in the financial sector and this has led to immeasurable efficiency gains, even though these changes can initially be accompanied by uncertainty and doubt. The insurance sector is no exception to such developments, with possibilities of new methods of service provision as well as greater opportunities for data collection and fraud detection that can lead to better risk identification and mitigation measures, which are being referred to as "InsurTech". Innovation and new technologies have the potential to affect the franchise value of insurance companies, with accompanying competition policy considerations. Policies which have tailored coverage and simplified claims processes can improve coverage to segments of society that hitherto were not able to access financial protection. Regulatory approaches, such as the regulatory sandbox being developed by a number of jurisdictions, may bridge greater competition and prudential requirements, although ensuring a level playing field as solutions graduate into the full market require some consideration.

- There are a number of areas in which greater regulatory discussion should take place, as the transparency of the technology and the impact on policyholder's choice and rights may not be clear. Data protection is an area that will require closer examination by regulators, as the volume of personal data handled by insurers increases, whether consensus was gained for the intended use becomes blurred.
- Data aggregation brings forth the possibility of certain segment of the population becoming uninsurable, so how data is harnessed should be closely considered. The treatment of algorithms is also an area for further discussion to ensure that the assumptions built in are appropriate and unintended consequences are avoided in so far as possible, and regulators have a means of engaging in this assessment.
- These could have implications on the ongoing monitoring of operational risk and internal control of insurers. nsuring that policyholders are fairly treated and appropriately protected when the implications of certain innovations and technologies are uncertain will be important going forward.

3.2 CONCEPT OF INNOVATION:

Innovation is generally regarded as a positive development, delivering convenience and efficiency. For example, the advent of cash points (ATMs) assisted people to gain access to cash even out of business hours and lowered the costs for banks. Improvements in communication networks and processing capacity have led to faster payment processes. Insurance claims can be processed via online platforms, with less time for processing. Comparative sites permit product comparison of various insurance products. Given that underwriting is largely based on the analysis of historical data to carry out the risk assessment of a policyholder, insurance, on first glance, appears particularly well suited for "big data" analysis. Big data and block chain have been major topics in many insurance discourses of technology.

- Innovation through new technologies is a key driver of change in the financial sector and this has led to immeasurable efficiency gains, even though these changes can initially be accompanied by uncertainty and doubt. In recent years, such innovation has happened on the back of new technological developments, with the phenomenon often being described as "FinTech". As financial services deal in intangible products, it is well suited for technological innovation to lower transaction costs and expedite the delivery of services. Although this has, in fact, been happening over the history of finance, the recent proliferation of internet connections, home computing and mobile devices, and the development of applications has led to the possibility of lowering the barrier for market entry, paving the way for greater competition in or "disruption" of the financial industry. However, slating technological and innovation as "disruptive" technology can be misleading, and it is likely to be more a hindsight observation than the everyday trial and error that accompanies innovation and technological advances. The insurance sector is not an exception to this, with developments in technology leading to possibilities of new methods of service provision as well as greater opportunities for data collection that can lead to better risk identification and mitigation measures, which are being referred to as "InsurTech". InsurTech, as compared to FinTech, is more often related to service improvements for individuals, as opposed to businesses.

3.3 DEFINITION OF INNOVATION:

Innovation as we use it here refers to any combination of activities and technologies that breaks existing performance trade-offs in the attainment of an outcome in a manner that expands the realm of the possible. This definition comes from leading innovation researcher and Deloitte Research Distinguished Fellow Michael Raynor, who said in his book The Innovator's Manifesto:"Trade-offs define the limit of what is possible at a point in time, not what is possible for all time … all innovation is about breaking trade-offs .

It is important as we examine this definition of innovation to realize that innovation doesn't necessarily translate as "new and improved."Madison Avenue notwithstanding, some of the most important innovations of our lifetimes may not represent something objectively better than that which they replaced, but rather something good enough for a desired outcome, something good enough to expand the realm of the possible. That drives growth. Breaking trade-offs through innovation allows a company to reach a point in "strategic space" that competitors cannot, allowing a company to provide a product at a price or performance level competitors cannot match, Raynor argues. Among the examples he cites is the personal computer(PC) industry

Raynor's mentor, Harvard Business School's Kim B. Clark, professor of Business Administration and fellow innovation guru Clayton M. Christensen argue that there are three types of innovations:

- "Empowering" innovations move products from costly items available to the few to mass-market items available to the many. These innovations expand the market. Consider the move from whole-life to term products as an example of such an empowering innovation.
- "Sustaining" innovations are essentially product replacements, moving from one model to another that may be better, but has a basic similarity. This represents the majority of current innovation, Christensen says, but translates into a zero-sum economic game. Here, replacing one an nuity with another slightly better but substantially similar one seems an appropriate example.
- "Efficiency" innovations reduce production or distribution costs. The use of the Internet by many auto insurance writers may be a good example of this type of innovation.

3.4 INSURANCE INTERMEDIATION AND DISTRIBUTION MODELS :

Insurance intermediation has traditionally used either the agent/broker or bank assurance model. While this remains the main intermediation channel for most developed insurance markets, many Insur Tech start-ups are taking on this model and proposing new distribution models for insurance. These new modes of distribution are in particular interesting for less developed insurance markets, where insurance penetration is low and the conventional intermediation model of agent/brokers may not be efficient or effective. Asia and Africa have witnessed large investments being made into start-ups and technology based in their region.

BIMA, Friend surance, InsPeer and Guevara are all distribution-based insurance start-ups, providing new insurance services. While they do not intermediate policies in the more traditional sense, they all have brokering licenses to triage the appropriate policy using different business models. Finally, there is the self-governing model that often uses block chains to auto execute the contract. There are potential benefits that could be reaped for risk transfer tools, such as cat bonds, which will be another area that block chains are likely to further explore. BIMA operates in less developed markets, and has had widesuccess in intermediating health insurance products through their

model of combining agents with mobile platforms. BIMA has acquired a micro insurance license in some of the markets it operates. Friend surance, In sPeer and Guevara are all peer-to-peer (p2p) Insurance companies that rely on peer pressure for risk mitigation.

3.5 BLOCK CHAIN TECHNOLOGY:

Block chain technology is based on distributed computing, which results in a decentralised network. It is by design meant to avoid centralised control and is characterised by free participation. One of the advantages of block chains in terms of financial transactions would be the improved cyber security due to it decentralised nature. Another is the transparency of transactions, which are all recorded in the node of the block chain. Linked with this is that when a smart contract is part of the block chain, there will be no need to authenticate the transaction, as it is effectively announced through its transparency and it is irreversible, which is another feature of the block chain. Block chain technology could be applied to insurance services in a number of ways. Fraud detection could also be improved if block chains were able to access data on purchase records, police reports, ownership etc.

The block chain by nature does not permit amendments to transactions after the fact. This means that while for standard policies the technology could be a useful tool, for complex policies it may have limitations in its application. The legality of a block chain-based contract is unclear, and thus its enforceability could be compromised as a result. As the policy would be written in the code of the block chain, for regulatory and legal purposes an administrative step could become necessary for it to be transformed into a legal document, until the law recognises a block chain as a legal document.

KEY BENEFITS:

Block chain technology offers several advantages across various industries. Here are some key benefits:

1. Decentralization:

Block chain operates on a decentralized network of computers, eliminating the need for a central authority. This reduces the risk of a single point of failure, enhances security, and ensures that no single entity has control over the entire system.

2. Security:

The use of cryptographic techniques and decentralized consensus mechanisms makes block chain highly secure. Once a block is added to the chain, it becomes nearly impossible to alter previous transactions, providing a tamper-resistant and immutable ledger.

3. Transparency and Immutability:

The entire transaction history is visible to all participants in a block chain network. This transparency helps build trust among users, and the immutability of the ledger ensures that once information is recorded, it cannot be changed.

4. Efficiency and Speed:

Block chain eliminates the need for intermediaries in many processes, reducing the time and costs associated with traditional transactions. Smart contracts, which automatically execute predefined actions when conditions are met, contribute to increased efficiency.

5. Cost Reduction:

By removing intermediaries, streamlining processes, and minimizing the need for manual reconciliation, block chain can lead to significant cost savings in various industries.

6. Crypto currency and Digital Assets:

Block chain is the underlying technology for cryptocurrencies, facilitating secure and transparent digital transactions. It also enables the creation of digital tokens representing ownership or rights to assets.

7. Smart Contracts:

Smart contracts automate and enforce contractual agreements, reducing the need for intermediaries and minimizing the risk of errors or disputes. They execute automatically when predefined conditions are met, enhancing efficiency and reliability.

8. Traceability and Provenance:

Block chain can be used to trace the origin, journey, and authenticity of products in supply chains. This is particularly valuable in industries such as food and pharmaceuticals to ensure product quality and prevent fraud.

9. Cross-Border Transactions:

Block chain can streamline cross-border transactions by providing a more efficient and cost-effective way to transfer funds. It eliminates the need for multiple intermediaries and reduces settlement times.

10. Decentralized Identity:

Block chain enables secure and decentralized identity management. Individuals have more control over their personal information, reducing the risk of identity theft and unauthorized access.

11. Data Integrity:

The decentralized and distributed nature of block chain ensures that data is stored across multiple nodes. This redundancy enhances data integrity and resilience against data loss or corruption.

12. Incentivizing Collaboration:

In certain block chain networks, participants are incentivized to collaborate and contribute to the network's security and functionality through mechanisms such as mining or staking.

13. Innovation in Business Models:

Block chain opens up new possibilities for innovative business models, especially in industries where trust, security, and transparency are critical factors.

While block chain technology offers these advantages, it's essential to recognize that it is not a one-size-fits-all solution, and its implementation should be carefully considered based on specific use cases and requirements. Additionally, ongoing efforts are being made to address scalability, interoperability, and regulatory challenges associated with block chain adoption.

3.6 THE SHARING ECONOMY AND INSURANCE:

The sharing economy, also known as the collaborative economy or peer-to-peer economy, refers to economic activities that involve individuals sharing resources, such as goods, services, or skills, often facilitated by online platforms. Examples include ride-sharing services like Uber and Lyft, home-sharing platforms like Airbnb, and task-based services like Task Rabbit. The intersection of the sharing economy and insurance is an interesting and evolving aspect of these industries.

1. Insurance Challenges:

- Risk Assessment: Traditional insurance models are based on well-established risk factors, but the sharing economy introduces new complexities. For example, a personal car used for ride-sharing has different risk factors compared to a private car.
- Ownership vs. Usage: Many sharing economy platforms involve the shared use of assets rather than ownership. This poses challenges for insurers in determining how to insure shared assets adequately.

2. Emergence of New Insurance Products:

- Usage-Based Insurance (UBI): Insurers are exploring UBI models that take into account the actual usage patterns of shared assets. For example, car insurance premiums might be based on the number of hours a car is used for ride-sharing.
- Host Guarantee and Host Protection: Platforms like Airbnb offer host guarantee and host protection programs, providing liability coverage for hosts. These are specific insurance products tailored for the sharing economy.

3. Collaboration with Insurtech:

- **Technology Integration**: Insurtech companies are working with sharing economy platforms to integrate technology for real-time risk assessment and dynamic pricing.
- **Data Analytics:** The vast amount of data generated by sharing economy platforms can be analyzed to better understand risk factors and pricing strategies.

4. Regulatory Considerations:

- Adapting Regulations: Governments and insurance regulators are adapting to the changing landscape, developing new regulations or updating existing ones to address the unique challenges of the sharing economy.

5. Trust and Reputation:

- Influence on Premiums: Trust and reputation systems on sharing platforms may influence insurance premiums. Individuals with a higher reputation score might be eligible for lower insurance premiums.

6. Unique Insurance Needs:

- Commercial vs. Personal Insurance: Individuals engaged in sharing economy activities may require a combination of personal and commercial insurance coverage, depending on the nature of their involvement.

7. Global Variations:

- Diverse Regulatory Environments: Insurance considerations in the sharing economy can vary significantly across different countries due to diverse regulatory environments.

As the sharing economy continues to grow, the insurance industry is likely to evolve to address the unique challenges posed by these new economic models. Insurers, regulators, and sharing economy platforms will need to collaborate and innovate to create insurance solutions that adequately protect all stakeholders involved.

3.7 ROBO-ADVICE AND ARTIFICIAL INTELLIGENCE:

Robo-advice and artificial intelligence (AI) play significant roles in transforming the landscape of the general insurance industry. Here are some key aspects of how these technologies are utilized:

1. Underwriting and Risk Assessment:

- **AI Algorithms:** Insurers use AI algorithms to analyze a vast amount of data, including customer information, historical claims data, and external factors. This helps in accurate risk assessment and underwriting.
- **Predictive Analytics:** Predictive models powered by AI can predict future risks and trends, enabling insurers to make informed decisions about policy pricing and coverage.

2. Claims Processing:

- **Automation**: Robo-advisors and AI-driven systems automate the claims processing workflow, reducing manual effort and increasing efficiency.
- **Image Recognition and NLP:** AI technologies such as image recognition and natural language processing (NLP) are employed to analyze documents, images, and textual information related to claims for faster and more accurate processing.

3. Customer Interaction and Support:

- **Chatbots and Virtual Assistants:** AI-driven chatbots and virtual assistants enhance customer interaction by providing instant support, answering queries, and guiding customers through insurance processes.
- **Personalization:** AI enables personalized communication with customers, offering tailored recommendations based on their preferences and historical data.

4. Fraud Detection:

- **Pattern Recognition:** AI algorithms can identify patterns indicative of fraudulent activities, helping insurers detect and prevent fraudulent claims.
- **Anomaly Detection:** AI systems can flag unusual patterns or behaviors that may indicate potential fraud, prompting further investigation.

5. Product Recommendations and Pricing:

- **Robo-Advisors**: Automated advisory systems, or robo-advisors, leverage AI to analyze customer data and provide personalized insurance product recommendations.

- **Dynamic Pricing:** AI allows insurers to implement dynamic pricing models that adjust premiums based on real-time data and changing risk factors.

6. Data Analytics and Insights:

- **Predictive Modeling:** AI-driven predictive modeling provides insurers with valuable insights into market trends, customer behaviors, and emerging risks.
- **Data Mining:** AI algorithms can sift through large datasets to uncover hidden patterns and correlations, facilitating data-driven decision-making.

7. Regulatory Compliance:

- **Automation of Compliance Processes:** AI can automate compliance-related tasks, ensuring that insurers adhere to regulatory requirements, handle documentation efficiently, and stay informed about changes in regulations.

8. Operational Efficiency:

- **Automation of Routine Tasks:** AI technologies contribute to operational efficiency by automating routine tasks, reducing manual errors, and improving overall workflow.
- **Cost Reduction**: Streamlining processes through AI can lead to cost savings for insurance companies.

The integration of robo - advice and AI in general insurance aims to enhance customer experience, improve decision-making processes, and increase the overall efficiency of insurance operations. However, it's crucial for insurers to address ethical considerations, data privacy concerns, and stay abreast of regulatory requirements in the implementation of these technologies. Additionally, the industry is dynamic, and advancements in AI and robo-advice may continue to shape the future of general insurance.

SCOPE OF ROBO -ADVICE

- **Understanding client needs:** gathering client information, understanding needs and preference, assessing risk tolerance, considering outside accounts;
- **Proposing a policy:** developing a financial plan, selecting asset allocation;
- **Implementing the policy:** opening accounts, transferring assets; and
- **Monitoring and adjusting the policy:** quarterly or annual performance reviews, dashboards and status alerts, market updates and research.

3.8 DATA AGGREGATION AND ANALYTICS :

Internet, the Internet of Things (IOT), hand held devices, and applications are all contributing to the possibilities that technology can have in collecting more data from businesses and individuals. Social media as well as devices such as Fitbit and Apple watch permit device operators to collect individual activity data as well as health related data. While insurance has traditionally relied on quantitative data to make risk management decisions, data analytics goes beyond this remit and can be contentious in some occasions. Underwriting and claim management are particularly data rich, and insurers use data collected for fraud prevention, marketing, claims management and pricing risk.

On a risk management level, there are a number of data analytic solutions that could assist insurers. These include integrated geospatial analytic tools, geo-spatial analysis, and data quality management tools and claims/exposure matching. In particular, claims processes could benefit from the use of pictures taken and filed vie smart phones and concierge services to smooth the process. If data aggregation is being used for actuarial purposes, it could lead to

potentially too high premiums or un insurability of certain segments of the society or individuals, or ethically questionable outcomes.

3.9 TOP 5 TECHNOLOGY TRENDS IN THE INSURANCE INDUSTRY:

1. Artificial Intelligence. Insurance is ripe for the use of AI. ...
2. Blockchain. Blockchain technology in the insurance management system will change how insurers interact with each other and their customers. ...
3. Predictive Big Data Analysis. ...
4. Internet of Things (IOT) ...
5. Cyber Security.

- The key innovations in the insurance market are personalization, artificial intelligence, online services, block chain and the metaverse, embedded insurance, cyber insurance, parametric insurance, and electric vehicles.

The key innovations in the insurance market are personalization, artificial intelligence, online services, block chain and the metaverse, embedded insurance, cyber insurance, parametric insurance, and electric vehicles.

- **Personalization**: Consumers are most incentivized to share smart home device data with their insurer in return for financial savings (i.e., on home insurance premiums). It is of note that smart home devices are more popular among younger generations. Existing home insurers may soon have to compete with top big tech companies like Google (Nest) and Amazon (Echo), among others. These businesses will be able to penetrate the home insurance market more forcefully than any disruptive insurtech could hope to due to the large amounts of data their products gather.
- **Artificial Intelligence:** Strong growth is expected in the industry due to the transformative power AI can have. Insurance industry insiders believe that AI can positively affect all areas of the insurance value chain. An insurer can utilize the wealth of data points they have access to and assess a client's risk profile using AI tools. This will result in faster and more accurate conclusions than traditional underwriting techniques. AI technology can automate the claims process and prevent fraud as well.
- **Online Services:** Chatbots and virtual assistants can speed up and enhance the customer experience via increased personalization. They can also help insurers gather data on consumers thus helping them discover trends in buying behavior and allowing insurers to customize experiences. Tailoring policies around individuals can help keep premiums down by only insuring what is necessary.

3.10 INNOVATION IN INSURANCE - COPMPETITIVE LANDSCAPE :

- Younger demographics are showing a greater willingness to use telematics devices and share the data they generate with insurers, making this a key innovation for maintaining demand going forward.
- The emergence of generative AI and ChatGPT is creating opportunities for insurers.
- Insurers are helping businesses and individuals improve cyber hygiene in conjunction with cyber insurance cover.

➢ **Key Highlights**

- Big data and analytics, AI, and blockchain are some of the most discussed topics in insurance.
- Younger demographics are showing a greater willingness to use these products and share the data they generate with insurers, making this a key innovation for maintaining demand going forward.

- The emergence of the metaverse and Web 3.0 is opening opportunities for insurers to make use of virtual reality to conduct business.
- Use cases for blockchain technologies are beginning to emerge after a few years of hype.
- Insurers are helping businesses and individuals improve cyber hygiene in conjunction with cyber insurance cove
- **It has an extremely positive effect for the insurance company as a whole**, especially in terms of the customer empowerment process by allowing for the development of a solid and significant digital presence in the market through the implementation of channels that individual users can use independently.

3.11 SUMMARY :

Insurance is a mechanism that provides financial protection to individuals, businesses, and other entities against the risk of loss, damage, or liability. The importance of insurance cannot be overstated in today's world. It provides peace of mind to individuals and businesses by helping them manage the risks and uncertainties of everyday life. In this essay, we will discuss the importance of insurance in detail. insurance helps to mitigate financial risks associated with everyday life. For example, health insurance covers medical expenses, life insurance provides financial support to the family in case of the policyholder's death, and property insurance covers damage or loss to property. This protection helps individuals and families to maintain their standard of living during difficult times.

Instance, business liability insurance covers legal costs and damages in case of accidents, injuries, or property damage caused by the business. This protection helps businesses to manage the risks associated with their operations and continue to operate even in case of adverse events.

"Insurtech" is the term being used to describe the new technologies with the potential to bring innovation to the insurance sector and impact the regulatory practices of insurance markets. Innovation through new technologies is a key driver of change in the financial sector and this has led to immeasurable efficiency gains, even though these changes can initially be accompanied by uncertainty and doubt. Innovation is generally regarded as a positive development, delivering convenience and efficiency. Insurance intermediation has traditionally used either the agent/broker or bank assurance model. While this remains the main intermediation channel for most developed insurance markets. One of the advantages of block chains in terms of financial transactions would be the improved cyber security due to it decentralised nature. Another is the transparency of transactions, which are all recorded in the node of the block chain. Insurance allows businesses to take risks and invest in new ventures, knowing that they are protected in case of unforeseen events. This security encourages innovation and growth, leading to job creation and economic development. In conclusion, taking insurance is an essential part of managing one's financial risks.

In conclusion, taking insurance is an essential part of managing one's financial risks. It provides protection against unexpected events, promotes economic growth, and provides peace of mind to individuals and businesses. It is important to assess one's risks and purchase the appropriate insurance policies to ensure that one is adequately protected in case of unforeseen events.

3.12 TECHNICAL TERMS :

1. **Innovations** : Innovation through new technologies is a key driver of change

2. **Insurance Intermediation**: Insurance intermediation has traditionally used either the agent/broker or bank assurance model.
3. **Big data and Block Chain**: Given that underwriting is largely based on the analysis of historical data to carry out the risk assessment of a policyholder, insurance, on first glance, appears particularly well suited for "big data" analysis. Big data and block chain have been major topics in many insurance discourses of technology.
4. **Sharing economy in Insurance**: The sharing or gig economy is becoming a larger part of the economy, as services such as ridesharing (Uber, Lyft, BlaBla Car) and home sharing like Air BnB become common and popular service platforms. As a commercial service, these services will be required to have insurance coverage for certain aspects of their business.

3.13 SELF-ASSESSMENT QUESTIONS :

1. Describe Innovation in general insurance sector?
2. What are the new technologies helpful in securing big data ?
3. What do you understand data aggregation in general insurance?
4. Explain the growing importance of shared economy?
5. Briefly discuss about the modern innovations in General Insurance Sector?

3.14 REFERENCE BOOKS :

1. H Narayanan , Indian Insurance: A profile , Jaico publishing house: Mumbai
2. K.C Mishra and G.E Thomas, General Insurance – Principles and practice ,Cengage Learning, New Delhi.
3. Model 1 Principles and practice of General Insurance, The Institute of Chartered Accountants of India, New Delhi.
4. Insurance Institute of India – IC 45 General Insurance Underwriting

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LESSON - 4

ORGANIZATION & MANAGEMENT OF GENERAL INSURANCE COMPANIES

LEARNING OBJECTIVES :

After conclusion of this lesson, you should be able to understand:

- Different types of insurance companies
- Various distribution channels of insurance products and services
- Factors influencing the risk assessment
- Sources of information for underwriting decisions
- Different types of claims and the requirements
- Processing of maturity and death claims
- Guidelines of the IRDAI for settlement of claims
- Guidelines of the IRDAI for investment of funds

STRUCTURE:

4.1 Introduction
4.2 Organization
4.3 Considerations for Organizational Design
4.4 Structure of the insurance
4.4.1 Insurance Councils :Industry
4.4.2 Insurance Advisory Committee
4.4.3 Tariff Advisory Committee (TAC)
4.4.4 Insurance Intermediaries and Distribution channels
4.5 Underwriting
4.6 Claims settlement
4.7 Investment
4.8 Regulatory framework for General Insurance in India
4.9 Summary
4.10 Technical Terms
4.11 Self-Assessment Questions
4.12 Reference Books

ORGANISATION AND MANAGEMENT STRUCTURE

4.1 INTRODUCTION :

Insurance organisations have a valuable function to perform within society by insuring the wealth of the country. It will come as no surprise that no two insurance organisations are identical in their structure and outlook. In this, unit we will look at different types of insurance companies, insurance intermediaries, various distribution channels, the most important twin functions of an insurance organization viz., accepting the risks and settling the claims and at the end a brief account of investments by the insurers.

There are over thirteen and half thousand insurance companies operating throughout the world and, although some insurance companies operate only locally, others - particularly

those with head offices in the USA and the European Community - spread their activities around the globe. Although the situation varies between regions, on a worldwide basis one-quarter of all insurers are life companies, two-thirds are non-life or general insurers, and something less than 10 per cent are composites operating in both fields.

The objective of this chapter is to discuss the organisational design and managerial control that apply to most insurance companies. The following sections consider first the need for organisations and the factors to take into account in their design and operation, and then go on to examine the special characteristics of the organisation and structure of insurance companies.

4.2 ORGANISATION:

The pursuit of any objective which requires the execution of tasks that can only be realised through the joint effort of two or more individuals calls for organisation. Organisations are goal-oriented relationships between individuals who, having some objectives in common, form coalitions to further their common as well as private interests. A critical condition is that a complex task can be subdivided into simpler components by the division of labour, that is the appropriate selection of sub-task allocation and the proper co-ordination of activities required. The complete and complex task can then be satisfactorily performed in an acceptable time and at acceptable cost. Decision-making within an organisation involves the acquisition and allocation of resources in order to produce goods and services at such quality and cost that the organisational goals can be realised.

Appropriate organisation is a prerequisite for the successful execution of this process. Any organisation exists in a precarious and fundamentally unstable equilibrium between the requirements and demands made by its environment and its own ability to fulfil them. An organisation therefore needs to be an open system - a 'living thing' - that adapts and changes with its environment and the changing nature of the threats and opportunities it encounters in that environment. If that environment is stable, then reactive and relatively slow adaptive behaviour by the organisation may be all that is required, but a dynamic and unstable environment necessitates proactive and flexible behaviour, which may be focused by strategic management and the formation of corporate plans.

4.3 CONSIDERATIONS FOR ORGANISATIONAL DESIGN:

Organizational design refers to the way in which an organization structures and aligns its people, processes, and systems to achieve its goals. It involves making strategic decisions about how to organize resources, roles, and responsibilities to optimize efficiency, effectiveness, and adaptability. When considering organizational design, several key considerations come into play:

1. Strategic Alignment:

Ensure that the organizational design aligns with the overall strategic goals and objectives of the company. The structure should support the business strategy and facilitate its successful implementation.

2. Purpose and Mission:

Clearly define the organization's purpose and mission. The organizational design should reflect and support the core values and purpose of the organization.

3. Flexibility and Adaptability:

Design the organization to be flexible and adaptable to changes in the business environment. Consider factors such as market dynamics, technology advancements, and shifts in customer preferences.

4. Communication Channels:

Establish effective communication channels and reporting structures. A well-designed organization facilitates seamless communication and collaboration among different departments and levels.

5. Decision-Making Processes:

Clarify decision-making processes and authority levels. Clearly define who has the authority to make decisions and at what level, whether decisions are centralized or decentralized, and how information flows within the organization.

6. Efficiency and Productivity:

Design the organization to enhance operational efficiency and productivity. Consider optimizing workflows, eliminating unnecessary layers of hierarchy, and streamlining processes to reduce bottlenecks.

7. Talent Management:

Consider how the organizational design supports talent management and employee development. Ensure that roles and responsibilities are well-defined, and there are opportunities for career growth and skill development.

8. Culture and Values:

Take into account the organizational culture and values. The design should encourage a positive and collaborative culture that aligns with the values of the organization.

9. Technology Integration:

Assess how technology can be integrated into the organizational design to enhance efficiency. Consider digital tools, automation, and information systems that can support the organization's processes.

10. Customer Focus:

Design the organization with a customer-centric approach. Ensure that customer needs are at the forefront of decision-making processes, and the organizational structure facilitates the delivery of high-quality products or services.

11. Risk Management:

Evaluate how the organizational design addresses risk management. Consider factors such as compliance, governance, and mechanisms for identifying and mitigating risks within the organization.

12. Feedback Mechanisms:

Establish feedback mechanisms to continuously assess and improve the organizational design. Solicit input from employees, customers, and stakeholders to identify areas for enhancement.

13. Diversity and Inclusion:

Consider how the organizational design promotes diversity and inclusion. Ensure that there are mechanisms in place to foster a diverse and inclusive workplace.

14. Cost Structure:

Assess the cost implications of the organizational design. Consider the balance between cost efficiency and the need for resources to support strategic initiatives.

15. Change Management:

Plan for change management and consider how the organizational design can adapt to changes in the business environment. Ensure that employees are prepared for and can adapt to changes in roles and responsibilities.

Organizational design is an ongoing process, and adjustments may be necessary over time as the business landscape evolves. It requires a thoughtful and strategic approach to create a structure that enables the organization to thrive in a dynamic and competitive environment.

4.4 STRUCTURE OF THE INSURANCE INDUSTRY:

The Indian insurance industry consists of 57 insurance companies of which 24 are in life insurance business and 33 are non-life insurers. Among the life insurers, Life Insurance Corporation of India (LIC) is the sole public sector company.

- Apart from that, among the Non-life insurers the following are the six public sector insurers.
    1. The New India Assurance Company Limited
    2. The Oriental Insurance Company Limited
    3. The National Insurance Company Limited
    4. The United India Insurance Company Limited
    5. The Export Credit Guarantee Corporation of India Limited
    6. The Agriculture Insurance Company of India Limited
- **Specialised Insurers**

Export Credit Guarantee Corporation of India Limited (ECGC)

1. ECGC Limited wholly owned by Government of India, was set up in 1957 with the objective of promoting exports from the country by providing credit risk insurance and related services for exports.
2. Agriculture Insurance Company of India Limited (AIC) AIC was incorporated on 20 December 2002. AIC aims to provide insurance coverage

and financial support to the farmers in the failure of any of the notified crop as a result of natural calamities, pests and diseases to restore their creditworthiness for the ensuing season; to encourage the farmers to adopt progressive farming practices, high value in-puts and higher technology; to help stabilize farm incomes, particularly in disaster years. The plan provides comprehensive risk insurance for yield losses due to natural fire and lightning, storms, hailstorms, cyclone, typhoon, tempest, hurricane, tornado

flood, inundation, landslide, drought, dry spells, pests/diseases, etc. Out of 33 Non-life insurance companies, the following six private sector insurers are registered to underwrite policies exclusively in health, personal accident and travel insurance segments.

1. Star Health and Allied Insurance Company Ltd
2. Apollo Munich Health Insurance Company Ltd
3. Max Bupa Health Insurance Company Ltd

4. Religare Health Insurance Company Ltd
5. Cigna TTK Health Insurance Company Ltd
6. Aditya Birla Health Insurance Company Ltd

In addition to these, there is sole national re-insurer, namely, General Insurance Corporation of India (GIC Re).The Government had through the Insurance Laws (amendment) Act 2015 allowed foreign re-insurers to open their branches in India. The IRDAI has so far given licences to the following eight re-insurers to set up branches in India.

1. Munich Re (Germany)
2. Swiss Re (Switzerland)
3. SCOR (France)
4. Hannover Rueck (Germany)
5. RGA Life Reinsurance Company of Canada (United States)
6. Lloyd's India Reinsurance Branch (London)
7. XL Insurance Company's India Reinsurance branch (Hamilton, Bermuda)
8. ITI Reinsurance Ltd (India) Other stakeholders in Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims.

4.4.1 INSURANCE COUNCILS:

Life Insurance Council: Life Insurance Council is a forum that connects the various stakeholders of the sector. It develops and coordinates all discussions between the Government, Regulatory Board and the Public. In short, it is the face of the Life Insurance industry. Constituted under Sec.64C of Insurance Act 1938, the Life Insurance Council functions through several sub-committees and includes all life insurance companies in India. In total, there are 24 life insurers who offer a variety of traditional and new innovative products.

- **General Insurance Council:** To provide leadership on issues having a bearing on the industry's collective strength and image and to shape and influence decisions made by the Government, regulator and other public authorities, within the country, in order to benefit the industry collectively. GI Council will provide other services to member companies (such as an active role in management of commercial vehicle third party liability motor pool) which benefit the industry collectively; which support the mission; which can be provided without diversion of resources from the core functions; and which cannot be done more effectively by any other body.
  - The statutory body aims to:
  - Expand the general insurance sector
  - Facilitate economic development
  - Provide long-term funds for growth
  - Represent the general insurance industry as an authoritative collective voice
  - Resolve social issues such as insurance fraud and theft

4.4.2 Insurance Advisory Committee:

In exercise of the powers conferred by sub section (1) of Section 25 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), and in terms of Regulation 3A of the Insurance Advisory Committee (Meetings) Regulations 2000, the Authority hereby makes the following notification reconstituting the Insurance Advisory Committee with effect from the date of notification viz. 25th May 2015.

- The Authority may by notification establish, with effect from such date as it may specify in such notification, a Committee to be known as the Insurance Advisory Committee.
- The Insurance Advisory Committee shall consist of not more than twenty-five members excluding ex officio members to represent the interests of commerce, industry, transport, agriculture, surveyors, agents, intermediaries, organizations engaged in safety and loss prevention, research bodies and employees' association in the insurance sector.
- The Chairperson and the members of the Authority shall be the ex officio chairperson and ex officio members of the Insurance Advisory Committee.
- The objects of the Insurance Advisory Committee shall be to advise the Authority on matters relating to the making of the regulations under section 26.
- Without prejudice to the provisions of sub-section (4), the Insurance Advisory Committee may advise the Authority on such other matters as may be prescribed.

4.4.3 Tariff Advisory Committee (TAC):

- ❖ Tariff Advisory Committee (TAC) in India - controls and regulates the rates, advantages, terms and conditions offered by insurers in respect of Indian General Insurance Business relating to Fire, Marine (Hull), Motor, Engineering and Workmen Compensation.
- ❖ Tariff Advisory Committee is designated by IRDAI as the data repository for the nonlife insurance industry. The transaction level data on Motor, Health and other lines are being collected for the Repository presently.

4.4.4 Insurance Intermediaries and Distribution channels:

On the recommendations of the Malhotra Committee, in 1999 the Insurance Regulatory and Development Authority of India (IRDA) was constituted to regulate and develop the insurance industry and was incorporated in April 2000.

The following are the insurance intermediaries as per the IRDAI:

- Agents (Individual tied agents)
- Corporate agents (including Bancassurance and Micro Financial Institutions)
- Brokers
- Surveyors/Loss Assessors
- TPA Health Services
- Web Aggregators
- Insurance Repositories
- Insurance Marketing Firm (IMF)
- Insurance Services by Common Service Centres (ISCSC)

❖ Distribution channels for Insurance Products

A multi-channel strategy is better suited for the Indian market. Indian insurance market is a combination of multiple markets. Each of the markets requires a different approach. Apart from geographical spread the socio-cultural and economic segmentation of the market is very wide, exhibiting different traits and needs.

❖ Distribution channels for Insurance Products in India are as follows:

1. Direct marketing
2. Individual agents
3. Corporate agents

4. Bancassurance (by banks)
5. Insurance Brokers
6. Insurance aggregators (online selling)
7. Insurance marketing firm
8. Insurance Services by Common Service Centres (ISCSC)

4.5 UNDERWRITING :

Underwriting in insurance is the process through which an insurance company evaluates the risks associated with insuring a particular individual, property, business, or event and determines the terms and conditions of the insurance coverage. The goal of underwriting is to assess the potential risk and set appropriate premiums that reflect the likelihood of a claim.

Here are key aspects of the underwriting process in insurance:

1. Risk Assessment

Underwriters evaluate the risk factors associated with the insured party or property. This involves analyzing information such as the individual's health, lifestyle, occupation, the property's location, and other relevant factors.

2. Application Review:

Underwriters review insurance applications submitted by individuals or businesses. The application typically includes information about the applicant's background, health, financial status, and other details depending on the type of insurance.

3. Information Gathering:

Underwriters may gather additional information from various sources, including medical records, credit reports, or inspections of the property. This helps in obtaining a comprehensive view of the risk.

4. Risk Classification:

Based on the assessment of risk, underwriters classify the applicant into different risk categories. Individuals or properties with lower perceived risk may receive lower premiums, while those with higher risk may face higher premiums or additional terms.

5. Policy Terms and Conditions:

Underwriters determine the terms and conditions of the insurance policy, including the coverage limits, deductibles, and any exclusions. These terms are communicated to the insured party in the insurance policy.

6. Pricing:

Underwriters set the premium amount that the insured party will pay for coverage. The premium is calculated based on the assessed risk, the type of coverage, and other factors.

7. Acceptance or Rejection:

Based on the evaluation, underwriters decide whether to accept, modify, or reject the insurance application. If the risk is too high or does not meet the company's underwriting guidelines, the application may be declined.

8. Risk Mitigation:

Underwriters may suggest risk mitigation measures to reduce the overall risk. This could include implementing safety measures for a property or requiring a policyholder to undergo regular health check-ups.

9. Reinsurance Consideration:

In some cases, insurance companies may transfer a portion of their risk to reinsurers. Underwriters assess whether reinsurance is necessary and negotiate terms with reinsurers.

10. Continuous Monitoring:

The underwriting process is not a one-time event. Insurance companies continuously monitor their portfolio and may adjust premiums or terms based on changes in risk factors, market conditions, or regulatory requirements.

Effective underwriting is crucial for the financial stability of insurance companies and ensures that premiums are aligned with the level of risk. It also helps maintain a balanced portfolio and prevents adverse selection, where insurers attract a disproportionate number of high-risk policyholders.

4.6 CLAIMS SETTLEMENTS:

Claim payment is the fulfilment of the promise by the Insurer on the happening of the contingency insured against and it is the fulfilment of the contractual obligation on his part. It is the most important function of an Insurance company. Any laxity on the part of the company effects its reputation and the flow of new business. In the competitive background it is all the more important that the Claims are settled with speed and accuracy. However in the quest for speedy settlement, genuineness of the claim cannot be compromised. All the insurance companies attach great importance to the area of Claims. The performance of the Company is judged by the various statistics relating to Claims like Speed Ratio and Outstanding claims at the end of the accounting year. The job of claims department is to pay claims as efficiently and speedily as possible. However, the office must make sure that every claim is valid and that it is paying the right amount to the right person .

The role of claims manager is crucial that he has to perform duties in consonance with the general philosophy of his company and as per the IRDA guidelines. A Claims Manager should possess thorough knowledge of all the products of his Company and their benefits, conditions and provisions which will ensure a non-dispute climate in the Company’s claim management portfolio. He should share his experience of the claims with the other departments of his Company, especially the product Development Department and Underwriting Department.

4.7 INVESTMENT:

The investments by the insurance companies are regulated by the Insurance Regulatory and Development Authority of India (Investment) Regulations, 2016 (1stAugust, 2016). The accumulated total amount of investments made by the insurance sector are approximately around Rs. 26, 90,194 Crore. Similarly, public sector companies continue to contribute a major share in total investments though investments by private sector insurers are growing at a fast pace in recent years.

4.8 REGULATORY FRAMEWORK FOR GENERAL INSURANCE IN INDIA

- **What is the IRDAI?**

The IRDAI sets the regulatory framework of insurance. It's the Insurance Regulatory and Development Authority of India came into existence by the act of parliament of India IRDA act of 1999 which came into for in January 2000. This authority controls the Indian insurance domain. It sets rules that are necessary for all insurance companies.

The Insurance Regulatory and Development Authority of India (IRDAI) has a wide-ranging scope and plays a crucial role in overseeing and regulating the insurance industry in India. The scope of IRDAI's functions and responsibilities encompasses various aspects of insurance operations, market conduct, consumer protection, and industry development. Here are key elements of the scope of IRDAI:

1. Licensing and Regulation:
IRDAI is responsible for granting licenses to insurance companies, reinsurers, insurance brokers, agents, surveyors, and other entities involved in the insurance business. It sets the standards and criteria for obtaining and maintaining these licenses.

2. Product Approval and Regulation:
IRDAI reviews and approves insurance products introduced by insurance companies. It regulates the terms, conditions, and features of insurance policies to ensure they comply with regulatory standards and provide adequate protection to policyholders.

3. Market Conduct and Fair Practices:
Ensuring fair market conduct is a significant aspect of IRDAI's scope. The regulatory authority establishes guidelines and regulations to promote fair and ethical practices within the insurance industry. This includes norms for advertising, sales practices, and fair treatment of policyholders.

4. Consumer Protection:
IRDAI is committed to protecting the interests of insurance consumers. It formulates regulations and guidelines to safeguard the rights of policyholders, including fair claims settlement practices, disclosure requirements, and grievance redressal mechanisms.

5. Financial Oversight and Solvency:
Monitoring the financial health of insurance companies is a key component of IRDAI's scope. The regulatory authority sets solvency requirements and guidelines to ensure insurers maintain adequate financial resources to cover their obligations.

6. Risk Management:
IRDAI addresses risk management within the insurance industry. This includes establishing guidelines for insurers to assess and manage risks effectively, ensuring the stability of the insurance market.

7. Reinsurance Regulations:
IRDAI issues regulations related to reinsurance activities. It establishes guidelines for reinsurance companies and reinsurers operating in India, contributing to the stability of the reinsurance market.

8. Corporate Governance:
IRDAI sets standards for corporate governance within insurance companies. This includes guidelines on board composition, risk management practices, and internal controls to ensure the sound financial health of insurers.

9. Innovation and Technology:

The regulatory authority addresses issues related to technology and innovation in the insurance sector. It ensures that insurers leverage technology responsibly and in a manner that benefits policyholders.

10. Educational Initiatives:

IRDAI may undertake educational initiatives to enhance awareness and understanding of insurance products and practices among consumers. This contributes to a more informed and empowered consumer base.

11. Market Development:

IRDAI works toward the development of the insurance market in India. This may involve initiatives to encourage innovation, competition, and the expansion of insurance services.

12. Global Cooperation:

IRDAI may engage in collaborations and cooperation with international regulatory bodies to stay updated on global best practices and contribute to the development of international insurance standards.

The comprehensive scope of IRDAI's functions is designed to create a regulatory framework that ensures the stability, fairness, and efficiency of the insurance industry while safeguarding the interests of policyholders. It should be noted that regulatory frameworks can evolve, and changes may occur over time. For the most current and detailed information, it is recommended to refer to the official website of the Insurance Regulatory and Development Authority of India (IRDAI) or consult legal and regulatory sources in India.

4.9 SUMMARY:

Insurance organisations have a valuable function to perform within society by insuring the wealth of the country, the two insurance organisations are identical in their structure and outlook. In this, unit we have discussed different types of insurance companies, insurance intermediaries, various distribution channels, the most important twin functions of an insurance organisation viz., accepting the risks and settling the claims and at the end a brief account of investments by the insurers.

Life Insurance Council: Life Insurance Council is a forum that connects the various stakeholders of the sector. It develops and coordinates all discussions between the Government, Regulatory Board and the Public. In short, it is the face of the Life Insurance industry.

Constituted under Sec.64C of Insurance Act 1938, the Life Insurance Council functions through several sub-committees and includes all life insurance companies in India. In total, there are 24 life insurers who offer a variety of traditional and new innovative products.

General Insurance Council: To provide leadership on issues having a bearing on the industry’s collective strength and image and to shape and influence decisions made by the Government, regulator and other public authorities, within the country, in order to benefit the industry collectively. GI Council will provide other services to member companies (such as an active role in management of commercial vehicle third party

liability motor pool) which benefit the industry collectively; which support the mission; which can be provided without diversion of resources from the core functions; and which In exercise of the powers conferred by sub section (1) of Section 25 of the Insurance

Regulatory and Development Authority Act, 1999 (41 of 1999), and in terms of Regulation 3A of the Insurance Advisory Committee (Meetings) Regulations 2000,the Authority hereby makes the following notification reconstituting the Insurance Advisory Committee with effect from the date of notification viz. 25th May 2015.

4.10 TECHNICAL TERMS :

1. **Life Insurance**: Life Insurance Council is a forum that connects the various Council stakeholders of the sector. It develops and coordinates all discussions between the Government, Regulatory Board and the Public.
2. **General Insurance**: It provides leadership on issues having a bearing on the industry's collective strength and image and to shape and influence decisions made by the Government, regulator and other public authorities, within the country, in order to benefit the industry collectively.
3. **Claims**: Claim payment is the fulfilment of the promise by the Insurer on the happening of the contingency insured against and it is the fulfilment of the contractual obligation on his part.
4. **Mortality Tables**: The likelihood or probability of a person dying within a year is called the Rate of Mortality of that person. Rates of Mortality at different ages are tabulated and the Mortality table is constructed.
5. **Worksite Marketing**: is the distribution method providing voluntary insurance products to employees at their work place with the sponsorship of their employer, which is done on a deduction from their payroll.
6. **IRDAI:** Insurance Regulatory and Development Authority of India is the regulatory framework for all general insurance companies in india for which all public sector and private sectors must governed by the rules and regulations of IRDAI .

4.11 SELF ASSESSMENT QUESTIONS :

1. Discuss the different types of general insurance companies in India. Enlist the state owned insurance companies in India.?
2. Explain the term 'Underwriting' and discuss the sources of information for underwriting decisions.?
3. What are the factors influencing in settlement of CLAIMS ?
4. How Indian general insurance companies are regulated ?
5. Briefly write about underwriting ?

4.12 REFERENCE BOOKS :

1. H Narayanan , Indian Insurance: A profile , Jaico publishing house: Mumbai
2. K.C Mishra and G.E Thomas, General Insurance – Principles and practice ,Cengage
3. Learning, New Delhi.
4. Model 1 Principles and practice of General Insurance, The Institute of Chartered Accountants of India, New Delhi.
5. Insurance Institute of India – IC 45 General Insurance Underwriting
6. IRDA ACT 1999

DR. PRASAD CHUNDI

LESSION - 5

FIRE INSURANCE

LEARNING OBJECTIVES :

- To read the Fire Insurance
- To understand the concept of Fire Insurance
- To learn about the standard policies, fire insurance coverage& consequential loss.
- To Inspect the Insurance policies &Declaration policies.

STRUCTURE :

5.1 Introduction

5.2 Concept of Fire Insurance

5.2.1 Types of fire insurance policies in India

5.2.2 Principles of Fire Insurance

5.3 Standard policies

5.3.1 Key features of the Standard Fire Policy

5.3.2 Significance of Standard fire policy

5.3.3 Standard Fire &Special Perils Policy

5.4 Fire Insurance Coverage

5.4.1 Claim process

5.4.2 Exclusions in Fire Insurance Policy

5.5 Consequential Loss(Fire)Insurance Policies

5.5.1 Scope

5.5.2 Optional Extensions

5.5.3 Clauses

5.5.4 Claim Procedure

5.6 Declaration Policies of Fire Insurance

5.6.1 Importance of Declaration policy

5.6.2 Tips for Effective Declaration Policy Compliance

5.7 Summary

5.8 Key Words

5.9 Self-Assessment Questions

5.10 Suggested Readings

5.1 INTRODUCTION :

A fire insurance is a contract under which the insurer in return for a consideration (premium) agrees to indemnify the insured for the financial loss which the latter may suffer due to destruction of or damage to property or goods, caused by fire, during a specified period. The contract specifies the maximum amount, agreed to by the parties at the time of the contract, which the insured can claim in case of loss. This amount is not, however , the measure of the loss. The loss can be ascertained only after the fire has occurred. The insurer is liable to make good the actual amount of loss not exceeding the maximum amount fixed under the policy. A fire insurance policy cannot be assigned without the permission of the

insurer because the insured must have insurable interest in the property at the time of contract as well as at the time of loss.

5.2 CONCEPT OF FIRE INSURANCE:

Fire insurance is a form of property insurance that covers damage and losses caused by fire. Most policies come with some form of fire protection, but homeowners may be able to purchase additional coverage in case their property is lost or damaged because of fire.

Purchasing additional fire coverage helps to cover the cost of replacement, repair, or reconstruction of property above the limit set by the property insurance policy. Fire insurance policies typically contain general exclusions such as war, nuclear risks, and similar perils. Damage caused by a fire set deliberately is also typically not covered.

A standard homeowners insurance policy usually includes fire insurance. Homeowners insurance provides policyholders with coverage against loss and/or damage to their homes and possessions, also referred to as insured property. Insured property includes both the interior and exterior of the home as well as any assets that are kept on the property.

Policies may also cover injuries that someone sustains while on the property. If you have a mortgage, there's a very good chance that your lender will require that you have homeowners insurance before you will be approved for a loan. Even if it isn't a requirement, a homeowners insurance policy can offer beneficial protection.

You can also purchase fire insurance as a stand-alone policy. It covers a policyholder against fire loss or damage from a number of sources. This includes fires caused by electricity, such as faulty wiring and gas explosions, as well as those caused by lightning and natural disasters. A burst and overflowing water tank or pipes may also be covered by the policy.

Example of Fire Insurance :

Most policies provide coverage regardless of whether the fire originates from inside or outside of the home. The limit of coverage depends on the cause of the fire. The policy reimburses the policyholder on either a replacement-cost basis or an actual cash value (ACV) basis for damages.

If the home is considered a total loss, the insurance company may reimburse the home's current market value. The insurance typically provides a market value compensation for lost possessions, with the total payout capped based on the home's overall value.

For example, if a policy insures a house for $350,000, the contents are usually covered for at least 50% to 70% of the policy value—or a range of $175,000 to $245,000. Many policies limit how much reimbursement covers luxury items such as paintings, jewelry, gold, and fur coats.

Many standard homeowners insurance policies include coverage for fire, including providing for costs related to repairing your home and even additional expenses such as for relocation.

In some cases, you may want more extensive coverage. If an insurance policy excludes coverage for fire damage, a homeowner may need to purchase separate fire insurance—especially if the property contains valuable items that cannot be covered with

standard coverage. The insurance company's liability is limited by the policy value and not by the extent of damage or loss sustained by the property owner.
Fire insurance policies provide payment for the loss of use of the property as a result of a fire. They also often provide additional living expenses if the fire caused uninhabitable conditions. Finally, they provide for damage to personal property and nearby structures. Homeowners should document the property and its contents to simplify the assessment of items damaged or lost in the event of a fire.

A fire insurance policy includes additional coverage against smoke or water damage due to a fire and is usually effective for one year. Fire insurance policies on the verge of expiration are usually renewable by the homeowner under the same terms as the original policy.

5.2.1 Types of fire insurance policies in India:

The following are the types of fire insurance policies that are available in India:

1. **Valued policy:** A predetermined value is given for an item or property by the insurer in this policy. Since the value of a property or an item that has been damaged in the fire cannot be ascertained, the insurer fixes their value in advance at the time of purchase of the policy. During the time of claim, it is this predetermined amount that is paid to the policyholder.
2. **Average policy:** In this policy, you as the policyholder can have the insured amount to be less than the actual value of your property. If the value of your property is Rs.30 Lakhs, you can set the insured value at Rs.20 Lakhs. The compensation amount will not exceed this level.
3. **Specific policy:** The compensation amount in this policy is fixed. For example, if the damaged item was worth Rs.5 Lakhs and the coverage of the policy is Rs.3 Lakhs, you would receive only Rs.3 Lakhs as that is the maximum amount of compensation offered under the policy. However, if the amount of loss is within the coverage amount, you get full compensation.
4. **Floating policy:** In this policy, you as a business owner can secure more than one property of yours under its coverage. If your properties are in different cities, the policy will cover all of them.
5. **Consequential loss policy:** If vital machinery and equipment of your business get damaged in a fire, you would get compensated for those losses in this policy. This policy ensures that your business does not remain shut for long due to the loss of machinery.
6. **Comprehensive policy:** This policy offers extensive coverage. It offers coverage not only against damage caused by fire but also against the damage which may happen due to natural and manmade calamities. It also covers damages and loss caused due to the theft*.
7. **Replacement policy:** In this policy, if your property gets completely damaged, you are compensated either with the depreciated value being considered. Or you are compensated as per the actual value of your property.

5.2.2 Principles of Fire Insurance:

The following are the principles of fire insurance:

1. Insurable Interest in fire insurance.
2. The principle of Good Faith in fire insurance.
3. The principle of indemnity.

4. Proximate Cause of fire insurance.
5. The doctrine of Subrogation.
6. Warranties in fire insurance.

Insurable Interest in Fire Insurance :

- ❖ Insurable interest is the general concept of insurance without which an insurer cannot be legally applied because insurance without insurable interest is a gambling transaction.
- ❖ Insurable interest exists where the subject matter is in such a position that the insured may incur loss during the period of harm and may benefit from its safety. The insurable interest in fire insurance must be present at the time of contract and must continue over the term of the policy and at the time of failure. If the property is sold to another party, the insurance contract will be null and void.
- ❖ Similarly, if no insurable interest exists at the time of insurance, the policy is null and void. To be considered an insurable interest, the following conditions must be met. There must be a tangible entity that can be damaged or destroyed by fire. The subject matter of insurance must be the object.
- ❖ The insured must be in a legally recognized partnership in which the insured benefits from the subject-protection matter or is prejudiced by its loss.
- ❖ The 'pecuniary interest' is the insurable interest. Fire insurance is a private agreement between the insured and the insurer. As a result, the transfer of interest will render the contract null and void.
- ❖ The following individuals have an insurable interest in the subject matter at hand:
- ❖ If he is the lawful or equal owner, the owner of the property or asset, whether fixed or present, has an insurable interest. The holder may be a sole or joint holder. As trustee of all the land, the partial owner will carry out a policy for the maximum value. A life tenant with the right to use the property for the rest of his life has only an insurable interest.
- ❖ An agent has an insurable interest in his principal's land.
- ❖ A partner has an equal stake in the company's assets.
- ❖ A borrower has an insurable interest in the property on which he has a debt lien.
- ❖ It is owned by an insurer in relation to risks underwritten by him for the purpose of reinsurance.
- ❖ If the subject matter is mortgaged, the mortgagor has an insurable interest in the full value of the subject matter, and the mortgagee has an insurable interest in any amount due to become due under the mortgage.
- ❖ A bailee can insure any article or property that has been bailed. He can be a gratuitous bailee or a bailee for a reward.
- ❖ A trustee has an insurable interest under the property placed in his or her care.

The principle of Good Faith in Fire Insurance :

- ❖ The arrangement of fire insurance is one in which the observance of the utmost good faith (uberrima files) by all parties is critical. The highest level of good faith in fire insurance has two components: first, the disclosure of relevant evidence, and second, the protection of the insured property. Both the insurer and the insured must have clear details on the subject matter of the injury. Since he knows something about the subject matter, the insured must honestly and completely reveal all of the details requested.
- ❖ The insured is therefore expected to reveal any relevant facts that he is aware of even though it was not requested by the insurer; a material truth is one that affects the

insurer's decisions. The decision could be about accepting, declining, or determining the premium.

- ❖ House design is an example of material reality in the context of fire insurance. If the assured fails to behave in good faith, the contract can be prevented by the other parties. ! It was irrelevant to argue that the insured was unaware of the fact and thus unable to report it. In a given situation, the insured is required to be aware of all relevant evidence.
- ❖ The insurer must also report any relevant information of which he is aware. The protection of the property is the second step of good faith.
- ❖ Thus, good faith is required not only during contract negotiations but also during the policy's duration and when filing claims. Any changes made after the start of the risk must be communicated to the insurer.
- ❖ The insured or his agents, as well as the insurer, must take all necessary precautions to avoid or minimize damage. Since the insured is close to the house, he must act to avoid fires and, if a fire does occur, he must do everything possible to extinguish it. In such instances, he must behave as though he were uninsured.

Exceptions to the good faith principles:

- ➢ The insured is not expected to reveal details in the following situations.
- ➢ All of the circumstances that reduce the risk.
- ➢ All information is known or fairly believed to be known by the insurer.
- ➢ The detail that is well known.
- ➢ Those facts that the insurer should have known in the ordinary course of his business or that the insurer should have reasonably inferred from the information provided.
- ➢ Certain details are unnecessary to reveal due to a condition or warranty.

Principle of indemnity:

- ➢ The theory of indemnity seeks to compensate the insured for a loss suffered, and the reimbursement should be designed to put him in as close to the same financial condition after the loss as he was before the incident.
- ➢ The insured does not make a claim in excess of the sum needed to recoup the actual loss.
- ➢ The insurers agree to make good the insured's loss by cash reimbursement, reinstatement, or substitution, so that the insured is completely indemnified, but only up to the amount insured. The law forbids any insurance that allows the insured to benefit from the loss of the item lost.
- ➢ It will reduce the incentive to ruin the insured property in order to protect the capital.
- ➢ The guaranteed sum is not a measure of indemnity; rather, it establishes a maximum amount up to which the damage can be indemnified. The real sum of indemnity would be the market value of the subject matter lost or injured by fire at the time and location of the fire's occurrence. It will never go over the guaranteed number.
- ➢ When the real loss exceeds the guaranteed amount, only the insured sum is charged; nothing else is paid. However, this theory does not apply when the policy is a respected policy.
- ➢ In this case, the source of indemnity would be the insured value, which was specified in the policy when it was taken, rather than the real cash value of the property at the time of failure. The real loss is not taken into account in a respected policy. In the case of valued policies, the sum of the claim can be greater or less than the real loss at the time of the burn.

Interpretation of Indemnity:

- ➢ The insured is entitled to complete indemnity if the amount guaranteed is adequate.

- In reality, however, such perfection can be difficult to achieve.
- Previously, the term ‘indemnity’ was interpreted to mean just material indemnity, i.e., tangible and material property.
- Intangible losses, such as lost income, rent, and so on, were not paid. It was a significant burden for honest insured people.
- The policy is now expanded to cover not just the material loss of the insured property, but also the ‘consequential loss.’
- When a commercial property is destroyed by fire, not only is the material loss due to the destruction of the house, plant, and stock protected, but also the consequential loss of income due to the cessation of sales, wages, taxes, rent, prices, and so on.
- Nowadays, all tangible and intangible damages are compensated, and consequential damage is often included in the definition of indemnity.

Consequences of Indemnity in Fire Insurance :

The following are the implications of the indemnity doctrine:

- Only the sum of the insured’s loss will be claimed.
- In the event of partial harm, the insured can only seek compensation for the amount of damage sustained.
- The insured must assign to the insurer any rights he might have against a third party arising from the loss.
- If the insured has affected more than one scheme, he is not entitled to more than one full indemnity.
- The amount of indemnity varies depending on the type of land.
- The cost of repairing or restoring damaged buildings to their pre-loss state is used to calculate indemnity.
- Similarly, for equipment, the calculation of indemnity is the market value, which is determined after depreciation and wear and tear.
- The net cost to the insured is the indicator for stock in exchange. Indemnification may take the form of money, repairs, replacement, or reinstatement.

Proximate Cause of Fire Insurance:

- The rule is that the immediate cause, rather than the remote cause, is to be considered as causaproxima non-remotaspectatur. The proximate trigger is important in fire insurance.
- The theory of proximate cause has already been thoroughly explored.
- When paying a claim, the insurer still considers the proximate cause.
- If the insured property is burnt but the fire was caused by an excepted peril, the legal situation is determined by whether the excepted peril was proximate.
- When an explosive bomb destroyed the house, the remote cause was enemy action; the proximate cause was enemy action.
- Proximate cause is the active efficient cause that initiates a chain of events that results in a result without the interference of any power. It is a powerful, successful, and proximate cause to the exclusion of all other causes that are too distant.
- If the loss is due to the insured perils, the insurer is responsible for the loss as a direct and inevitable consequence of the direct causal relationship being formed.

Doctrine of Subrogation:

Subrogation refers to the right of one person to act in the place of another and assert the latter’s rights and remedies. Subrogation is merely a corollary to the concept of indemnity.

- According to the principle of indemnity, the insured can only know the actual value of the loss or harm to the property, and it follows that if the damaged property has any

value left or the guaranteed can reclaim the lost property or has any right against the third party about that property.

- These must be forwarded to the insurer.
- If the insured is permitted to keep them, he would have known more than the actual loss, which is in violation of the indemnity principle. If the assured wishes, he will sue the third party, and if he recovers damages, the insurer is released from liability.
- If the insured has received the full amount of his loss, any amounts gained from a third party are the insurer's property up to the amount of their disbursement.
- At common law, the right to subrogation is exercisable until the insurer has paid the claim made against him.

Warranties in Fire Insurance:

- The proposal form's contents are expressly incorporated into the regulation, which forms the warranty.
- Warranty is the assurance given by the assured that something specific will be done or will not be done, or that certain conditions will be met, or that he affirms or denies the existence of a certain state of truth.
- Warranties that are listed in the policy are referred to as express warranties, whereas those that are not mentioned in the policy are referred to as implied warranties.

Implied warranties:

- The first implied guarantee is that the property construction is not subpar, for example, a kaccha house should not be made of a wooden roof of thatched leaves, grass, hay, or bamboo cloths, and so on.
- A second warranty states that Fire Extinguishing Appliances should be installed with the house.
- Annual maintenance is needed.
- Silent threats, such as new building additions, should be avoided. The special articles and property that are exposed to fire must be sent to the fire safety senders.
- When the policy is affected, the subject matter of insurance must remain and should be known in the event of a loss.
- The identification is based on the location, municipal number, surroundings, and a detailed description of the location; a breach of warranty allows the insurer to prevent the claim.
- Warranties must be followed literally, and a violation of warranty renders the relevant item of the policy invalid, even though no increase in risk is involved.
- Any warranty to which the property insured or any item thereof is or may be made subject shall apply and continue to be in effect from the time the warranty attaches and shall be a bar to any claim in respect of such property or item, whether it raises the risk or not.

5.3 STANDARD POLICIES:

The standard fire policy (SFP) is a basic insurance policy that provides coverage against losses caused by fire. It is a widely recognized and accepted form of insurance, serving as the foundation for fire insurance policies across the industry. Although it is called the "standard" fire policy, it is essential to note that specific terms and conditions may vary among insurance companies and jurisdictions.

5.3.1 Key Features of the Standard Fire Policy :

- **Insurable Interest :**The SFP requires the insured party to have an insurable interest in the insured property. The policyholder must possess a financial stake in the property, such as

ownership or a contractual relationship. Insurable interest ensures that policyholders do not obtain insurance for properties in which they have no legitimate claim.

- **Peril Coverage :**The SFP typically covers losses from fire and lightning and limits other perils, including explosions, smoke damage, and windstorms. Policyholders must review their specific policy to understand the perils covered and any exclusions that may apply.
- **Property Coverage :**The SFP covers the property, including the building structure and contents. The policy may specify whether coverage is provided on a replacement cost basis (where the insurer pays for the full cost of repairing or replacing the damaged property) or an actual cash value basis (where depreciation is factored into the reimbursement amount).
- **Exclusions :**While the SFP covers a range of perils, it is equally important to be aware of its exclusions. Common exclusions may include losses resulting from war, nuclear events, intentional acts, and acts of government authority. Reviewing the policy carefully to understand the specific exclusions applicable to one's insurance coverage is crucial.
- **Indemnity Principle :**The SFP follows the principle of indemnity, meaning that the policyholder is entitled to reimbursement for the loss suffered up to the policy's limits. The insurance company is not liable to pay more than the value of the damaged property or the sum insured, whichever is lower. This principle prevents policyholders from making a profit from the insurance claim.
- **Insured's Duties :**The SFP outlines certain obligations for the insured party to ensure a smooth claim process. These may include notifying the insurer promptly, providing documentation and evidence of the loss, and taking reasonable steps to mitigate further damage.

5.3.2 Significance of Standard Fire Policy:

The SFP plays a vital role in the fire insurance landscape by providing a standardized framework for coverage against fire-related losses. Its widespread use allows for consistency and understanding in fire insurance contracts. Insurance companies and policyholders can rely on the SFP as a common reference point for policy terms, coverages, and claim procedures.

5.3.3 Standard Fire & Special Perils Policy:

Standard fire and special perils (SFSP) insurance is a conventional insurance coverage that protects your property and its contents against damages or losses caused by fire and other hazards. It not only protects your home, but also extends coverage to surrounding buildings and personal belongings. Fire insurance plans are often renewed on a yearly basis. Many insurers, however, are now offering long-term policies with a three-year tenure to cover 'dwellings.'

The insurance covers a variety of assets, including:

- Structures plants and machines
- Instruments and related items
- Tools
- Fittings and fixtures
- Electrical installations in furniture
- Specific items that are mentioned

The coverage is comprehensive and covers a broad variety of risks. The following is a list of the perils that have been included are:

- Fire

- Lightening
- Damage by aircraft
- Explosion
- Impact damage, such as damage inflicted by a road vehicle, rail, or a third-party animal
- Natural catastrophes
- Riots, strikes, intentional damages, and terrorism
- Landslide
- Water tanks and machinery have ruptured, flooding the area
- Leakage caused by the installation of automated sprinklers
- Operation to test missiles
- Bushfire

Additional coverage may be available from insurers for a fee. The following add-ons are available:

- Debris cleanup
- Fees charged by surveyors, architects, and consulting engineers
- A forest fire has broken out
- Spontaneous combustion
- Stocks of cold storage deteriorate
- Coverage for spoilage material damage
- Contamination and leakage protection
- Start-up costs are covered
- Coverage for rent loss
- Coverage for alternative lodging

Not included in the policy:

Despite the fact that the insurance covers a broad variety of risks, some are excluded from the list. The following are some examples of general exclusions:

- Nuclear dangers
- Conflict, mutiny, invasion, civil war, and other war-related dangers
- Contamination and pollution
- Stocks in cold storage
- Electricity outages
- Theft and break-ins
- Consequential losses of any kind.

5.4 FIRE INSURANCE COVERAGE:

The fire insurance policy covering a wide array of inclusions and hence renamed as standard fire and special perils policy covers the below-mentioned risks-

- **Fire:**The policy delivers cover against any kind of damage caused due to a fire-related accident; however, it does not cover for damages or destruction caused to the property insured by own natural heating, fermentation, spontaneous combustion. Also, damages caused to the property due to drying and heating process cannot be treated as damage due to the fire. Plus, the burning of property insured by order of any Public Authority is taken out from the cover.

- **Lightning:**Fire or any other damage caused by lighting is covered by the policy. For example, lighting can cause a fire or other types of damage like cracks in the roof or building which fire insurance will cover.
- **Explosion or Implosion:**The policy covers fire damaged caused due to explosion or implosion. The policy, however, does not cover damage or destruction caused to the boilers, economizers, or other vessels that release steam and apparatus or machinery that utilizes centrifugal force to function. Pressure & Boiler Plan Insurance Policy will basically cover these risks.
- **Aircraft Damage:** Both fire and other damage to the property caused directly by aircraft or any aerial device, also damages caused by things dropped by aircraft are covered in the fire policy. However, damages due to pressure waves caused by aircraft traveling at supersonic speed are taken out from the policy.
- **Impact Damage:**Impact by an animal, a vehicle, or by an off-track rail to the property is covered, delivered by the vehicle or the animal should not belong to the owner of the property or any other occupier of the premise. Moreover, the impact caused by the vehicle by any of the employees while acting in the course of their employment is not covered. In the policy damages occurring to the boundary wall of insured property are also included in the coverage.

Other than the above-mentioned perils there are many more that fire insurance policy covers. It's just that you have to buy fire insurance from the right insurance company so that you can get all the advantages of this insurance plan. So what are you waiting for? Choose a trustworthy insurance company and get the policy.

It covers all the losses arising out of the accidental fire, subject to terms and conditions of the fire policy which is limited by the policy value and not by the extent of damage sustained by the property owner. In general, the following losses are covered:

- Actual loss of goods due to fire
- Additional living expenses due to damage to personal property
- Loss to adjacent building or property due to fire in the insured building
- Compensation paid to fire fighters
- Fire triggered by electricity
- Overflowing of a water tank or pipes

5.4.1 Claim Process:

- If you happen to encounter an eventuality because of fire, you need to make claims under fire insurance. To avoid rejection and fasten the claim process, you should be clear of the procedure and the documents needed.
- Immediately inform the insurance provider either online or by calling on their 24/7 toll-free number
- Also, contact the fire brigade and the police
- Insurance company will appoint a surveyor for scrutiny of the situation
- Submit the duly filled in claim form and other proofs and photographs
- If approved, the claim can be settled from 15-30 days, as the time duration is different for the insurance companies

5.4.2 Exclusions in Fire Insurance Policy :

- Not all situations and cases are covered by fire insurance. Some situations are excluded.
- Fire caused by war, nuclear risks, riot or earthquake

- Planned or intentional fire by the enemy or public authority for whatsoever reasons
- Underground fire
- Loss because of theft during or after the fire
- Malicious or hostile, human-made causes of fire.

5.5 CONSEQUENTIAL LOSS(FIRE) INSURANCE POLICIES:

When a fire occurs or any of the other perils covered under the Standard Fire & Special Perils Policy (Material Damage Policy) occur, the material damage policy will help the insured in reinstatement/ repair/replacement of the damaged Building, Plant & Machinery and Stock. The time period between the date on which the loss occurs and the date on which the entire reinstatement/repair/replacement is complete and normal production restarts, is called the "Period of Interruption". This would result in a reduction in turnover, causing subsequent loss of profits. The intention of a Consequential Loss (Fire) Policy is to make good this loss.

The consequential Fire policy covers

- Loss of Gross Profit due to Reduction in Turnover/Output.
- Increase in Cost of Working-This is the additional expenditure that has to be necessarily incurred in order to avoid or diminish the reduction in turnover.

The basic requirement is that the loss of gross profit and/or increase in cost of working has to be as a consequence of an insured peril under the material damage Fire and Special Perils policy.

5.5.1 Scope :

The CL (Fire) Insurance Policy would be applicable for all risks covered under Standard Fire and Special Perils Policy (hereinafter called Fire Policy) of AIFT.

1. **Policy to Constitute Contract of Indemnity:**Every Policy shall constitute a contract of indemnity only.
2. **Standard Policy:** No Consequential Loss (Fire) Insurance Policy may be issued except under the standard terms and conditions or at rates lower than the rates provided in this Tariff without the specific approval of the Tariff Advisory Committee.
3. **Policies for Fixed Percentages:** It is not permissible to issue a policy undertaking to pay a percentage of the fire loss or a fixed sum or percentage regardless of actual loss.
4. **The Perils:**Issue of the Policy on a basis other than the provided for in this Tariff is not permitted e.g. issue of a policy covering standing charges only by altering the policy and specification wordings is not allowed. All perils under the Standard Fire and Special Perils Policy must necessarily be covered under Consequential Loss (Fire) Policy.

The Consequential Loss (Fire) Policy may also be extended to cover the Add-On Perils insured by the fire Material Damage Policy at an additional premium which must be shown separately on the policy. Whenever Consequential Loss Policies do not cover all the perils listed in the material damage cover, the following specific exclusion must be attached to the face of the Policy:

"Notwithstanding what is stated in the preamble of this policy the term damage used in the preamble excludes loss or damage caused by * (* here will be introduced names of perils under MD policy which are not covered under LOP Policy).

N.B. It is not permissible to grant cover under the Consequential Insurance Loss (Fire) Policy for explosion and collapse of steam boilers.

5. **Depreciation of Stock:**

Bad Debts:

It is not permissible to grant Consequential Loss Insurance cover in respect of –

a) Depreciation of Stock

b) Bad debts.

6. **Payment of premiums by instalments:** Payment of premiums by instalments is not permissible.
7. **Fess in connection with claims:**Except for Auditor"s fees (see Regulation 10) it is not permissible to give any undertaking to pay the fees of any person employed by an insured .in connection with the preparation or verification of a claim.
8. **Indemnity Period :** It is not permissible to issue a policy with an Indemnity Period commencing at a date later than the date of the damage except for a business which is silent, in which case the commencing date of Indemnity may be made to coincide with the date on which the business would have started.

It is also not permissible to alter the indemnity period during the currency of the Policy..

9. **Material Damage Proviso:**Every Insurance must contain a provision that at the time of the happening of the damage there shall be in force an insurance covering the interest of the insured in the property at the premises against such damage and that payment shall have been made or liability admitted therefor under such insurance. However, this Provision shall not apply where payment is not made under Fire Policy except due to operation of a proviso in Fire Policy excluding liability of losses below a specified amount.

The provison shall also not apply to property on which the Insured have no direct insurable interest and which they cannot be reasonably expected to insure.

10. **Return of Premium:**

i. The full premium for the selected sum insured based on estimated Gross Profits shall be chargeable under all Consequential Loss (Fire) Policies in advance.

ii. Where it is desired to provide for the Return of premium for the actual Gross Profits being lower than the selected sum insured, the following clause should be used: "If the insured declares at the latest twelve months after the expiry of any period of Insurance, that the Gross Profits earned (or a proportionately increased multiple thereof where the maximum Indemnity Period exceeds 12 months) during the accounting period of 12 months most nearly concurrent with any period of insurance, as certified by the Insured"s Auditors, was less than the Sum Insured thereon, a pro-rata return of premium not exceeding 50% of the premium paid on such Sum Insured for such period of insurance shall be made in respect of the difference. Where however the declaration is not received by the Company within twelve months after the expiry of the period of insurance no refund shall be admissible.

iii. If any damage has occurred giving rise to claim under this Policy, such return shall be made in respect only of said difference as is not due to such damage."

iv. Similar Clause in respect of "Wages" cover under Rules 3(a) and (b) of Section II should be used by substituting the words "Actual Wages Paid" for the words "Gross Profit Earned" in the third line of the above Clause.

v. In exceptional circumstances, Head Office of TAC may permit, on specific applications from the Insurers, Return of Premium upto a maximum of 75 percent under the above Clause, on the merits of each case.

Note: The above Rules/Clause shall uniformly apply to all factories/industries.

N.B. No reduction will be allowed in the Sum Insured during the currency of the Policy except as provided for under this Clause.

5.5.2 Optional Extensions :

Add On Covers

1. Waiver of Underinsurance
2. Minimum Demand Charges
3. Claim Prepartion Clause
4. Additional increase cost of working
5. Soft Costs
6. Extension to cover Customers‟ premises
7. Extension to cover Suppliers‟ premises
8. Auditor's Clause
9. Interruption By Civil Authority Extension
10. Delay Indemnity Clause
11. Lay Off And Retrenchment Compensation
12. Hindrance Of Access/Ingress/Egress Clause/ Port Blockage
13. Overhauls
14. Crisis Management
15. Research and development
16. Professional Accountants Clause
17. Uninsured Standing Charges Clause
18. Start-up / Shut-down Cost (if applicable)
19. Extension to cover loss due to accidental failure of public electricity/gas/water supply.
20. Molten material spillage
21. Spoilage Consequential Loss Cover
22. Insured property stored at other situations.

5.5.3 Clauses :

1. Automatic reinstatement clause
2. Group interdependency
3. Interdependency cover
4. Protection and preservation of property business interruption
5. New business clause
6. Accumulated stock clause
7. Outage clause
8. Bankruptcy clause
9. Power banking clause
10. On account payment
11. Aggravation clause
12. Agreed bank clause

13. Coinsurance clause
14. Alternative trading clause
15. Nominated loss adjusters
16. Innocent non disclosure / breach of policy conditions
17. Wages – dual basis and pro rata basis
18. Specific exclusion clause.

Other Salient Features:

- Discounts/Loadings based on various risk features.
- Discounts for opting higher Voluntary excess.

The details furnished above do not constitute the entire terms and conditions. For details please refer to our Policy document.

5.5.4Claims Procedure :

In case of any Occurrence that may give rise to a claim under your policy, you must:

a) inform us of this as soon as you can and in any event within 30 days of becoming aware of any such loss or damage. We may, at our sole discretion, condone the delay in notification of claim on merits based on the reason for delay furnished by You to Us in writing.
b) provide such written documents and information as we may require and, if asked, include verification of particulars on oath; and
c) take all steps within your power to minimise the extent of loss, damage or liability.
d) preserve any property affected and make it available for us or our representatives; and
e) inform the Police if the loss or damage has been caused by any act purporting to be an offence under the applicable laws; and forward to us every letter, writ, summons and process in relation to your claim as soon as you receive it;and
f) advise us in writing as soon as you receive notice of any prosecution or inquest that involves you and is relevant to your claim and provide any assistance that we may reasonably require.

Documentation :

The documents normally required to be submitted in the event of a claim are :

1. Duly completed Claim form
2. Estimate of loss
3. Invoice/ Bills/Receipts.

Any other details/documents called for a specific loss.

Grievances :

If You have any grievance about any matter relating to the policy, or Our decision on any matter, or Our decision about Your claim, You can pursue Your grievance with
Our Grievance Redressal Officer
You can send Your grievance in writing by post or email to Our Grievance Redressal Officer at the following address:

Grievance cell :

Universal Sompo General Insurance Co.Ltd, Unit No. 601 & 602, 6th Floor, Reliable Tech Park, Cloud City Campus; Gut no 31, MoujeElthan, Thane Belapur Road, Airoli, Navi Mumbai – 400708

If you have a grievance that you wish us to redress, you may contact us with the details of your grievance through:

• Emails – **grievance@universalsompo.com**
• Designated Grievance Officer in each branch.
• Company Website – **www.universalsompo.com**

The Consumer Affairs Department of IRDAI—You can register Your grievance on IRDAI's Integrated Grievance Management System (IGMS),
The Insurance Ombudsman, depending on the nature of grievance and the financial implication, if any, or
The Consumer Protection Forum or the Court.
You can find more details about Insurance Ombudsmen at **www.ecoi.co.in** or **www. irdai.gov.in.**

5.6 DECLARATION POLICIES OF FIRE INSURANCE :

- A declaration policy is a fundamental component of any fire insurance agreement. It refers to the detailed information provided by the insured to the insurer about the property or assets being insured. The declaration typically includes details such as the insured's name, address, property description, value, and other relevant information required by the insurer to assess the risk and determine the premium.
- The excess policy contributes to only a rateable proportion of the loss because if the amount of excess stock exceeds the sum set in the excess policy, the businessman will not have a full cover owing to the average condition.
- Moreover, if the First Loss Policy was also subject to an average condition, the assured will be at a loss. The declaration policy will give better protection in such cases where the stock fluctuates from time to time.
- Under the declaration policy, the insured takes out insurance for the maximum amount that he considers would be at risk during the period of the policy.
- On a fixed date of every month or a specific period, the insured furnishes a declaration of the amount. The premium is provisionally paid to 75% of the annual premium amount.
- Practically; the annual premium is determined on the average of these declarations; If the premium is higher than the provisional premium already paid, the insured has to pay the difference to the insurer.
- On the other hand, if the premium so calculated is lesser than the premium already paid, the excess is returned to the policyholder.
- The declaration must be made on a specified day or within the next 14 days. Otherwise, the sum insured will be deemed to be the declared value. The policy applies only to stocks and the sole property of the insured.
- The great advantage of this policy is that the premium is limited to the actual amount at risk, irrespective of the sum insured. Unlike the excess policy, the premium is not unnecessarily paid.
- Moreover, the insurer may pay up to the sum insured throughout the policy because the premium amount can be adjusted accordingly.
- The value of risks is an average of each day of the month or the highest value at risk during the month. Declaration policy is not available for a short period of stock in process, stock at Railway siding.
- Premium is adjusted at the expiry of the policy. The policy is very advantageous to those businessmen whose stocks fluctuate from time to time.The amount of the declaration offers.scope for fraud because the insured may pay a lesser premium by undervaluing the stock. Therefore, this policy is issued only to reputed concerns.

5.6.1 Importance of Declaration Policy:

- **Risk Assessment:** The declaration policy allows the insurer to assess the risk associated with insuring a particular property against fire. By providing accurate and

comprehensive details about the property, the insurer can evaluate the potential hazards and determine the appropriate coverage and premium.

- ❖ **Premium Calculation**: The information provided in the declaration plays a crucial role in calculating the insurance premium. The insurer considers factors such as the property's location, construction materials, occupancy type, and fire safety measures when determining the premium amount. Accurate and updated information ensures that the premium reflects the actual risk exposure.
- ❖ **Basis of Coverage**: The declaration policy serves as the basis for the coverage provided by the fire insurance policy. The insured must disclose all relevant information to ensure that the policy covers the property adequately. Failing to disclose critical details could result in coverage gaps or potential denial of claims.
- ❖ **Policy Modifications:** If any modifications or changes occur in the insured property during the policy term, it is the insured's responsibility to update the insurer through a revised declaration. Changes such as renovations, additions, or changes in occupancy can impact the risk profile, and failing to inform the insurer may lead to coverage issues.
- ❖ **Claims Processing:** In the event of a fire-related loss, the declaration policy provides the insurer with a comprehensive record of the insured property. This documentation helps streamline the claims process, ensuring a smooth settlement. It also helps prevent disputes or delays arising from insufficient or inaccurate information.

5.6.2 Tips for Effective Declaration Policy Compliance:

- ❖ **Provide Accurate Information:** When filling out the declaration, be diligent in providing accurate and up-to-date details about the property. Include information about the property's construction, occupancy, safety measures, and any relevant documentation such as fire safety certificates.
- ❖ **Regular Updates:** Notify your insurer promptly about any changes or modifications to the insured property. This includes renovations, additions, changes in occupancy, or upgrades to fire safety systems. Keeping the insurer informed helps maintain accurate coverage and ensures prompt claims processing.
- ❖ **Seek Professional Guidance**: If you are unsure about any aspect of the declaration policy or require assistance in determining the appropriate coverage, consult an insurance professional or broker. They can guide you through the process and help you understand the implications of the information you provide.
- ❖ **Review Policy Terms:** Take the time to review the policy terms and conditions, particularly those related to the declaration policy. Understand the obligations, responsibilities, and potential consequences of non-compliance to make informed decisions.

5.7 SUMMARY :

The introduction sets the stage for a comprehensive understanding of the concept. It encompasses various insurance offerings tailored to address diverse needs and risks associated with fire incidents. The summary includes insights into the specific characteristics and coverage provided by each type of policy, offering readers a comprehensive understanding of the options available within the Indian fire insurance landscape. It delves into the intricacies of fire insurance, detailing the types of policies prevalent in India and the fundamental principles governing them. Moving on, it focuses on standard policies, particularly the Standard Fire Policy, elucidating its key features and underscoring its significance. Additionally, it sheds light on the coverage provided by fire insurance, encompassing the claim process and exclusions within the policy. The subsequent section,

5.5, navigates the terrain of Consequential Loss (Fire) Insurance Policies, outlining their scope, optional extensions, specific clauses, and the associated claim procedure. Finally, Section 5.6 explores Declaration Policies of Fire Insurance, emphasizing their importance and offering practical tips for effective compliance. This comprehensive structure equips readers with a holistic grasp of fire insurance, from its conceptual foundations to nuanced policy details.

5.8 KEY WORDS :

1. ***Fire Insurance:*** A form of insurance that provides coverage and financial protection against losses and damages caused by fire.
2. **Comprehensive Fire Insurance:** Policy covering a broad range of perils beyond fire.
3. **Standard Fire Policy:** A basic fire insurance policy with predefined coverage.
4. **Insurable Interest:** The policyholder must have a financial interest in the property.
5. **Utmost Good Faith:** Both parties (insurer and insured) must act honestly and transparently.
6. **Indemnity:** The insured should be compensated to the extent of the actual loss suffered.
7. *Claim Process:* Procedure for reporting and processing claims after a fire incident.
8. **Optional Extensions:** Additional coverages that can be included based on specific needs.
9. **Clauses:** Specific conditions or provisions defining the scope and limitations of coverage.
10. **Claim Procedure:** The process for filing and settling claims related to consequential losses.
11. **Fire Insurance:** A type of insurance that provides financial protection against damages caused by fire.
12. **Comprehensive Fire Insurance:** A policy covering various perils, not limited to fire.
13. **Standard Fire Policy:** A basic fire insurance policy with predefined coverage.
14. **Insurable Interest:** The policyholder must have a financial interest in the property being insured.
15. **Utmost Good Faith:** Both the insurer and insured must act honestly and transparently.
16. **Indemnity:** The insured should be compensated to the extent of the actual loss suffered.
17. **Claim Process:** The procedure for reporting and processing claims after a fire incident.
18. **Exclusions in Fire Insurance Policy**: Specific circumstances or conditions not covered by the policy.

5.9 SELF ASSESSMENT QUESTIONS :

1. What is the primary purpose of fire insurance?
2. How does fire insurance contribute to risk management for individuals and businesses?
3. Differentiate between Comprehensive Fire Insurance and Standard Fire Policy.
4. List and briefly explain the types of fire insurance policies commonly available in India.
5. Define "insurable interest" in the context of fire insurance.

6. Explain the principle of "utmost good faith" and its significance in fire insurance.
7. What are the key features of the Standard Fire Policy?
8. Why is the Standard Fire Policy considered important for both insurers and insured parties?
9. Outline the typical claim process in fire insurance.
10. Identify and explain common exclusions found in fire insurance policies.
11. Define the scope of Consequential Loss (Fire) Insurance.
12. Discuss the importance of optional extensions in these policies.
13. Why is accurate declaration important in fire insurance policies?
14. Provide at least three tips for effective compliance with declaration policies.

5.10 SUGGESTED READINGS :

1. https://taxguru.in/finance/motor-insurance-policy-covered.html
2. https://www.godigit.com/motor-insurance/types-of-motor-insurance

LESSION-6

MARINE INSURANCE

OBJECTIVES :

- To understand the concepts of Marine Insurance
- To learn the Marine Insurance and various procedures

STRUCTURE :

6.1 Introduction
6.2 Concepts of Marine Insurance
6.3 Features of Marine Insurance
6.4 Marine Insurance Policy
6.5 Risks Not Covered
6.6 Marine Cargo Policies
6.7 Keywords
6.8 Summary
6.9 Self Assessment Questions
6.10 Suggested Readings

OVERVIEW :

Marine Insurance is the oldest form of Insurance; it originated in 1347 in the form of Bottomry and was legally regulated in 1369. Under bottomry policy the ship is protected from financial loss of his ship was destroyed. It had its origin in Roman and Greek Time and was developed in England in late 1600's when England became an important port of Trade. Lloyd's Coffee House in England was where the standardization of clauses of took place and laid the foundation of Maritime Insurance Market and giving it a legal identity. With globalization and liberalization in today's time and movement of goods across nations, the importance of Marine Insurance has increased manifold. It provides protection to the various members and intermediaries involved in export and import of goods. The Marine Insurance in India is regulated by Marine Insurance Act, 1963 which is based on Marine Insurance Act, 1906 of United Kingdom.

6.1 INTRODUCTION :

Marine insurance covers the physical loss or damage of ships, cargo, terminals, and any transport by which the property is transferred, acquired, or held between the points of origin and the final destination. Cargo insurance is the sub-branch of marine insurance, though marine insurance also includes onshore and offshore exposed property, (container terminals, ports, oil platforms, pipelines), hull, marine casualty, and marine liability. When goods are transported by mail or courier or related post, shipping insurance is used instead

Marine Insurance refers to where the insurer compensates the insured when the latter suffers from financial loss from marine perils against the premium paid by the insured to the

insurer. It covers the loss of ship or the vessel as well as the goods or cargos which are being transported by land, air or water.

6.2 CONCEPT OF MARINE INSURANCE :

Marine Insurance is a type of insurance that provides coverage against the losses or damages of cargo or goods during transportation between the points of origin to the final destination. Marine insurance policy provides coverage for all means of transportation example road, railway, air, sea, couriers and postal service.

- Section 3 of Marine Insurance Act 1963 defines Marine Insurance as "A contract of marine insurance is an agreement whereby the insurer undertakes to indemnify the assured, in the manner and to the extent thereby agreed, against marine losses, that is to say, the losses incidental to marine adventure."
- A contract of marine insurance may, by its express terms, or by usage of trade, be extended so as to protect the assured against losses on inland waters or on any land risk, which may be incidental to any sea voyage.
- They are various types of sale of contract between the buyer and the seller in case of trade. It depends on the nature of the sale contract, who is responsible for the purchasing the Insurance contract. The various types of sales contract are:
- Free on Board (F.O.B): It refers to when the seller of the goods is responsible for the goods till they are boarded on the vessel on seller's port and thereafter the responsibility lies with the buyer for shipping the goods to his place. The buyer will be the insured here.
- Cost Insurance and Freight (C.I.F): In this the invoice generated by the buyer includes freight charges i.e. shipping goods to the buyer's port as well as insurance cost for goods in transit. The seller here does not have responsibility to transport goods from buyer's country port to the buyer's address. The seller will be the insured here.
- Cost and Freight (C.F): In this, the invoice includes freight charges and no insurance cost. The Marine Insurance is purchased by the buyer in this case.
- Free on Rail (F.O.R): This is similar as free on board but the difference is that it is applicable for internal trade only and not international trade.

6.3 FEATURES OF MARINE INSURANCE :

1. **Offer& Acceptance:**It is a prerequisite to any contract. Similarly, the goods under marine (transit) insurance will be insured after the offer is accepted by the insurance company.
2. **Payment of premium:**An owner must ensure that the premium is paid well in advance so that the risk can be covered.
3. **Contract of Indemnity:** Marine insurance is contract of indemnity and the insurance company is liable only to the extent of actual loss suffered.
4. **Utmost good faith:**The owner of goods to be transported must disclose all the relevant information to the insurance company while insuring their goods.
5. **Insurable Interest:**The marine insurance will be valid if the person is having insurable interest at the time of loss.

6. **Contribution:**If a person insures his goods with two insurance companies, then in case of marine loss both the insurance companies will pay the loss to the owner proportionately.
7. Period of marine Insurance:The period of insurance in the policy is for the normal time taken for a transit. Generally, the period of open marine insurance will not exceed one year.
8. **Deliberate Act:**If goods are damaged or loss occurs during transit because of deliberate act of an owner then that damage or loss will not be covered under the policy.
9. **Claims:**To get the compensation under marine insurance the owner must inform the insurance company immediately so that the insurance company can take necessary steps to determine the loss.

   - Scope of Marine insurance
   - Marine Insurance covers the following:
   - Cargo insurance:

The word cargo refers to goods and merchandise which are in transit by sea, road, rail or air. While in transit, there is risk of goods (raw materials, finished goods, equipment's, wares) being damaged and thus the need for marine cargo insurance to indemnify the shippers against the financial loss caused due to damage to the cargo. It includes:

- Inland Transport by country craft
- Import and export of goods by ocean through all type of vessels
- Consignments by air, rail or road
- Goods send by Post
- Trans shipments

The coverage provided under this policy is defined by the Institute of London Underwriters and are standardized in the International market into three clauses which are:

- Clause A: All risk Institute Cargo
- Clause B: Basic Cover Institute Cargo
- Clause C: Fire and Lightening Institute Cargo It has coverage of loss or damage caused by war, strikes, riots, capture, fire, storms, earthquake, accident, lightening and any other which is specified in the policy.

Hull marine insurance:

In this type of marine insurance, the subject matter is the vessel and its equipment. The insurer compensates the insured in case the latter suffers financial loss due to damage or destruction of the vessel or its equipment. It covers various types of vessels such as jetties, trawlers, sailing vessels, dredgers, and port crafts, ocean steamers, off shore vessels and even ship builders and repairers. The policy covers risk caused due to fire, collision, sinking, overturning, crew negligence, earthquake, floods, piracy and violent thefts. It does not cover risks due to radioactive damage, war, terrorist's activities, deliberate damage and insolvency of the ship owner.

Freight insurance: It provides protection to vessel owner in case of non-payment of freight charges due to loss of the cargo. The freight charges are paid to ship owners for transporting the goods and merchandise safely. In case of payment of freight charges on delivery, the vessel owner faces the risk in the event cargo is damaged. Thus, here the vessel owner has insurable interest and purchases freight insurance to cover the risk. It is done on a time basis, certain freight amount of freight is insured for a 12 month period.

Liability insurance: It is an Insurance policy provided to the insured to cover his liabilities against the third-party contingent to marine accidents or adventures. It will cover accidental loss of property of the third person as well as the fatal or non-fatal injury to the third party. It can be of two forms:
Cross Liabilities: Where both the vessels are to be blamed for the accident and are required to pay each other for the damages caused by them to the other.
Single Liabilities: It is only a liability on the part of the vessel under lesser damages to that with the greater.

6.4 MARINE INSURANCE POLICY :

The fundamental principles of Marine Insurance are drawn from the Marine Insurance Act, 1963* As in all contracts of insurance on property, the contract of Marine Insurance is based on the fundamental principles of Indemnity, Insurable Interest, Utmost Good Faith, Proximate Cause, Subrogation and Contribution. Practitioners of Marine Insurance must familiarize themselves with the Act and uphold these Principles when negotiating Contracts and settling claims under the contract.
A marine insurance policy must specify:
- Name of the assured or person who effect the insurance on his behalf.
- Subject matter (goods) insured
- Risk insured against
- Voyage or period or both covered by the insurance
- Sum(s) insured
- Name(s) of insurer(s)

Types of Marine Insurance policies
The various types of marine Insurance policies being offered by the Insurance Companies and some of them are explained below:
1. **Voyage policy:** It refers to policy issued for a specific passage from departure location to the destination location. It is applicable where subject matter is the cargo. Here, the risk arises when the ship leaves the departure port and covers the cargo even when it is located at intermediate places. Ex.A voyage policy from Bombay port to Hong Kong port.
2. **Time policy:** As the name implies, the subject matter is covered for a specific period of time which is usually one year. In the case where time has to be extended more than one year, a Continuation clause is to be added in the contract. It is applicable in case of hull insurance where the vessel is insured while it is navigating or it is being constructed. The vessel can follow any course it wants. They are standard clauses with respect to freight and premium which are added on to this policy. Ex. A time policy from 1st Jan, 2016 to 1st Jan,2017 .
3. **Mixed policy:** It is hybrid of Voyage and Time policy where the insurance policy covers risk during a particular voyage for a specified time period. It is more applicable in case of cargos.
4. **Unvalued policy:** It refers to that policy where the value of the subject matter is not mentioned in the contract. The compensation is paid after ascertaining the value of the loss, where the method to determine the loss is already pre decided and mentioned in the contract. The value so determined after loss is known as Insurable value or valuable. This policy is also known as open policy.

5. **Valued policy:** It is reverse of the unvalued policy, here the worth of the subject matter is ascertained and thus the value of loss to be indemnified is pre decided between the insured and the insurer while making the contract and it does not change. The value here is refer as insured value or agreed value and it may not be the actual value to be indemnified.
6. **Floating policy:** This policy is useful for those who have frequent cargos to transport or are involved in large scale trade activities. In this policy only the general terms and policy coverage amount are specified and other details such as ship name can be subsequently declared. The declaration is made when the order is dispatched on the vessel. The sum insured is based on previous year turnover or by estimating annual turnover in case of new proposal.
7. **Single vessel policy:** This policy is for one ship only. A company may have separate policy for each of its ship.
8. **Fleet or single policy:** Here one policy covers fleet of ship; it is preferred by shipping companies owning multiple ships.
9. **Named policy:** This policy is specific in nature where the name of the vessel and the claim amount is clearly stated.
10. **Special declaration policy:** This policy is issued to those organizations which have a large annual turnover i.e. 3 crores or more. The coverage amount shall be on the previous year turnover.
11. **Annual policy:** As the name suggests it is a policy having duration for one year and cover goods belonging to the insured or held in trust by him.
12. **Wager Policy:** A wager policy is one where there are no fixed terms of reimbursements mentioned. If the insurance company finds the damages worth the claim, then the reimbursements are provided. Else, there is no compensation offered. Also, it has to be noted that a wager policy is not a written insurance policy and as such is not valid in a court of law.
13. **Block Policy:** Sometimes, a policy is issued to cover both land and sea risks. If the goods are sent by rail or by truck to the departure, then it will involve risk on land also.

Documents for Marine Insurance Claim :

In case of loss to the insured for the subject matter covered under the Marine Insurance Policy, the insured should inform the Insurance Company of the mishap at the earliest. Then Insurance Company will send officials to do the survey to look into the mishap and estimate the loss suffered by the insured. The insured has to submit certain documents while filing the Marine Insurance claim. These are as follows:

1. **The original copy of the Insurance Policy Certificate:** It is issued by the Insurance Company which mentions the details of the subject matter covered under policy, policy period and insured's details.
2. **Survey Report:** It contains the observation of the surveyor regarding the cause of the event and the extent of the loss suffered by the insured in terms of goods damaged.
3. **Invoice:** It shows the terms of sale, shipment details and the value of the cargo for which claim is submitted to the Insurance Company.
4. **Bill of Lading:** is a document which contains the details of the shipment- where the cargo is going, name of the vessel, amount of cargo, how it is to be handled and billed. It acts as a receipt issued by the carrier to the consignor.

5. **Claim Bill:** It contains the details of the claim amount made by the insured for the loss suffered by him.
6. **Copy of Protest:** In case the loss is by perils of sea, then the owner of the vessel goes in front of the public authorities at the destination port to inform them about the loss suffered and protests that he was not responsible for the loss. The copy of the same is to be submitted to the insurer.
7. **Letter of Subrogation:** This letter given by the insured authorizes the Insurance Company the right to make claim from a third party that may be responsible for the damage caused.
8. **Bill of Entry:** It is a formal document issued by the custom officials that specifies the account sales of the cargo and the custom duty paid by the importer or the exporter.
9. **Dock Receipt:** It mentions the condition of the cargo while it is loaded and unloaded during the shipment.

Marine Policy Conditions :

The Marine Insurance Act 1906 provides the framework on which marine insurance is based and the policy document is formulated on the base of marine policy conditions. Based upon this framework, the insurers are obliged to issue their policies.

Insurance Cargo Clauses (ICC) (C): The clause provides major casualty coverage during the land transit and tend to be used for cargoes that are not easily damaged, e.g. scrap steel, coal, etc. Subject to the policy exclusions and warranties the © covers loss or damage to the subject matter insured reasonably attributable to

- Fire or explosion
- Grounding, sinking
- Overturning or derailment
- Collision or contact of vessel
- Discharge of cargo at point of distress

Insurance Cargo Clause (B): Subject to the policy exclusions and warranties, the (B) clauses provide all the cover under (C) and also cover loss of damage to the subject matter insured reasonably attributable to:

Earthquake, volcanic eruption or lightning

Water damage by entry of sea/ water (excluding rainwater),

Total loss of package lost overboard

Institute cargo Clause (A): Subject to the policy exclusions and warranties, the clause "A" provides the widest of all three covers and generally summed up as 'all risk' of loss or damage to the subject matter insured.

6.5 RISKS NOT COVERED :

The marine insurance policies normally do not cover the following risks.

1. **General Exclusion Clauses :**
   i. Loss, damage or expense caused by delay and inherent vice or nature of the goods
   ii. Loss damage or expense attributed to willful misconduct of the insured.
   iii. Ordinary leakage/ordinary loss in weight or volume / ordinary wear and tear of the insured goods.
   iv. Insufficiency or unsuitability of packing.
   v. Deliberate damage to / destruction of the goods.

vi. Insolvency or financial default of the owners, managers, charterers or operators of the vessel.
vii. Loss damage or expenses arising from use of atomic weapons or nuclear fission and / or other like reaction or radioactive force.

2. UNSEAWORTHINESS AND UNFITNESS CLAUSE

i. Unseaworthiness / unfitness of vessel or craft where the assured or his servant is privy to such Unseaworthiness / unfitness at the time the goods are loaded therein.

3. WAR EXCULSION CLAUSE

i. War, Civil war, revolution, rebellion, insurrection, civil strike, derelict weapons of war, capture, detainment etc. (Specific policy to be taken).

4. STRIKE EXCLUSION CLAUSE

i. Strikes, lock-outs, labour disturbances, riots, civil commotions, terrorist attacks etc.

PERIOD OF COVER :

♦ The insurance cover is available for the entire period of transit from the time the goods leave the warehouse at the place of commencement and continues during such transit including deviation. The cover terminates on delivery of the goods, at the warehouse at the named destination or on expiry of 60 days (sea consignment) / 30 days (air consignment) on completion of discharge from the vessel at final port.

♦ The Bank as a standard practice, specifies marine insurance to be taken on ‘warehouse to warehouse’ basis. As per the ‘Transit Clause’, if goods are not delivered within the time limit, cover ceases on expiry of 60/30 days and would have to be appropriately extended.

Principles of marine insurance

INDEMNITY:

The object of an insurance contract is to place the assured after a loss in the same relative financial position in which he would have stood had no loss occurred. By the Marine Insurance Act, the indemnity that is provided is “in manner and to the extent agreed.” A “commercial” indemnity is thus provided. Because insurers cannot undertake to reinstate or replace cargo in the event of loss or damage, they pay a sum of money, agreed in advance, that will provide reasonable compensation. In practice, this is achieved by agreeing in advance the insured value, based on C.I.F., value of the goods to which it is customary to add an agreed ten percent which is intended to include the general overheads and perhaps a margin of profit on the transaction.

Upon total loss of the entire cargo by an insured peril the sum insured is paid in full, and if part of the cargo is a total loss, the appropriate proportion of the insured value is paid.

Claims for damage are settled by ascertaining the percentage of depreciation and applying this percentage to the insured value. The percentage of depreciation is calculated by comparing the value the goods would realize in their damaged state with their gross sound value on the date of the sale. The same date is used for both values to avoid distortion of the result arising from fluctuations in the market prices.

In Marine insurance it is customary to issue agreed value policies. The agreed value is conclusive between the Insurer and the Assured except in the event of the unintentional error or where fraud is alleged.

"Duty" and "Increased Value" policies are not agreed value policies. They provide pure indemnity only.

INSURABLE INTEREST:

The Marine Insurance Act contains a very clear definition of insurable interest. It states that there must be a physical object exposed to marine perils and that the insured must have some legal relationship to the object, in consequence of which he benefits by its preservation and is prejudiced by loss or damage happening to it or where he may incur liability in respect thereof.

Whereas in fire and accident insurance an insurable interest must exist both at inception of thecontract and at the time of loss, the interest in respect of a marine contract must exist at the time of loss, though it may not have existed when the insurance was affected. This is necessary when one considers the mercantile practice under which there is every possibility of sale and purchase of goods during transit. However, the MIA has provided that where the goods are insured "lost or not lost" the assured may recover the loss, although he may not have acquired his interest until after the loss, unless at the time of effecting insurance he was aware of the loss and the insurer was not. If the assured had no interest at the time of the loss, he cannot acquire interest by any act or election after he is aware of the loss. Arising from this, both a contingent and a defeasible interest are insurable. A partial interest is also insurable.

Unless like the normal indemnity policy of other classes of insurance, a marine cargo policy is freely assignable either before or after loss provided of course the assignee has acquired insurable interest.

The type of sale contract also determines the Insurable Interest. A separate chapter has been devoted to most common terms of contracts known as "Inco Terms". The terms dictate which of the two parties to the contract, is responsible to insure the goods.

GOOD FAITH:

- Every contract of insurance is a contract "uberrimaefidei" i.e. one which requires utmost good faith on the part of both the insurer and the assured. In Marine Insurance, it is the duty of the proposer to disclose clearly and accurately all material facts related to the risk. A material fact is a fact, which would affect the judgement of a prudent Underwriter in considering whether he would enter into a contract at all or enter into it at one rate of premium or another and subject to what terms. Apart from the duty of disclosure, the insured must act towards the insurer in good faith throughout the duration of the contract.
- It is customary to classify breaches of the duty of utmost good faith under four headings: non- disclosure, concealment, innocent misrepresentation, and fraudulent misrepresentation. The first two are termed passive breaches and the other two are termed active breaches. The Marine Insurance Act places a statutory duty on the assured to disclose to the insurer all material circumstances known to him or which he should know in the ordinary course of his business.
- Whether non-disclosure is intentional or inadvertent, the effect is the same and the policy may be avoided, although deliberate and material non-disclosure would usually amount to fraud and render the policy void.

- Over-valuation, for example, must be communicated to the insurers; if it is not so communicated, it is a concealment of a material fact and voids the insurance.

PROXIMATE CAUSE:

- "Proximate cause means the active, efficient cause that sets in motion a train of events which brings about a result, without the intervention of any force started and working actively from a new and independent source."
- Insurers are liable if an insured peril is the proximate cause of the loss. If an insured peril is only the remote cause of the loss, the proximate cause being an uninsured or excepted peril, the insurers are not liable.
- The proximate cause is not necessarily that which is proximate in time, but that which is proximate in efficiency. It is the dominant, effective and operative cause of the loss.
- In case of concurrent causes, following rules apply: -

- If one of the causes contributing to the loss is an insured peril, and no excepted peril is involved, the loss is cov
- If one of the causes is an excepted peril, the loss is not covered at all, unless the consequences of the insured peril can be separated from those of the uninsured peril, in which event the former, but not the latter, is cover.

SUBROGATION:

"Subrogation is the right which one person has of standing in place of another and availing himself of all the rights and remedies of the other, whether already enforced or not."

Subrogation is a corollary of the principle of indemnity and the right of subrogation therefore applies only to policies, which are contracts of indemnity. Subrogation is a matter of equity, the purpose of which is to ensure that the insured is not over-indemnified for the same loss.

a) In Marine insurance, where an insurer pays for a total loss:
   i. he is entitled to take over the interest of the assured in whatever may remain of the subject-matter so paid for (abandonment);
   ii. and he is subrogated to all the rights and remedies of the assured as from the time of the loss (subrogation)
b) Where an insurer pays for a partial loss, he acquires no title to the subject-matter insured or to such part of it as may remain, but he is subrogated to all the rights and remedies of the assured as from the time of the loss, and in so far as the assured has been indemnified.

In marine insurance subrogation applies only after payment of a loss. The insurer is entitled to recover only up to the amount, which he has paid, in respect of rights and remedies.

On payment of a total loss, the insurer is entitled to assume rights of ownership of the subject- matter insured. The right is conferred upon him by abandonment (not by rights of subrogation) and the effect is that if the property is subsequently salvaged or recovered the insurer is entitled to retain the whole of the proceeds of sale even though they may exceed the sum paid out under the policy, always assuming the property is fully insured and that the assured was not bearing part of the risk himself.

In addition to this right of exercising ownership of the property, the insurer is subrogated to "all rights and remedies of the assured" as from the time of casualty causing the loss. This simply means that if the loss has been caused by the negligence of a third party, against whom the assured has the right of action in tort – say, against a carrier or bailee – then the Insurer is

entitled to succeed to any recovery (whereby the loss is reduced) the assured may affect from such third party. This principle applies equally to total and partial losses and has nothing whatever to do with the doctrine of abandonment.

CONTRIBUTION :

Sometimes one risk may be covered by more than one insurer. In that case it is desirable not only to ensure that the insured does not receive more than an indemnity but that any loss is fairly spread between all the insurers involved. The principle of contribution is a method of distributing fairly among insurers the burden of claims for which each shares some responsibility.

6.6 MARINE CARGO POLICIES :

Marine Cargo insurance primarily covers loss during transit caused due to fire, explosion, hijacks, accidents, collisions, and overturning. We offer specially curated plans for covering the risk of theft, malicious damage, shortage, and non-delivery of goods, damages during loading and unloading, and mishandling of goods/cargo. The insured can choose the coverage based on specific business requirements. The policy is available for a variety of cargo/goods if you are dealing in or manufacturing them.

Cargo insurance policies can cover cargo carried by land or by air and sea.

Policies and options vary greatly, but covered events often include natural disasters, vehicle accidents, cargo abandonment, customs rejection, acts of war and piracy. Issues that arise from areas where the shipper has a lot of control, including damage due to poor packaging, flawed products or hazardous products, may not be covered.

Types of Marine Cargo Insurance

a) **Specific voyage policy:** A specific voyage policy covers transportation of goods through inland transport, import and export for specific destinations.
b) **Open policy/Open cover:** An open policy or an open cover is an undertaking to cover all shipments/transits that will be made during the year. At inception the insurer will have only general details of the cargoes, estimated sum insured, voyages and the quality of vessels that will be used. Specific details are provided for each shipment in the order of dispatch or in the form of periodic declarations.

Annual Sales Turnover PolicyAn Annual Sales Turnover Policy has become very popular in India. This is no different from any open policy except that the rate of premium is charged only on the sales turnover (and any other components not captured by the term 'sales turnover'). It is also known as Sales Turnover Policy (STOP) and Annual Turnover Policy (ATP) in different companies

Duty Insurance Cargo imported into India is subject to payment of Customs Duty, as per the Customs Act. This duty can be included in the value of the cargo insured under a Marine Cargo Policy, or a separate policy can be issued in which case the Duty Insurance Clause is incorporated in the policy.

Contingency Insurance(Buyer's or Seller's): This policy extends to cover the assured's contingent financial interest in any goods where the assured has no responsibility to insure under the Terms of Sale or where the cover provided is more restrictive than that afforded under this policy.

Exclusions under marine cargo policies

i. Loss caused by willful misconduct of the insured.

ii. Ordinary leakage, ordinary loss in weight or volume or ordinary wear and tear. These are normal 'trade' losses which are inevitable and not accidental in nature
iii. Loss caused by 'inherent vice' or nature of the subject matter. For example, perishable commodities like fruits, vegetables, etc. may deteriorate without any 'accidental cause'. This is known as 'inherent vice'.
iv. Loss caused by delay, even though the delay be caused by an insured risk.
v. Loss or damage due to inadequate packing.
vi. Loss arising from insolvency or financial default of owners, operators, etc. of the vessel
vii. War and kindred perils. These can be covered on payment of extra premium.
viii. Strikes, riots, lock-out, civil commotions and terrorism (SRCC) can be covered on payment of extra premium.

Marine Cargo Insurance Eligibility Criteria
Any company that is involved in the business of moving goods by sea can purchase marine insurance. This includes –

Manufacturers

Buyers

Import/export merchants

Sellers

Banks

Contractors

Buying agents
Marine insurance protects goods in transit by sea and helps to mitigate the financial risks associated with potential loss or damage to the cargo.

Factors of Marine cargo insurance policy,
There are certain factors that need to be considered. They are listed below:

- Insurer's reputation – You need to look into the insurer's reputation from where you are planning to buy the insurance policy. Doing this, will enable you to make sure that there are no issues during claims.
- Robust marine claim department - Another thing to consider is whether the insurer has a healthy maritime claim department. It is essential because you don't want your claim application stuck at their table.
- Affordable premium – The payable premium is another factor that needs your attention. You don't want to pay a higher premium for your coverage

- The coverage you need – When availing yourself of marine cargo insurance, you need to consider the coverage it offers. This will ensure that you get a policy that provides the coverage you want and not one just for the sake of it.
- Surveyor & Assessor network - When choosing the right Marine Cargo insurance policy, it is important to look at the surveyors and assessors network of the insurer. This is because if the claim goes beyond a certain defined limit, an assessor visits you to determine the exact damage.

MARINE HULL POLICIES :

Marine Hull Insurance : Marine hull insurance is a type of insurance policy that covers watercraft such as a boat, ship, yacht, fishing boat, steamer, and so on. The body of the vessel is referred to as a hull, and that is exactly what this insurance policy covers. The insurance provides financial protection in the event that the vessel's body (hull) or machinery are damaged as a result of the hazards covered by the policy.

Marine hull insurance protects boat owners against damage to the hull, machinery, fittings, and freight, as well as risks such as construction and ship-breaking, liabilities, disbursement losses, oil and energy-related hazards, and so on. Yacht insurance, maritime cargo insurance, marine import transit insurance, marine export transit insurance, and marine inland transit insurance policies are all examples of specialized marine hull insurance.

Features of Marine Hull Insurance :

Here are a few reasons why you must have marine hull insurance if you are a ship-owner:

The dangers of travelling by sea are comparable to those of travelling by land or air. Your ship could be destroyed, lost, or sunk as a result of a fire, robbery, or collision, and the financial loss could be catastrophic because marine vehicles are expensive. Owners of yachts and other pleasure boats, in particular, are in greater danger because their vessels are expensive and do not generate a profit. A marine hull insurance policy, often known as yacht insurance, protects your vessel from sea-related risks.

Yacht insurance and marine hull insurance policies also cover damage to other boats and ships caused by your vessel.

Marine Hull Insurance can be purchased for a specific period of time or for a specific journey. This means you have the option of insuring your ship or yacht for each voyage or purchasing a comprehensive plan that covers your vessel for a set length of time, such as a year.

The sum assured is not a fixed quantity, but rather a value agreed upon by the insurer and the insured. It is usually equal to or close to the cost of the vessel in the issue.
The amount of premium paid to the insurance company is determined by a number of factors:

- The kind of vessel
- The vessel's age is indicated by the number of years it has been in service.
- The cost of a vessel is determined by its valuation.
- The vessel's tonnage and trade limits
- The vessel's management and ownership terms
- The type of insurance coverage that is required.
- Benefits of Marine Hull Insurance
- Here are the benefits of Marine Hull Insurance.

Coverage Comprehensive : A Marine Hull insurance policy protects your vessel's hull and machinery from loss or damage caused by a variety of perils such as fire, explosion, robbery, collision, and other ship-damaging events.

The plan that is adaptable: You can purchase Marine Hull insurance to safeguard your ship or yacht for a specific journey or to cover your vessel for a specific length of time, usually 12 months, regardless of its voyages.

Coverage of Inland Vessels: A Marine Hull insurance coverage can protect inland waterway vessels against a variety of dangers, including collisions, piracy, and the raising, removal, or destruction of wrecks. A ship's sinking can also be covered.

Documentation is simple: Marine Hull insurance is simple to obtain. The agreed value, which is identical to or about the cost of the vessel to be insured, determines the sum assured for Hull and Machinery insurance.

Important Aspects

When purchasing marine hull insurance, there are a few things to keep in mind. They are as follows:

- ❖ Because the age of the vessel has a significant impact on the insurance cost, it is advisable to obtain coverage as soon as the vessel is purchased.
- ❖ If you think the basic cover isn't enough, make sure to grab several more.
- ❖ If you want to save money on your premiums, choose a greater deductible.
- ❖ When filing claims, do it as soon as possible to avoid any delays or roadblocks in the payout process.
- ❖ The premium will be determined mostly by the type of vessel, trade limitations, age of the vessel, vessel valuation, and deductible size.
- ❖ What is Covered Under the Policy?

The interests of a ship's owner, charterer, ship function, ship breaker, and ship repairer are all covered by a marine insurance policy in general. Marine hull insurance is limited to the Hull & Machinery section, which covers everything held by the ship's owner, including the ship's body, machinery, tackle, boats, fittings, equipment, bunkers, engine stores, stores, and provisions for the officers and crew. The insurance policy's scope may differ from one insurer to the next.

There are 3 main types of Time Clauses under the marine hull insurance policy:

1. Institute Time Clauses (Hull) This includes risks associated with seas, rivers, lakes, and other navigable waters; property loss or damage due to fire or explosion, stranding or sinking, capsizing or derailment, violent robbery by external elements, jettison piracy, earthquake, volcanic eruption, or lightning; and jettison, piracy, earthquake, volcanic eruption, or lightning; General average, sacrifice, and salvage charges; accident to or failure of lawfully installed nuclear reactors on the ship; loss due to articles falling off aircraft or other boats; damage when installing or equipping at dock or harbour; loss resulting from crew carelessness; pollution hazard; wages, maintenance, and agency commission; 3/4th of collision liability; legal and labour expenditures; and constructive complete loss coverage
2. Institute Time Clauses (FPA) The free of particular average (FPA) insurance clause is similar to the Hull coverage, except it excludes all mechanical damages. FPA coverage is typically provided when a ship is more than 15 years old, as older vehicles are more likely to sustain damage, particularly on the machinery front.

3. Institute Time Clauses (Total Loss Only) Only the whole established loss based on real, compromised, or constructive losses are covered by this clause. This type of policy is primarily supplied to very old and huge vessels, and it comes at a reduced rate.

Exclusions :

Although marine hull insurance is comprehensive coverage, it does not cover certain situations. These are the cases:

- The hull and machinery are subjected to normal wear and strain.
- Nuclear accidents have caused a lot of damage.
- Contamination with radioactive materials.
- Damage caused by members of the crew who were under the influence of alcohol.
- Damage to a vessel that is done on purpose
- Terrorist activities caused damage to the vessel.
- Participation in hazardous actions that could result in hull damage.
- Following the issuance of a warming order, sailing the vessel in a sea storm.
- Overloading of cargo

How To Claim? :

To file a claim on a marine hull policy, the policyholder must produce a substantial amount of documentation. The following is the procedure for filing a claim under the Marine Hull & Machinery Insurance Policy. Most insurance providers follow a similar process.

You must notify the Claims Manager or Underwriter whenever an occurrence covered by your insurance policy happens. The insured person should inform the company about the insurance and the loss.

A surveyor will be appointed by the company to verify the claim. An important aspect of a marine hull insurance claim is the professional evaluation of losses in the event of a fire, explosion, or other damaging factors.

If an occurrence is beyond the scope of a surveyor's knowledge, a professional consultant may be hired.

The surveyor gathers verifiable papers and visual evidence of the loss/damage-causing incident. This includes, among other things, policy or underwriting documents, survey reports, claim intimation letters, deck and engine room logbooks, endorsed receipts of repairs, dry docking, incidental expenses, ship spare part changes, details of how much fuel and engine room stores were used up during the repair period, and the required certificates and endorsements. The insurance company receives all of this information.

If the vessel has been involved in an accident, the surveyor will need to gather information about the steps followed to determine liability and the settlement reached between the parties, a full facsimile of the claim filed for recovery against the collision ship, details on all things excluded from the claim by the colliding ship's owners, legal expense accounts, and a detailed copy of any claim received from the other vessel.

Following a preliminary examination of the loss-causing incident, the surveyor would give an Initial Loss Assessment (ILA). The loss amount stated in the ILA is susceptible to alteration based on the surveyor's subsequent appraisals.

- The surveyor must clearly identify coverage, salvage value, and the cause of loss.
- With the support of experts, the surveyor must also develop loss-minimizing alternatives and ensure that as much equipment as possible is working again.

- Depending on the cause of your insurance claim, you may need to get additional documentation.
- The insurance company will proceed with the compensation once the surveyor has approved the documentation and claim.

Types of Marine Hull Insurance :

- Insurance of vessel and its equipment's are included under hull insurance, there are several classifications of vessels such as ocean steamers, sailing vessels, builders, risks fleet policies and so on.
- It is concerned with the insurance of hull and machinery of ocean-going and other vessels like barges, tankers, Fishing and sailing vessels.
- A recent development in hull insurance has been the growth of insurance of offshore oil/gas exploration and production units as well as connected construction risks.
- It is covered with specialized class of business particularly for Fishing Vessels, Trawler's, Dredgers, Inland and Sailing Vessels are available.
- The subject matter of hull insurance is the vessel or ship. There are many types of designs of ships. Most of them are constructed of steel and welded and are capable of sailing on the sea in ballast in with cargo.
- The ship is to be measured with GRT (Gross Register Tonnage) and NRT (Net Register Tonnage). GRT is calculated by dividing the volume in cubic feet of the ship's hull below the tonnage dock, plus all spaces above the deck with permanent means of closing.
- NRT is the gross tonnage less certain spines for machinery, crew accommodation ballast spaces and is intended to encompass only those spinning used for carriage of cargo.
- DWT (Dead Weight Tonnage) means the capacity in tons of the cargo required in load a ship to her load line level.

- Subdivision of Hull Insurance :
- The Hull Insurance is further Subdivision into;
- General Cargo vessels.
- Dry Bulk Carriers.
- Liquid Bulk Carriers.
- Passenger Vessels.

These can be further divided into ocean going and coastal tonnage. Ocean going general cargo vessels is usually in the 5000 to 15000 GRT range, coasters are smaller in size and one engaged in the carriage of bulk cargoes.

- Coastal tonnage does not withstand the same strains as ocean going vessels.
- General Cargo Vessel
- The general cargo vessels may be container ships, large carriers (LASH – Lighter Abroad Ship) Ro-Ro (Roll on Roll off) vessels, Refers (Refrigerated Vessels General Cargo)

- **Dry Bulk Carriers :**Dry Bulk Carriers are specially constructed vessels in the size range of thousands GRT for coasters and 70,000 GRT for ocean going tonnage. The main bulk cargoes carried are iron ore, coal, grain bauxite and phosphate
- **Liquid Bulk Carriers :**Tankers are strongly constructed to carry bulk liquid. The tankers have using tanks which do not extend across the breadth of the tanker.
- **Passenger Vessels :**There are cruise vessels or passenger liners which sail on voyages to distant areas of scenically beautiful but rocky or shallow coasts or near the icy waters of the Arctic and Antarctic. They possess modem navigational systems.

- **Other Vessels :**There are other types of vessels such as fishing vessels, offshore oil vessels and others.
- **Fishing Vessels :**Fishing vessels bulk of steel and fiberglass (GRP) are much more prevalent.
- Geographical/physical features of the area of operations vary from comparatively sheltered waters of inshore fishing to the full rigors of the open seas with exposure to gales, heavy seas fog ice and snow.
- **Offshore Oil Vessels :**The offshore oil vessels are used for explanation or for commercial production of oil from the ocean beds.

6.7 KEY WORDS :

1. 'Fire' includes direct and indirect fire damage including loss while extinguishing fire.
2. 'Assailing thieves' refer to forcible taking, does not cover clandestine theft or mere pilferage. 'Jettison' is the throwing of articles, usually to lighten the vessel in times of emergency.
3. 'Barratry' is the willful misconduct of the master and crew that would include international casting away of the vessel, theft or wrongful conversion with dishonest intent.
4. 'All other Perils' do not cover all the perils that befall a shipment, but only connected sea perils.
5. 'Perils of the Sea': It includes out of the ordinary wind and wave action, stranding ,lightning, collision, and damage by sea water when caused by peril such as opening of the seams of the vessel by stranding or collision.
6. Insurance Policy: The insurance policy sets out all the terms and conditions of the contract between the insurer and insured.
7. Certificate of Insurance: It is an evidence of insurance but does not set out the terms and conditions of insurance. It is also known as 'Cover Note'.
8. Insurance Broker's Note: It indicates insurance has been made pending issuance of policy or certificate. However, it is not considered to be evidence of contract of insurance.

6.8 SUMMARY :

Marine insurance covers the loss or damage of ships, cargo, terminals, and any transport by which the property is transferred, acquired, or held between the points of origin and the final destination. Cargo insurance is the sub-branch of marine insurance, though Marine insurance also includes Onshore and Offshore exposed property, (container terminals, ports, oil platforms, pipelines), Hull, Marine Casualty, and Marine Liability. When goods are transported by mail or courier, shipping insurance is used instead. Hull and Machinery (H&M) Insurance are types of marine policy that together cover damage to the vessel and its machinery, including collisions, fire, and sinking. Cargo Insurance provide coverage for loss or damage to cargo during transportation by sea, air, or land. To summarize, the main things that marine insurance will most often not cover include:

- Damages or losses due to negligence or misconduct;
- Damages or loss as a result of improper packing;

- Loss or damage due to wire, strike, riot, civil commotion; and
- Removal of the wreck or accident site cleanup.

6.9 SELF ASSESSMENT QUESTIONS :

1. Explain the concept of Marine Insurance.
2. Discuss the features of Marine Insurance.
3. Elaborate in detail the Marine Insurance policy.
4. Discuss the risks not covered in Marine Insurance policy.

6.10 SUGGESTED READINGS :

1. https://taxguru.in/finance/motor-insurance-policy-covered.html
2. https://www.godigit.com/motor-insurance/types-of-motor-insurance

LESSON - 7

MARINE INSURANCE- CLUASES

LEARNING OBJECTIVE :

- To know about marine insurance clauses
- To learn about hull insurance clauses
- To understand the accumulation of risk

STRUCTURE :

7.1 Introduction

7.2 Institute cargo clause in marine cargo insurance

7.2.1 Institute cargo clause A

7.2.2 Institute cargo clause B

7.2.3 Institute cargo clause C

7.3 Institute hull clauses

7.3.1 Scope of Cover

7.3.2 Benefits of Using Institute Hull Clauses

7.3.3 Limitations of Using Institute Hull Clauses

7.4 Open policies

7.4.1 Benefits of Open Policies

7.4.2 Challenges and Risks

7.5 Accumulation of risk per location

7.6 Self assessment questions

7.7 Suggested readings

7.1 INTRODUCTION :

Marine insurance refers to a contract of indemnity. It is an assurance that the goods dispatched from the country of origin to the land of destination are insured. Marine insurance covers the loss/damage of ships, cargo, terminals, and includes any other means of transport by which goods are transferred, acquired, or held between the points of origin and the final destination.

Marine insurance is a specialized form of insurance that provides coverage for risks associated with maritime activities and the transportation of goods or cargo by sea. It is designed to protect the interests of shipowners, cargo owners, and other parties involved in maritime trade against potential financial losses arising from various perils at sea.

Key Components of Marine Insurance:

Hull Insurance: Covers the physical damage to the vessel (ship or boat) itself. Includes protection against perils such as collisions, sinking, and other maritime risks. Essential for shipowners to safeguard their investment in the vessel.

Cargo Insurance:

- Protects the owner of the goods or cargo being transported by sea.
- Covers losses or damages to the cargo during loading, transit, and unloading.
- Ensures that the financial value of the goods is compensated in case of unforeseen events.

Liability Insurance :

- Addresses the legal liabilities of shipowners for third-party injuries or damages.
- Provides coverage for legal expenses and damages resulting from accidents or incidents involving the insured vessel.

Freight Insurance:

- Safeguards the interests of the shipper or carrier.
- Covers the loss of expected income (freight) due to damage or loss of cargo during transit.

General Average and Salvage Insurance:

- Deals with situations where sacrifices are made or expenses incurred for the common safety of the ship and cargo.
- Provides coverage for contributions made by all parties involved in the maritime adventure.

War Risk Insurance:

- Covers damages or losses caused by war-related perils, such as acts of war, civil war, or piracy. Often a separate policy due to the specialized nature of the risks involved.

Kidnap and Ransom Insurance:

- Protects against the risks of piracy and kidnapping of crew members.
- Provides coverage for ransom payments and related expenses.

Importance of Marine Insurance:

Risk Mitigation:

- Helps mitigate the financial impact of unforeseen events during maritime activities.
- Ensures that parties involved are financially protected against potential losses.

Global Trade Facilitation:

- Facilitates international trade by providing confidence to shippers, cargo owners, and financiers.
- Encourages investment in the maritime industry.

Legal Compliance:

- Many countries and international trade agreements require certain types of marine insurance for vessels and cargo.

Financial Security:

- Offers financial security to shipowners, cargo owners, and other stakeholders in the maritime supply chain

7.2 INSTITUTE CARGO CLAUSE IN MARINE CARGO INSURANCE :

The Institute Cargo Clauses (ICC) are standard sets of clauses that define the terms and conditions of marine cargo insurance policies. These clauses are widely used in the shipping

and insurance industries to provide a common framework for coverage and to ensure consistency in the interpretation of policy terms. The Institute Cargo Clauses are maintained by the International Underwriting Association (IUA) and are recognized as industry standards.

There are three main sets of Institute Cargo Clauses :
****Institute Cargo Clauses (C):**

- This is the most basic and restrictive form of coverage.
- It provides coverage for a specific list of perils, known as "named perils" or "specified perils."

Common perils include fire, explosion, sinking, collision, and certain natural disasters.
****Institute Cargo Clauses (B):**

- This is a broader form of coverage compared to Clause C.
- It covers a wider range of perils, including all the perils covered under Clause C, and additional perils such as theft, pilferage, non-delivery, and damage during loading and unloading.

****Institute Cargo Clauses (A):**

- This is the most comprehensive and all-risk form of coverage.
- It provides coverage for all risks of physical loss or damage to the insured cargo, except for specific exclusions mentioned in the policy.
- It offers the broadest protection but may include specific exclusions that limit coverage.
- Common features across all Institute Cargo Clauses:

Valuation: The value of the insured cargo is typically determined based on the invoice value plus freight and other charges, known as the "insured value."
Average Clauses: These clauses address the concept of "average," which is a proportional reduction in the claim amount if the insured value declared is less than the actual value of the cargo.

General Average and Salvage: The clauses may address the contribution to general average or salvage expenses, which are costs incurred to protect the common interests of the insured cargo and vessel.It's important for parties involved in international trade, including shippers, cargo owners, and insurers, to carefully review and understand the specific Institute Cargo Clauses incorporated into their marine cargo insurance policies. These clauses play a crucial role in determining the scope of coverage and the obligations of the parties in the event of a loss or damage to the insured cargo during transit.

7.2.1 Institute Cargo Clause A :

Institute cargo clause A offers the widest coverage among the other institute cargo clauses. Accordingly, the institute cargo clause is also known as the "All Risks' cargo insurance policy. Hence, it is the most expensive insurance policy among other institute cargo clauses.
The Institute Cargo Clauses (A) is the most comprehensive and inclusive form of coverage among the three main sets of Institute Cargo Clauses. This set of clauses is often referred to as "All Risks" coverage, but it's important to note that even under this comprehensive coverage, certain exclusions exist. Below are the key features and details of Institute Cargo Clauses (A):

Coverage:

All Risks: The coverage under Institute Cargo Clauses (A) is generally described as "All Risks," meaning it provides protection for all risks of physical loss or damage to the insured cargo. This includes a wide range of perils, unless specifically excluded in the policy.

Exclusions:

While Institute Cargo Clauses (A) is broad in coverage, there are still exclusions. Common exclusions may include losses or damages caused by inherent vice, willful misconduct, ordinary leakage, delay, insufficiency of packing, and certain other specified causes.

Valuation:

The insured value is typically determined based on the invoice value of the goods plus freight and other charges. It's important for the insured to declare the correct value to ensure adequate coverage.

Average Clause:

Institute Cargo Clauses (A) often includes an Average Clause, which deals with the concept of "average." If the insured value declared is less than the actual value of the cargo, any claim settlement may be proportionally reduced.

General Average and Salvage:

The clauses may address the insured's contribution to general average or salvage expenses. General average refers to the voluntary sacrifices and expenses made to protect the common interests of the insured cargo and vessel.

Extensions:

Some policies incorporating Institute Cargo Clauses (A) may include additional extensions or special clauses to tailor the coverage to specific needs. These can include coverage for additional perils or circumstances not explicitly mentioned in the standard clauses.

Importance:

Institute Cargo Clauses (A) is suitable for those seeking the broadest possible coverage for their cargo. It provides a high level of protection against a wide array of risks, making it well-suited for valuable or sensitive shipments.

It's crucial for parties involved in international trade to carefully review the specific terms and conditions of the Institute Cargo Clauses (A) incorporated into their marine cargo insurance policies. Understanding the coverage and any limitations or exclusions is essential to ensuring adequate protection for the transported goods.

7.2.2 Institute Cargo Clause B :

Institute cargo clause B offers some restrictive coverage compared to institute cargo clause A. Institute cargo clause b provides coverage for accidental damages only. Therefore, the policyholder may expect to allocate a moderate premium. Further, the policyholder may seek morecoverageinordertoprotectvaluableitems.

7.2.3 Institute Cargo Clause C :

Institute cargo clause C offers the most restrictive coverage out of all three clauses. It offers coverage against limited risks. You will have to check the policy documents to learn about

Note: The coverages offered by the insurance policy varies from insurer to insurer, so make sure to check the policy documents and see if the insurance plan is providing the kind of

CONCLUSION

The institute cargo clauses offer different kinds of coverage. Clause A offers the widest coverage to the policyholder. Clause B offers less as compared to clause A. In addition, clause C offers the most restrictive coverage. Therefore, the policyholder may opt for a clause in the marine insurance policy according to the requirement.

7.3 INSTITUTE HULL CLAUSES :

- Marine Hull Insurance covers loss or damage to hull and machinery. The hull is the structure of the vessel. Machinery is the equipment that generates the power to move the vessel and control the lighting and temperature system such as boiler, engine, cooler and electricity generator.
- Institute Hull Clauses are standard provisions used in marine insurance policies that define the scope of coverage for the hull and machinery of a vessel.

7.3.1 Scope of Cover

The following are the main clauses and most important in Marine Hull policies. Time Clauses covers for a specific period usually 12 months. As the nature and degree of risks which the Insurer run vary according to the kind of vessel, there exist a number of categories in the Time Clauses. They are : -

Institute Time Clauses (Hull)
Institute Time Clauses (FPA)
Institute Time Clauses (Total Loss Only)

INSTITUTE TIME CLAUSES (HULL)

Provides the maximum coverage offered by hull insurance.

Perils Covered

a. Perils of the sea
b. Fire & explosion
c. Violent theft
d. Piracy
e. Breakdown of accident to nuclear installations etc.
f. Contact with aircraft
g. Earthquake, volcanic eruptions or lightning
h. Accidents in loading etc.
i. Bursting of boilers
j. Breakage of shaft
k. Latent of defect
l. Negligence of masters etc.
m. Negligence of repairers etc.
n. Negligence of charterers etc.
o. Barratry

Excluded Perils

p. Wilful misconduct of the Assured
q. Loss caused by delays
r. Wear and tear
s. Rats and/or vermin
t. Injury to machine not proximately caused by maritime peril

Paramount Exclusions In The Policy

u. War
v. Strikes
w. Malicious acts
x. Nuclear exclusion

Other Losses & Expenses Covered

y. Pollution Hazard
z. 3/4th Collision Liability
aa. General Average and Salvage
ab. Sue and Labour
ac. Constructive Total Loss

Institute Time Clauses (Fpa) :

The coverage of these clauses are similar to that of Hulls Clauses but exclude coverage on machinery damages in all respects.

It is advised that all vessels which exceed 15 years of age or older, if the risk accepted, to give this coverage only. Past experience shows that older vessels suffer serious casualties due to machinery damage. If machinery damage is excluded due to limitation of this clause, there is a better chance of making hull underwriting profit.

Institute Time Clauses Hulls (Total Loss Only) :

As the name suggested, this clause only covers in the event of it becoming a total loss by arrangement, actual, compromised or constructive total loss. The rate for this cover is low and usually this cover is only extended to old vessel (but not more than 20 years) or on accommodation only.

7.3.2 Benefits of Using Institute Hull Clauses :

Institute Hull Clauses provide standardization and clarity in marine insurance policies, reducing the risk of disputes and increasing efficiency in claims handling.

Comprehensive Coverage:

Standard hull clauses often provide comprehensive coverage against a range of perils, including but not limited to collisions, sinking, fire, piracy, and natural disasters.

Uniformity and Consistency:

The use of standard clauses promotes uniformity and consistency in insurance policies. This makes it easier for insurers, brokers, and insured parties to understand the terms and conditions.

Widely Recognized:

Standard hull clauses, especially those from reputable institutions like the Institute of London Underwriters, are widely recognized and accepted in the maritime insurance industry. This recognition can simplify the insurance process for all parties involved.

Risk Management:

Hull insurance is a crucial component of risk management for shipowners. It helps protect their substantial investment in the vessel and ensures financial support in the event of physical damage.

Flexibility in Coverage:
While standard clauses provide a baseline, there is often room for customization. Insurers and insured parties may negotiate additional coverage or specific terms based on the unique characteristics of the vessel and its operations.

Legal Compliance:
Using standard hull clauses may ensure compliance with legal and regulatory requirements related to marine insurance. This is particularly important for vessels operating internationally.

Claims Handling Efficiency:
Standardized clauses can contribute to efficient claims handling. Both insurers and insured parties have a clear understanding of the terms, which can streamline the claims process.

Industry Expertise:
Standard clauses are often developed with input from industry experts and reflect a deep understanding of the risks associated with maritime activities. This expertise contributes to the reliability and relevance of the coverage.

It's important to note that the specific benefits can vary based on the particular set of hull clauses used and the individual circumstances of the insured vessel. It's advisable for shipowners and insurers to carefully review and tailor insurance policies to meet their specific needs and risk profiles.

7.3.3 Limitations of Using Institute Hull Clauses :

While the use of Institute Hull Clauses or similar standard hull insurance clauses provides several benefits, there are also limitations and considerations that should be taken into account. Here are some potential limitations:

Inadequate Coverage for Unique Risks:
Standard hull clauses may not account for the specific risks and characteristics of every vessel. Certain unique risks or exposures that are specific to a particular ship or its operations may not be adequately addressed in standard clauses.

One-Size-Fits-All Approach:
Standard clauses are designed to be broad and applicable across various vessels and situations. However, this one-size-fits-all approach may not meet the specific needs of certain vessels with unique features, purposes, or operational contexts.

Negotiation Challenges:
While there is some flexibility for negotiation within standard clauses, significant deviations may be challenging. Some shipowners may find it difficult to negotiate specific terms that better suit their needs due to the standardized nature of these clauses.

Possibility of Coverage Gaps:
Standard clauses may not cover all conceivable risks or may include exclusions that leave potential coverage gaps. Shipowners should carefully review the clauses to ensure that the specific risks they face are adequately addressed.

Changes in Technology and Regulations:
Standard clauses may not keep pace with rapid technological advancements or changes in maritime regulations. Emerging risks or regulatory requirements may not be adequately covered by outdated standard clauses.

Lack of Transparency:
The standard clauses may be complex, and their interpretation may not always be straightforward. This lack of transparency can lead to misunderstandings or disputes between insurers and insured parties.

Market Conditions Impact:
Standard hull insurance terms and conditions may be influenced by market conditions. In a hard insurance market, where premiums are high and capacity is limited, insurers may become more stringent in their terms, affecting the coverage available under standard clauses.

Over-Reliance on Standardization:
Relying solely on standard hull clauses may lead to a lack of innovation and creativity in tailoring insurance solutions to the evolving needs of the maritime industry. There is a risk of stagnation in addressing new and emerging risks.

Complex Claims Process:

Despite efforts to streamline claims handling, disputes may still arise. Complexities in the claims process may be exacerbated if standard clauses are not clearly understood or if there is ambiguity in their application.

7.4 OPEN POLICIES :

An open marine insurance policy encompasses an indefinite number of inland movement of consignments. This insurance policy remains open until cancelled or the sum insured is exhausted, whichever comes first. Under the open marine insurance policy, consecutive shipments are declared to the insurance company, and they automatically get covered under the open marine insurance policy on or after the policy's inception date.

Typically, it is an annual cargo insurance policy which is issued for one sum insured to cover a number of dispatches. Here the policy covers a number of dispatches until the sum insured is over. Also called, floating policy, the open policy helps in saving the policyholder from buying the individual insurance policy for each journey.

The open insurance policy may cover both the incoming and outgoing consignments to-and-fro India. To ensure you choose the correct sum insured, make sure that the coverage mentioned under the open marine insurance policy is in accordance to the estimated annual turnover of goods.

7.4.1 Benefits Of Open Policies :

One of the key benefits of open policies in marine insurance is increased transparency. With traditional policies, it can be difficult for policyholders to understand exactly what they are covered for and what their premiums are paying for. Open policies, on the other hand, provide a clear and comprehensive view of the coverage and costs involved.

This not only helps policyholders make more informed decisions, but also promotes trust between insurers and their clients.

Open policies in the insurance industry, including marine insurance, offer various benefits to both insurers and policyholders. Here are some of the key advantages of using open policies:

- **Flexibility and Convenience:** Open policies provide flexibility by allowing the insured to make multiple shipments under a single policy without the need to obtain separate coverage for each shipment. This streamlines the insurance process and reduces administrative burden.
- **Cost Savings:** Insured parties may benefit from cost savings with open policies. Instead of paying separate premiums for each shipment, they pay a single premium for a predetermined period. This can be more cost-effective for businesses with frequent shipments.
- **Efficient Documentation:** Open policies simplify the documentation process. Rather than issuing a new policy for each shipment, the insured can use a single policy with a continuous cover period. This can lead to more efficient record-keeping and reduced paperwork.
- **Automatic Coverage for New Shipments:** Open policies often include a provision for automatic coverage, meaning that new shipments are automatically covered under the policy without the need for additional paperwork or notifications. This can be particularly advantageous for businesses with regular shipping activities.
- **Streamlined Claims Process:** In the event of a claim, the claims process may be more streamlined with an open policy. Since the coverage terms are predefined, the claims handling process can be more efficient, resulting in quicker settlements.
- **Risk Management:** Open policies support better risk management for businesses with ongoing shipping activities. They provide continuous coverage, reducing the risk of unintentional gaps in insurance protection between shipments.
- **Enhanced Relationship with Insurers:** Establishing an open policy can lead to a long-term relationship between the insured and the insurer. This relationship can facilitate better communication, understanding of specific business needs, and the tailoring of coverage to meet evolving requirements.
- **Global Coverage:** For businesses engaged in international trade, open policies can provide global coverage. This is beneficial for companies with a broad scope of shipping activities involving multiple destinations.
- **Consistency in Coverage Terms:** Open policies maintain consistent coverage terms over time. This consistency can be valuable for businesses as it allows them to anticipate and plan for insurance costs without significant fluctuations.
- **Customization Options:** Open policies often allow for customization based on the insured's specific needs. This flexibility in tailoring coverage terms can be particularly advantageous for businesses with unique risk profiles.
- **Time Savings:** The streamlined nature of open policies can result in time savings for both the insured and the insurer. With fewer administrative tasks associated with each shipment, valuable time can be redirected to other aspects of business operations.

7.4.2 Challenges And Risks :

One of the main challenges of open policies in marine insurance is the increased complexity they bring to the table. With traditional policies, the terms and conditions are clearly defined, making it easier for both insurers and policyholders to understand what is

covered and what is not. However, with open policies, the terms and conditions can be more fluid and subject to negotiation, which can lead to confusion and misunderstandings.
Another risk associated with open policies is the potential for fraud. Since the terms and conditions are more flexible, it can be easier for unscrupulous individuals to exploit loopholes and make false claims. This not only puts the insurer at risk but also drives up premiums for everyone else. To address these challenges, insurers can implement stricter verification processes and invest in advanced fraud detection technologies.

What kinds of risk does it cover? :
The open marine insurance policy offers coverage against various kinds of risks such as sinking, fire, explosion, earthquake, lightning, etc. Open policies are extremely useful for the policyholder when he/she conducts a significant volume of similar transactions in a year.

Which Companies Should Buy Is Open Marine Insurance Policy?
Such policies can be bought by anyone who is involved in the business of movement of goods, like import/export merchants, contractors, banks, buying agents, a shipping firm, etc.

Can you expand the Open Marine Insurance Cover?
The sum insured of an open marine insurance policy is fixed on the ‘Agreed Value’ basis. Generally, there is a 10% margin on the invoice which is added to sum insured, for incidental expenditure. Furthermore yes, it is possible to enlarge open marine insurance cover and get coverage for riot, war, strike, etc.; by paying additional premium rates.

7.5 ACCUMULATION OF RISK PER LOCATION :

Marine insurance is a complex industry that involves assessing and managing risks associated with shipping goods across the world's oceans. One of the most critical aspects of this process is understanding the concept of accumulation of risk per location. Put simply, this refers to the concentration of insured values in a particular geographic area, which can increase the likelihood of losses due to natural disasters or other catastrophic events.

In recent years, the issue of accumulation of risk has become increasingly important for marine insurers. With global trade volumes continuing to rise, the potential impact of a major loss event has grown significantly. As such, it is essential that insurers have a clear understanding of how an accumulation of risk works, and what strategies can be employed to manage it effectively.

What Is The Accumulation Of Risk? :

Accumulation of risk refers to the potential for multiple losses to occur at the same time or in the same location. In the context of marine insurance, this can happen when a large number of vessels are in the same area during a storm or other natural disaster. If several ships are damaged or sunk, the insurer could face significant losses.

Accumulation of risk can also occur over time, as more and more vessels are insured in a particular area. This can lead to a concentration of risk that increases the likelihood of a catastrophic event. For example, if a large number of vessels are insured in a port that is prone to hurricanes, the insurer may need to take steps to manage this accumulation of risk.

Why Does Accumulation Of Risk Matter?

Accumulation of risk is a major concern for marine insurers. When multiple vessels are located in the same area, they become vulnerable to the same risks such as natural disasters and piracy. This can lead to a large number of claims being made at once, which can be financially devastating for insurers.

For example, if a hurricane were to hit a port where many ships were docked, the resulting damage could be catastrophic. Insurers would have to pay out on all of the claims, potentially causing them to exceed their capacity and leaving them unable to cover other losses. In extreme cases, the accumulation of risk can even threaten the stability of the entire insurance market.

How Is The Accumulation Of Risk Measured?

There are several methods used to measure the accumulation of risk in marine insurance. One common approach is to use a geographic information system (GIS) to map out the locations of insured vessels and identify areas where there is a high concentration of risk. Another method is to use statistical models to analyze historical data on claims and losses and predict where future losses are likely to occur. These models take into account factors such as vessel type, cargo type, weather patterns, and other variables that can affect risk.

Visual aids such as charts and graphs can be useful in illustrating the results of these analyses. For example, a heat map can be used to show areas where there is a high concentration of insured vessels, while a bar chart can be used to compare the relative risk levels of different types of vessels or cargo. These visual aids can help insurers make more informed decisions about how to manage the accumulation of risk.

What can be done to manage the accumulation of risk?

One strategy that can be employed to manage the accumulation of risk in marine insurance is diversification. By spreading out the risk across a variety of locations, insurers can reduce their exposure to catastrophic losses in any one area. For example, if a hurricane were to hit a particular port where a large number of ships were docked, the losses could be devastating. However, if the insurer had diversified its portfolio to include ships in other ports, the impact would be less severe.

Another strategy is to use predictive modeling to identify areas of high risk and adjust premiums accordingly. For instance, if data analysis shows that a particular region is prone to natural disasters or piracy, insurers can charge higher premiums for ships operating in that area. This helps to offset the potential losses and encourages ship owners to take extra precautions when operating in those waters.

Conclusion :

In conclusion, the accumulation of risk is a significant concern for marine insurers. It refers to the potential for multiple claims to arise from a single event or location, which can have a severe impact on insurers' financial stability and ability to pay out claims. As we have seen, there are various methods used to measure the accumulation of risk and strategies that can be employed to manage it.

It is crucial that marine insurers take the accumulation of risk seriously and implement effective risk management strategies. Failure to do so could result in catastrophic losses and reputational damage. By working together with other stakeholders in the industry, including regulators and shipping companies, we can ensure that the risks associated with the accumulation of risk are minimized and that the marine insurance industry remains strong and resilient.

7.6 SELF ASSESSMENT QUESTIONS :

1. Explain about institute cargo clauses in marine insurance?
2. Why does accumulation of risk matters?
3. What do you mean by hull clauses?

7.7 SUGGESTED READINGS :

1. Insurance institute of India –IC34-General insurance
2. K.C.Mishra and G.E. Thomas, General insurance-principles and practice , cengage learning: New Delhi

LESSON - 8

MOTOR INSURANCE

LEARNING OBJECTIVE :

- To know the meaning of motor insurance
- To Buy motor insurance policies
- To Know what is not covered under Motor Insurance

STRUCTURE :

8.1 Introduction
8.2 Types of motor insurance
8.3 Types of Motor Insurance Policies in India
8.4 Exclusions from Motor Vehicle Insurance Policy
8.5 factors effecting premium
8.6 Forms of Motor Vehicle Insurance Policies
8.7 Summary
8.8 Self assessment questions
8.9 Suggested readings

8.1 INTRODUCTION :

Motor vehicle insurance is the insurance coverage of risk arising out of the use of motor vehicle such as car, truck or other vehicles causing damage and loss to oneself as well as others property in an accident. Motor insurance is mandatory as per the motor vehicles Act passed in the year 1938 and subsequently amended. Motor insurance provides coverage related to property damage, bodily injury, medical expenses and any other sort of compensation in legal proceedings. It is also referred as Auto Insurance, vehicle insurance and car insurance. Motor insurance, also known as auto insurance or car insurance, is a type of insurance coverage that provides financial protection to vehicle owners in the event of accidents, theft, or damage to their vehicles. It is a mandatory requirement in many countries for individuals owning or operating motor vehicles on public roads. Motor insurance is designed to mitigate the financial risks associated with owning and using vehicles, providing coverage for both property damage and liability.

Key Components of Motor Insurance:

1. Third-Party Liability Coverage:
2. This is the most basic and mandatory component of motor insurance. It covers the insured's legal liability for bodily injury or property damage caused to third parties (other individuals or properties) in the event of an accident.
3. Comprehensive Coverage:
4. Comprehensive coverage goes beyond third-party liability and provides protection for the insured vehicle against a wide range of risks. This includes damages caused by accidents, theft, fire, vandalism, natural disasters, and other perils.
5. Collision Coverage:
6. Collision coverage specifically addresses damage to the insured vehicle resulting from a collision with another vehicle or object, regardless of fault. This is particularly relevant for repairing or replacing the insured vehicle after an accident.

7. Personal Injury Protection (PIP) or Medical Payments Coverage:
8. This component covers medical expenses for injuries sustained by the driver and passengers of the insured vehicle, regardless of fault. PIP may also cover additional costs like lost wages and rehabilitation expenses.
9. Uninsured/Underinsured Motorist Coverage:
10. This coverage protects the insured against damages caused by a driver who is either uninsured or doesn't have sufficient insurance to cover the losses. It ensures that the insured is not financially burdened due to another party's lack of insurance.
11. Additional Coverage Options:
12. Motor insurance policies may offer additional coverage options, such as roadside assistance, coverage for rental vehicles, and coverage for personal belongings within the insured vehicle.

Importance of Motor Insurance:

- ❖ **Legal Compliance:** In many countries, having motor insurance is a legal requirement. Driving without insurance may lead to fines, license suspension, or other legal consequences.
- ❖ **Financial Protection:** Motor insurance provides financial protection to vehicle owners against the high costs associated with repairing or replacing a damaged or stolen vehicle.
- ❖ **Liability Coverage:** Third-party liability coverage safeguards the insured against legal and financial liabilities arising from injuries or damages caused to others in an accident.
- ❖ **Peace of Mind:** Knowing that one is financially protected in case of accidents or unforeseen events provides peace of mind to vehicle owners.
- ❖ **Risk Mitigation:** Motor insurance helps mitigate the financial risks associated with owning and operating a vehicle, especially in high-traffic environments where accidents are more likely to occur.
- ❖ **Asset Protection**: For many individuals, a vehicle is a significant asset. Motor insurance protects this valuable asset against various risks.

8.2 TYPES OF MOTOR INSURANCE IN INDIA :

- ❖ **Private Car Insurance Policy :** This is motor insurance that is required by the Government of India for any private car owned by an individual. Private car insurance protects the vehicle against damage caused by accidents, fire, natural disasters, and theft, among other things, and it also protects the owner against personal injury. It also protects the third party from any damages or injuries.
- ❖ **Two-Wheeler Insurance Policy :** A two-wheeler insurance policy, mandated by the Government of India, covers two-wheelers such as scooters and bikes. The two-wheeler is insured against damage caused by accidents, disasters, fire, theft, and so on, as well as third-party damages and injuries. It also includes mandatory personal accident insurance for the owner rider and can be added for passengers.
- ❖ **Commercial Vehicle Insurance :** Commercial vehicle insurance policy insures all vehicles that are not used for personal reasons. This type of insurance protects all vehicles that are used for commercial purposes. Vehicles covered by this insurance include trucks, buses, heavy commercial vehicles, light commercial vehicles, multi-utility vehicles, agricultural vehicles, taxis/cabs, ambulances, auto-rickshaws, and so on.

8.3 TYPES OF MOTOR INSURANCE POLICIES IN INDIA :

Comprehensive insurance :

- Comprehensive insurance, often referred to as "full coverage," is a type of auto insurance coverage that provides protection for a wide range of risks beyond the basic liability coverage. While it doesn't cover every possible scenario, comprehensive insurance is designed to address damages to the insured vehicle that are not the result of a collision with another vehicle. Here are key features and components of comprehensive insurance:
- Non-Collision Coverage:
- Comprehensive insurance primarily covers damages to the insured vehicle that occur due to non-collision events. This can include natural disasters, theft, vandalism, fire, falling objects, and contact with animals (such as hitting a deer).
- Natural Disasters:
- Damages caused by natural disasters like earthquakes, floods, hurricanes, tornadoes, and hail are typically covered under comprehensive insurance.
- Theft:
- Comprehensive coverage provides protection against the theft of the insured vehicle or its components, such as stereos or airbags.
- Vandalism:
- If the insured vehicle is intentionally damaged by acts of vandalism, such as graffiti or keying, comprehensive insurance will cover the repair costs.
- Fire Damage:
- Damages caused by fires, whether accidental or deliberate, are covered under comprehensive insurance.
- Falling Objects:
- Coverage extends to damages resulting from objects falling onto the insured vehicle, such as tree branches, rocks, or debris.
- Animal Collisions:
- Comprehensive insurance covers damages caused by collisions with animals, such as deer or pets, on the road.
- Glass Damage:
- Many comprehensive policies cover damages to the vehicle's glass, including the windshield. Some policies even provide coverage for repairs without imposing a deductible.
- Customization Options:
- Depending on the insurance provider, comprehensive coverage may offer additional options for customization, allowing policyholders to tailor their coverage to specific needs or preferences.
- Deductibles:
- Policyholders typically choose a deductible amount when purchasing comprehensive insurance. The deductible is the out-of-pocket amount that the insured must pay before the insurance coverage kicks in.
- Combined Coverage:
- Comprehensive coverage is often combined with collision coverage to create what is commonly known as "full coverage." Full coverage provides protection for a broader range of events, including both collision and non-collision incidents.

Coverage under Comprehensive Motor Insurance :

- A comprehensive motor insurance plan, as the name implies, covers every conceivable aspect of the vehicle insured and the policyholder's interests. However, it is preferable to be aware of the various aspects that are covered by these insurance plans. Comprehensive insurance covers a variety of different aspects, including Fire, severe weather, and natural disasters all cause damage, third-party or animal-caused damage, damage to the vehicle caused by civil disturbances such as riots or theft and vandalism.
- Add-ons with Comprehensive Motor Insurance Policy
- The following are some of the add-ons of choosing comprehensive motor insurance in India:

❖ **Zero Depreciation :** This is a common add-on cover that is also referred to as bumper-to-bumper insurance. This add-on cover is available for all vehicle segments. A zero depreciation cover is extremely important in claim settlement calculations or reimbursements. When car insurers pay the claim settlement amount or reimburse your bill payments, they usually deduct the car's depreciation value as of that day. As a result, no insurer will offer to pay the full claim amount. However, if you have this coverage, the Depreciation factor will not be considered when calculating claim settlement. This optional cover is ideal for vehicles that are under 5 years old.

❖ **Engine Protection Cover :** The fitness of an engine is critical because it is an essential component of the vehicle. Unfortunately, comprehensive auto insurance does not cover non-accidental engine damage. This is where the engine protection add-on comes in, providing financial protection for the engine against all damages. This add-on relieves the insured of all engine-related expenses, such as an oil spill, water ingression, electrical or mechanical breakdown, and complete replacement of car engine parts, among other things.

❖ **Roadside Assistance :** If your car breaks down while you're driving, whether on city streets or highways, you'll need immediate assistance. If you live in a remote area where finding a mechanic is difficult, roadside assistance add-on cover can be extremely useful. You simply need to contact the insurer and inform them of the situation. If the engine fails, the insurer will either arrange for towing or garage service through its network of garages. Few insurers include this as part of the basic policy; otherwise, you can purchase it as an add-on.

❖ **Consumable Cover :** This consumable add-on covers consumable elements such as grease, air conditioner gas, lubricants clip, bearings, fuel filter, engine oil, oil filter, brake oil, nut and bolt, screw, washers, and so on that are not covered by the standard policy.

❖ **Return to Invoice Cover :** You can purchase return to invoice coverage after the first policy year has ended. If the car is completely damaged in an accident or is irreparable as a result of a mishap, the insurer will pay the full value of the vehicle without taking into account the declining balance percentage.

❖ **Tyre Protect Cover :** Tyre Protect add-on covers damages such as in-tyre bulges, punctures or bursting of tyres, cuts on a tyre caused by an accident, and so on.

2. Third-Party insurance :

- Third-party car insurance is required by law for all vehicle owners in India. Essentially, these insurance policies protect the policyholder's interests from damages caused by the policyholder to a property or an individual.

- In a variety of situations, third-party coverage can be said to help reduce the policyholder's risk and liability. This coverage is also recommended for low-cost and old vehicles that are less expensive to repair.
- Coverage under Third-Party Motor Insurance

- **Financial and legal assistance :** If you have third-party insurance on your car, you will not have to worry about any legal issues that may arise as a result of an accident. Remember that a third-party insurance policy protects you in the event of an accident. If you have a valid third-party car insurance policy, you will not be subjected to any of these court tribunals. Aside from that, this policy covers you for expenses related to the recovery of a third party's loss.
- **Affordability :** If you believe that third-party insurance policies are expensive, you are mistaken. Look, the insurance premiums are specifically designed to meet the needs of all vehicle owners. The premium you must pay is determined by the model and engine capacity of your vehicle. A third-party insurance policy has lower premiums than a comprehensive car insurance policy.
- **Online Procurement Procedures :** You do not need to visit the official premises of any insurer to purchase a third-party insurance plan for your car, as insurance plans can be obtained online. Insurance companies have dedicated web-based insurance portals to ensure that vehicle owners have appropriate plans. You can simply log in, browse insurance plans, and select the best one for your needs.

How Third-Party Insurance Cover Works

The first step in understanding how third-party insurance works is to make a list of the terms that are used. Some of the terms commonly associated with third-party coverage are:

- **First-party:**
  The policyholder or the person who purchased the insurance policy
- **Second-party:**
  Insurer or insurance company
- **Third-party:**
  The person or entity who files a claim for damages caused by the first party.

If the policyholder is involved in an accident with a third party, the policyholder is responsible for any damages or injuries sustained. When an accident occurs, the policyholder must notify the insurance company as soon as possible and explain the situation.

8.4 EXCLUSIONS FROM MOTOR VEHICLE INSURANCE POLICY :

Motor vehicle insurance policies typically include certain exclusions—specific scenarios or situations for which coverage is not provided. Exclusions are essential to clearly define the scope of coverage and to manage risks for both the insurer and the insured. While specific exclusions can vary between insurance policies and providers, some common exclusions from motor vehicle insurance policies include:

- **Intentional Acts:** Damage or losses resulting from intentional acts by the policyholder, such as deliberate collisions or damage to the vehicle, are typically excluded.
- **Racing and Reckless Driving:** Accidents that occur during participation in races, speed contests, or any form of reckless driving may be excluded from coverage.
- **Illegal Activities:** Incidents that involve the vehicle in the commission of a crime or any illegal activities, such as smuggling or transporting illegal substances, may be excluded.

- **Unapproved Drivers:** If the vehicle is driven by someone not listed or excluded from the policy, any resulting damages or losses may not be covered.
- **Driving Under the Influence:** Accidents that occur while the driver is under the influence of alcohol or drugs may be excluded from coverage.
- **Wear and Tear:** Normal wear and tear, mechanical breakdowns, and gradual deterioration of the vehicle over time are typically excluded.
- **Loss of Value:** Policies generally do not cover the depreciation or loss of market value of the vehicle following an accident.
- **Unattended Vehicle:** Damage or theft that occurs when the vehicle is left unattended without proper precautions, such as leaving the keys in the ignition or doors unlocked, may be excluded.
- **Non-Roadworthy Vehicles:** Vehicles that are not in roadworthy condition or do not meet legal safety standards may be excluded from coverage.
- **Use for Hire or Reward:** If the insured vehicle is used for commercial purposes without the appropriate coverage, any resulting claims may be excluded.
- **War and Civil Commotion:** Damages caused by war, civil commotion, or acts of terrorism may be excluded from coverage.
- **Nuclear Accidents:** Losses or damages resulting from nuclear reactions, radiation, or radioactive contamination are typically excluded.
- **Acts of Nature:** Certain natural disasters, such as earthquakes, floods, or other acts of nature, may be excluded or may require additional coverage.

It's crucial for policyholders to thoroughly review their motor vehicle insurance policies, paying close attention to the exclusions section. Understanding these exclusions helps individuals make informed decisions about their coverage, and they can choose to purchase additional coverage if needed. Additionally, policyholders should communicate with their insurance providers to clarify any uncertainties and ensure that their coverage aligns with their specific needs and expectations.

8.5 FACTORS EFFECTING PREMIUM :

Several factors influence the premium, or the cost, of an insurance policy. These factors can vary depending on the type of insurance, but for motor vehicle insurance, common factors include:

- **Driver's Age:** Young and inexperienced drivers, as well as older drivers, may face higher premiums due to an increased likelihood of accidents.
- **Driving Experience:** The number of years a driver has been licensed and their overall driving experience can affect premiums. More experienced drivers may be eligible for lower rates.
- **Driving Record (History):** A clean driving record with no accidents or traffic violations usually leads to lower premiums. On the other hand, a history of accidents, tickets, or claims may result in higher premiums.
- **Type of Coverage:** The type and extent of coverage selected by the policyholder, such as comprehensive, collision, or liability-only coverage, can impact the premium amount.
- **Vehicle Type and Model:** The make, model, year, and value of the insured vehicle contribute to the premium. More expensive or higher-performance vehicles may have higher premiums.

- **Vehicle Usage:** The purpose for which the vehicle is used (e.g., commuting, business use, pleasure) and the annual mileage can influence the premium. Higher mileage or business use may result in higher premiums.
- **Location:** The geographic location where the vehicle is primarily parked or driven affects the premium. Areas with higher rates of accidents or theft may have higher premiums.
- **Deductibles:** The amount of money the policyholder is willing to pay out of pocket (deductible) before the insurance coverage kicks in can impact the premium. Higher deductibles often result in lower premiums.
- **Credit History:** In some regions or for certain types of insurance, a policyholder's credit history may be used to determine the premium. A good credit history may lead to lower premiums.
- **Coverage History:** Continuous coverage without lapses demonstrates responsibility and can contribute to lower premiums. On the other hand, a history of gaps in coverage may result in higher rates.
- **Gender:** In some regions, gender may be a factor affecting premiums. For example, young male drivers may face higher premiums compared to young female drivers.
- **Marital Status:** Married individuals may be eligible for lower premiums compared to single individuals. This is based on statistical data that suggests married individuals tend to have fewer accidents.
- **Discounts:** Eligibility for discounts, such as safe driver discounts, multi-vehicle discounts, or bundling discounts (combining multiple policies with the same insurer), can impact the overall premium.
- **Anti-Theft Devices and Safety Features:** Vehicles equipped with anti-theft devices or safety features may be eligible for discounts, leading to lower premiums.
- **Government Regulations and Market Conditions:** Regulatory changes, economic conditions, and trends in the insurance market can also influence premium rates.

It's important to note that different insurance companies may weigh these factors differently, leading to variations in premium quotes. Additionally, insurance rates can change over time based on market trends, company policies, and regulatory adjustments. Policyholders can often adjust some of these factors to find a premium that suits their needs and budget. Shopping around and comparing quotes from different insurers is a common practice to find the most competitive premium.

8.6 FORMS OF MOTOR VEHICLE INSURANCE POLICIES :

For all types of vehicles there are two types of policy forms:

i) FORM ‘A’ : to cover Act Liability
ii. FORM ‘B : to cover Own Damage Losses and Act Liability. The policy can also be extended to cover additional liabilities as provided in the Tariff.

The contents of Form B are as follows:

Policy Form B This policy provides the so-called ‘comprehensive’ cover and the structure of the policy form is the same for all vehicles, (with some differences which are pointed out, wherever applicable)

Section I: Loss or Damage (or “Own Damage”).
The risks covered are:

- Fire, explosion, self-ignition or lightning.
- Burglary, house breaking or theft. ¾ Riot and strike.
- Earthquake (fire and shock damage)
- Flood, typhoon, hurricane, storm, tempest, inundation, cyclone, hailstorm, frost.
- Accidental external means.
- Malicious act.
- Terrorist activity.
- Transit by road, rail, inland waterway, lift, elevator or air.
- Landslide /rockslide.

EXCLUSIONS :

- consequential loss
- depreciation
- wear and tear; and mechanical or electrical breakdowns, failures or breakages
- Damage to tyres unless the vehicle is damaged at the same time. (Then, 50% of cost of replacement payable).
- For commercial vehicles, see Compulsory Excess Clause dealt with later
- Loss when the vehicle is driven under the influence of intoxicating liquor or drugs

(Note: In the motor cycle and commercial vehicle policy there are additional exclusions:
Loss of or damage to accessories by burglary, housebreaking or theft unless the vehicle is stolen at the same time.

In commercial vehicle policy, there is a further exclusion: Damage caused by overloading or strain of the vehicle.

TOWING CHARGES :

If the motor car is disabled as a result of damage covered by the policy, the insurers bear a reasonable cost of protecting the car and removing it to the nearest repairers, as also the reasonable cost of re-delivery to the insured. The amount so borne by the insurers is limited to maximum of Rs.2,500/- in respect of any one accident.
(Note: For motor cycles the limit is Rs.300/-, for cars Rs.1500/- and for commercial vehicles Rs.2500/-).

REPAIRS :

- Ordinarily repairs arising out of damage covered by the policy can be carried out only after they are authorized by the insurers. However, the insured is allowed to carry out the repairs without authorization from the insurers, provided that:
- The estimated cost of such repair does not exceed Rs- 500/- (Rs.150/- for motor cycles).
- The insurers are furnished forthwith with a detailed estimate of the cost; and
- The insured gives the insurers every assistance to ensure that such repair is necessary and that the charge is reasonable.

COMPULSORY EXCESS :

This applies to all vehicles. The insured has to bear a part of the claim amount in respect of each accident. Further loss / damage to lamps, tyres, mudguards and / or bonnet side parts, bumpers and / or paintwork is not payable except in the case of a total loss of vehicle.

SECTION II LIABILITY TO THIRD PARTIES :

- The insurers indemnify the insured against all sums which he may become legally liable to any person including occupants carried in the motor car (provided that they are not carried for hire or reward) by reason of death or bodily injuries caused to such third parties or by reason of damage to the property of third parties caused by or arising out of the use of the motor car. The insured’s liability for damage to property of third parties is limited to Rs.6000/-; whilst liability for death of or bodily injury to third party is unlimited.
- The legal costs and expenses incurred by such third parties are reimbursed in addition. The legal costs and expenses incurred by the insured are also reimbursed provided that they were incurred with the insurer’s written consent.
- The insurers are liable for the death of or bodily injury arising out of and in the course of employment, but only to the extent necessary to meet the requirements of the Motor Vehicles Act. The damage to property is not paid for, if the damaged property belonged to the insured or was held in trust by him or was in the custody or control of the insured
- (Note: This section is, more or less, the same for all vehicles, subject to some variations for motor cycles and commercial vehicles)
- "Section II - Liability to Third Parties" in motor vehicle insurance refers to a specific section of an insurance policy that outlines the coverage provided for the insured's legal liability arising from bodily injury or property damage caused to third parties. This section is a fundamental component of motor insurance, and it is often a mandatory requirement in many jurisdictions. Here are key elements associated with "Section II - Liability to Third Parties":

Third-Party Liability Coverage:

Section II provides coverage for the insured's legal liability when they are at fault in an accident, causing bodily injury or property damage to third parties. This coverage is mandatory in many countries to protect the interests of other road users.

- **Bodily Injury Liability:** This part of Section II covers the medical expenses, rehabilitation costs, and potential legal expenses if the insured is found liable for causing bodily injury or death to other individuals involved in an accident.
- **Property Damage Liability:** Property damage liability coverage addresses the costs of repairing or replacing property belonging to third parties, such as other vehicles, buildings, or infrastructure, that is damaged in an accident for which the insured is at fault.
- **Coverage Limits:** Section II specifies the maximum amount of coverage the insurance policy provides for liability to third parties. These limits may be expressed in terms of a per-person limit for bodily injury, a per-accident limit for bodily injury, and a separate limit for property damage.
- **Limits of Indemnity:** The limits of indemnity represent the maximum amount the insurance company will pay for covered liability claims arising from a single accident.

Policyholders can select these limits based on their preferences and financial considerations.

- **Legal Defense Costs:** In addition to the coverage limits, Section II may include provisions for legal defense costs. This means the insurance company may cover the expenses associated with defending the insured in legal proceedings arising from a covered liability claim.

Exclusions and Limitations:

While Section II provides coverage for third-party liability, there may be certain exclusions and limitations outlined in the policy. For example, intentional acts or certain high-risk activities may be excluded from coverage.

- **Additional Insureds:** Some policies may allow for the inclusion of additional insureds, such as family members or other individuals who have permission to drive the insured vehicle. The coverage extends to these additional insureds under Section II.
- **Duty to Defend:** The insurance company typically has a duty to defend the insured against covered liability claims. This means the insurer is responsible for legal representation and related defense costs.
- **Reporting Requirements:** Policyholders are generally required to promptly report any accidents or incidents that may lead to a liability claim under Section II. Failure to report promptly may affect coverage.

Section II - Liability to Third Parties is a critical aspect of motor vehicle insurance as it protects the insured from potential financial losses associated with legal liabilities arising from accidents. It promotes road safety and accountability by ensuring that individuals have the means to compensate others for injuries or damages they may cause while driving.

SECTION III

This appears in commercial vehicle policies only. This section provides cover while the vehicle is towing one disabled mechanically - propelled vehicle. It provides that whilst the insured vehicle is being used for the purpose of towing any one disabled mechanically - propelled vehicle

a) The cover provided by the policy remains operative, and
b) Under Section II of the policy, indemnity will also be provided for the liability in connection with such towed vehicle. This however is subject to the following two provisos:

The towed vehicle should not be towed for hire or reward and

No cover is available under the policy for the damage to the towed vehicle or the property conveyed thereby.

GENERAL EXCLUSIONS (APPLICABLE TO ALL SECTIONS) :

These provide that the insurer shall not be liable in respect of:

Any accident outside the geographical area specified in the policy, that is, India. The limit can be extended to cover Bangladesh, Bhutan, Nepal, Pakistan, Sri Lanka & Maldives on payment of extra premium.

Contractual liability.

Any accident when the vehicle is used not in accordance with the Limitations (Use Clause)
Any accident when the vehicle is driven without an effective driving licence (Driver's Clause).
War, etc. and nuclear risks.

Conditions :

Apart from the usual conditions such as notice of loss, cancellation of policy, arbitration, etc. there are two conditions which are specific to motor policies.

The insured is required to safeguard the vehicle from loss or damage and maintain it in efficient condition. In the event of an accident, the insured shall take precautions to prevent further damage. If the vehicle is driven before repairs any further damage is at insured's risk. The insurer has the option to repair or replace the vehicle or parts or pay in cash the amount of damage or loss. The insurer's liability cannot exceed the insured's estimated value of the vehicle (specified in the policy) or the value of the vehicle at the time of loss whichever is less

8.7 SUMMARY :

Motor vehicle insurance is a mandatory requirement under the Motor Vehicles Act, providing coverage for property damage, bodily injury, medical expenses, and legal compensation arising from accidents. Key components include third-party liability coverage and comprehensive coverage. In India, motor insurance includes private car insurance, two-wheeler insurance, and commercial vehicle insurance. Types of motor insurance policies in India include Comprehensive Insurance and Third-Party Insurance. Comprehensive insurance covers a wide range of risks beyond basic liability, while third-party insurance is mandatory and protects against damages caused to third-party property or individuals. Exclusions from motor vehicle insurance policies commonly include intentional acts, racing, illegal activities, unapproved drivers, driving under the influence, wear and tear, loss of value, and non-roadworthy vehicles. Factors affecting premium rates include the driver's age, driving experience, record, type of coverage, vehicle type, usage, location, deductibles, credit history, coverage history, gender, marital status, discounts, and safety features. Forms of motor vehicle insurance policies include Form 'A' covering Act Liability and Form 'B' covering Own Damage Losses and Act Liability, with the option to extend coverage for additional liabilities. Section II, Liability to Third Parties, insures against legal liabilities arising from bodily injury or property damage to third parties, promoting accountability and road safety.

Section III (applicable to commercial vehicle policies only) covers the insured vehicle while towing a disabled mechanically-propelled vehicle. General exclusions applicable to all sections exclude accidents outside the specified geographical area, contractual liability, improper vehicle use, driving without a valid license, war, and nuclear risks. Conditions in motor insurance policies require the insured to safeguard the vehicle and take precautions in case of an accident. The insurer has the option to repair, replace, or pay in cash.

8.8 SELF ASSESSMENT QUESTIONS :

1. What are the key components of motor insurance as mentioned in the introduction?
2. Name the types of motor insurance policies available in India.
3. What does comprehensive insurance cover, and why is it often referred to as "full coverage"?

4. Provide examples of exclusions from motor vehicle insurance policies.
5. List at least five factors that can influence the premium rates in motor insurance.
6. Explain the significance of "Section II - Liability to Third Parties" in motor vehicle insurance.
7. Under what conditions does Section III apply in motor vehicle insurance, and what are its limitations?
8. What are the general exclusions applicable to all sections of motor insurance policies?
9. Mention two specific conditions that are unique to motor insurance policies.

8.9 SUGGESTED READINGS :

1. https://taxguru.in/finance/motor-insurance-policy-covered.html
2. https://www.godigit.com/motor-insurance/types-of-motor-insurance

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LESSON - 9

PERSONAL ACCIDENT INSURANCE

LEARNING OBJECTIVES :

- Know the meaning of Personal Accident insurance
- Buy the Personal Accident insurance
- Settle the claim under Personal Accident insurance
- Types of Personal Accident polices
- Know what is not covered under fire insurance

STRUCTURE :

9.1 Introduction
9.2 Different forms of non – life insurances
9.2.1 Property Insurance
9.2.2 Auto Insurance
9.2.3 Health Insurance
9.2.4 Travel Insurance
9.2.5 Liability Insurance
9.2.6 Business Interruption Insurance
9.2.7 Marine Insurance
9.2.8 Crop Insurance
9.2.9 Flood Insurance
9.2.10 Cyber Insurance
9.3 Personal Accident Insurance
9.4 Coverage and Benefits
9.4.1 Bodily injury
9.4.2 Solely & Directly
9.4.3 External, violent and visible means
9.4.4 Accidental Death Benefit
9.4.5 Permanent Total Disability
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9.4.8 Medical Expenses
9.4.9 Transportation Cost
9.5 Key Features of the policy
9.5.1 Offer & Acceptance
9.5.2 Payment of premium
9.5.3 Contract of Indemnity
9.5.4 Utmost good faith
9.5.5 Insurable Interest
9.5.6 Contribution
9.5.7 Period of Insurance
9.5.8 Time of coverage

9.5.9 Claim
9.6 Who Should Consider Personal Accident Insurance
9.7 Exemptions/ Exclusions to the policy
9.8 Guidelines on Standard Personal Accident Insurance Product by IRDA
9.8.1 Base covers
9.8.2 Temporary Total Disablement
9.8.3 Hospitalisation Expenses due to Accident
9.8.4 Education Grant
9.9 Other Norms applicable for Standard Personal Accident (PA) Product
9.10 Procedure for insuring under personal accident insurance policy
9.10.1 Submission of proposal form
9.10.2 Assessment of the proposal form and premium rate to be quoted
9.10.3 Rating
9.10.4 Payment of the premium
9.10.5 Issue of Policy Document
9.11 Claim procedure of the policy
9.11.1 Intimation
9.11.2 Claim form
9.11.3 Documents
9.12 Summery
9.13 Key wards
9.14 Self-Assessment questions
9.15 Further readings

9.1 INTRODUCTION :

Non-life insurance, also known as property and casualty insurance, is a critical component of the insurance industry. It provides protection against financial losses and liabilities arising from unexpected events that do not involve the insured person's life. This type of insurance encompasses a wide range of policies, including auto insurance, home insurance, health insurance, liability insurance, and more. Non-life insurance plays a pivotal role in safeguarding individuals, businesses, and organizations from the financial repercussions of accidents, natural disasters, property damage, and other unforeseen circumstances. It provides peace of mind by offering compensation or coverage for various risks, allowing policyholders to mitigate financial losses and maintain financial stability in challenging times. Non-life insurance is a vital tool for managing and transferring risk in both personal and commercial contexts, making it an integral part of modern financial planning and risk management strategies. Here are the main forms of non-life insurance:

9.2 DIFFERENT FORMS OF NON – LIFE INSURANCES :

9.2.1 Property Insurance :

a. **Homeowners Insurance:** Protects the structure of your home and its contents against various perils, such as fire, theft, vandalism, and natural disasters.
b. **Renter's Insurance:** Covers a tenant's personal property within a rented dwelling, along with liability protection.

c. **Commercial Property Insurance:** Covers businesses against damage or loss to their property, including buildings, equipment, and inventory.

9.2.2 Auto Insurance :

a. **Auto Liability Insurance:** Provides coverage for bodily injury and property damage to others caused by you in an accident.
b. **Comprehensive Insurance:** Covers non-collision related incidents like theft, vandalism, natural disasters, and more.
c. **Collision Insurance:** Covers damage to your own vehicle in a collision with another vehicle or object.

9.2.3 Health Insurance :

a. **Individual Health Insurance:** Provides coverage for medical expenses for an individual or family.
b. **Group Health Insurance:** Typically offered through employers, providing health coverage for a group of employees and sometimes their dependents.

9.2.4 Travel Insurance :

a. **Trip Cancellation and Interruption Insurance:** Covers trip cancellations, delays, or interruptions due to unforeseen events like illness, weather, or other emergencies.
b. **Travel Medical Insurance:** Provides medical coverage while traveling, including emergency medical expenses and evacuation.

9.2.5 Liability Insurance :

a. **General Liability Insurance:** Protects businesses from third-party claims of bodily injury, property damage, or other liabilities.
b. **Professional LiabilityInsurance (Errors and Omissions Insurance):** Protects professionals (e.g., doctors, lawyers) from liability claims arising from errors or negligence in their services.
c. **Product LiabilityInsurance:** Protects businesses against claims for injuries or damages caused by their products.

9.2.6 Business Interruption Insurance:

Provides coverage for lost income and ongoing expenses if a business has to temporarily shut down due to covered perils, like fire or natural disasters.

9.2.7 Marine Insurance:

a. **Cargo Insurance:** Covers goods transported by sea, air, or land against loss or damage during transit.
b. **Hull Insurance:** Covers damage or loss to the vessel or aircraft.

9.2.8 Crop Insurance:

Provides coverage to farmers for losses due to natural disasters, crop failure, or other perils that could impact their crops.

9.2.9 Flood Insurance:

Provides coverage for damage caused by flooding, a peril often excluded from standard homeowners' policies.

9.2.10 Cyber Insurance:

Covers businesses against financial losses resulting from cyber-related risks, such as data breaches, cyber-attacks, and loss of sensitive information.

Understanding these different forms of non-life insurance is crucial for individuals and businesses to ensure adequate protection and coverage against various risks and potential financial losses.

9.3 PERSONAL ACCIDENT INSURANCE :

Personal Accident Insurance in India is a type of insurance policy designed to provide financial protection to individuals and their families in the event of accidents resulting in injury, disability, or death. This insurance is especially important in a country like India, where road accidents and workplace injuries are unfortunately common. Here's a brief note on Personal Accident Insurance in India:

9.4 COVERAGE AND BENEFITS :

9.4.1 Bodily injury :

Any disease due to accident is known as bodily injury but does not include any disease due to natural cause. Mental shock or grief does not amount to accident unless and until some physical injury is caused. In current scenario it is noticed that due to grief some disablement i.e., paralysis is taking place and the same is covered under this policy.

9.4.2 Solely & Directly :

The bodily injury shall have been caused solely and directly by an accident and the bodily injury must directly and independent of any other cause result in death or disablement. For e.g.:

1) A person is thrown from his horse while hunting and so injured that he cannot walk and he lies on the wet ground until he is pick up. He thus catches chill which turns pneumonia and dies. Though he dies because of pneumonia but the actual cause is an accident and it covered under personal accident insurance policy.
2) If a person breaks a leg in an accident and taken to hospital where he contracts an infectious disease from another patient which result in to death and the same is not covered under the personal accident insurance policy.

9.4.3 External, violent and visible means :

The cause of accident i.e. the means must be within the definitions as a whole but the result may not be external. In other words, the means or cause of accident must be within the definitions but the result or effect need not be external or visible so long as it is bodily injury e.g. injury may be internal i.e. inside the body but the result must be death or disablement

9.4.4 Accidental Death Benefit :

In the unfortunate event of the insured's death due to an accident, the policy pays a lump sum amount to the nominee or beneficiary.

9.4.5 Permanent Total Disability :

If the insured suffers a permanent total disability, such as the loss of limbs or eyesight, the policy provides a lump sum payout.

9.4.6 Permanent Partial Disability:

In cases of permanent partial disability, where the insured loses a part of their body, the policy offers a partial payout.

9.4.7 Temporary Total Disability:

If the insured is temporarily disabled and unable to work due to an accident, the policy provides a weekly or monthly benefit to cover lost income.

9.4.8 Medical Expenses :

Personal Accident Insurance often covers medical expenses incurred due to injuries sustained in an accident. This can include hospitalization, surgery, and rehabilitation costs.

9.4.9 Transportation Cost :

Some policies also cover the cost of transporting the insured from the accident site to the hospital or vice versa.

9.5 KEY FEATURES OF THE POLICY :

9.5.1 Offer & Acceptance :

It is a prerequisite of any contract. Similarly, the person will be insured under personal accident insurance policy after the offer is accepted by the insurance company.

Example: A proposal submitted to the insurance company along with premium on 1/1/ 11023 but the insurance company accepted the proposal on 15/1/11023. The risk is covered from 15/1/11023 and any loss prior to this date will not be covered under fire insurance.

9.5.2 Payment of premium :

An owner must ensure that the premium is paid well in advance so that the risk can be covered. If the payment is made through cheque and it is dishonoured then the coverage of risk will not exist. It is as per section 64VB of Insurance Act 1838. (Details under insurance legislation Module).

9.5.3 Contract of Indemnity:

This principle is not applicable to personal accident policy. This is so because life is invaluable and no amount of money can compensate the death or disablement of a human being. When polices are issued to employer to reimburse under service conditions the amounts of compensation paid by them to their employees or their dependents on the disablement or the death of their employees

i:e the insured are indemnified with the exact amount of compensation paid by them.

9.5.4 Utmost good faith :

The person must disclose all the relevant information to the insurance than company while insuring himself because none other him knows about his health and other relevant particulars. Any change in profession or occupation during the policy should also be informed to the insurance company.

e.g. A person is working in the office in administrative job and took the personal accident policy but later on he becomes pilot then he should inform of the insurance company otherwise the insurance company can refuse the claim in case it arises.

9.5.5 Insurable Interest :

A person is having an unlimited interest in his own life and as such this feature is valid in this policy. Similarly, the wife has unlimited interest in the life of husband and vice versa. The employer has the insurable interest in the life his employees.

9.5.6 Contribution :

As the principle of indemnity is not applicable to this policy therefore the principle of contribution will also not apply. The person will get sum insured of all personal insurance policies irrespective of number of polices.

9.5.7 Period of Insurance :

The period of insurance is to be defined in the policy which varies form one year to five years. Sometimes this policy is issued for specific rail/ road/sea journey.

9.5.8 Time of coverage :

The cover under this policy is for 24 hours and on a worldwide basis. Even if the insured person dies in foreign country due to accident the compensation will be paid in India in Indian rupees up to the sum insured.

9.5.9 Claims :

To get the compensation under personal accident insurance the legal heirs should inform to the insurance company about the death of the insured and in case of disability the person himself can inform the insurance company.

9.6 WHO SHOULD CONSIDER PERSONAL ACCIDENT INSURANCE:

- **Breadwinners:** Individuals who are the primary earners for their families should consider personal accident insurance to ensure financial stability in case of disability or death.
- **High-Risk Occupations:** People in high-risk professions, such as construction workers, drivers, and factory workers, can benefit greatly from this insurance.
- **Students and Professionals:** Even students and professionals who are not exposed to occupational risks may consider personal accident insurance for additional protection.
- **Frequent Travelers :** Individuals who travel frequently, whether for work or leisure, can benefit from the worldwide coverage provided by some policies.

In India, personal accident insurance policies are offered by various insurance companies and can be purchased either as standalone policies or as riders attached to life insurance or health insurance plans. It's important to carefully compare policies, understand the terms and conditions, and choose coverage that suits your specific needs and circumstances. Having personal accident insurance can provide peace of mind, knowing that you and your loved ones are financially protected in case of unforeseen accidents.

9.7 EXEMPTIONS/ EXCLUSIONS TO THE POLICY :

No compensation is payable in respect of death, injury or disablement of the insured:

(i) From intentional self-injury, suicide or attempted suicide.
(ii) Whilst under the influence of intoxicating liquor or drug
(iii) Whilst engaging in Aviation or Ballooning whilst mounting into, dismounting from or traveling in any balloon or aircraft other than as passenger (fare paying or otherwise) in any duly licensed standard type of aircraft anywhere in the world
(iv) Directly or indirectly caused by venereal diseases or insanity
(v) Arising or resulting from the insured committing any breach of law with criminal intent.
(vi) From service in the armed forces
(vii)Resulting directly or indirectly from child birth or pregnancy.

9.8 GUIDELINES ON STANDARD PERSONAL ACCIDENT INSURANCE PRODUCT BY IRDA :

The Standard Personal Accident Product shall offer the following covers as per the Insurance Regulatory and Development Authority of India (IRDA):

9.8.1 Base covers :

a. **Death:** Benefit equal to 100% of Sum Insured shall be payable on death of the insured person, due to an Injury sustained in an Accident during the Policy Period, provided that the Insured Person’s death occurs within 12 months from the date of the Accident.

b. **Permanent Total Disablement:** Benefit equal to 100% of Sum Insured shall be payable if an insured Person suffers Permanent Total Disablement of the nature specified below, solely and directly due to an Accident during the Policy Period, provided that the Permanent Total Disablement occurs within 12 months from the date of the Accident:

i. Total and irrecoverable loss of sight of both eyes or
ii. Physical separation or loss of use of both hands or feet or
iii. Physical separation or loss of use of one hand and one foot or
iv. loss of sight of one eye and Physical separation or loss of use of hand or foot
v. If such Injury shall as a direct consequence thereof, permanently, and totally, disables the Insured Person from engaging in any employment or occupation of any description whatsoever.

c. **Permanent Partial Disablement:**
Sum Insured specified below shall be payable if the Insured Person suffers Permanent Partial Disablement of the nature specified below solely and directly due to an Accident during the Policy Period provided that the Permanent Partial Disablement shall occur within 12 months of the date of the Accident.

S.No	Loss covered	% of sum insured
1	**Loss of Use/ Physical Separation:** One entire hand One entire foot Loss of Sight of one eye Loss of toes – all Great both phalanges Great – one phalanx Other than great if more than one toe lost	 50% 50% 50% 110% 5% 2% 1%
2	Loss of Use of both ears	50%
3	Loss of Use of one ear	110%
4	Loss of four fingers and thumb of one hand	40%
5	Loss of four fingers	35%
6	Loss of thumb - both phalanges - one phalanx	 25% 10%
7	Loss of Index finger - three phalanges	 10%

	- two phalanges - one phalanx	8% 4%
8	Loss of middle finger – three phalanges - two phalanges - one phalanx	 6% 4% 2%
10	Loss of ring finger – three phalanges - two phalanges - one phalanx	 5% 4% 2%
10	Loss of little finger – three phalanges - two phalanges - one phalanx	 4% 3% 2%
11	Loss of metacarpus - first or second (additional) - third, fourth or fifth (additional)	 3% 2%
12	Any other permanent partial disablement	Percentage as assessed by the independent Medical Practitioner

Note :

1. Maximum amount payable in respect of multiple nature of disablements shall be restricted to sum insured chosen by the policyholder.
2. The base sum insured chosen and cumulative bonus, if any is applicable cumulatively for all the three covers specified under 10(a),10(b) and 10(c) above i.e, there is a single sum insured for all the three covers namely, Accidental death, Permanent total disability and Permanent Partial Disability.
3. If the accident occurs during the policy period, benefits covered under 10(a),10(b) and 10(c) above are payable, even if death or Permanent Total Disablement or Permanent Partial Disablement or any combination thereof occurs after the completion of policy period, but within 12 months from the date of accident.

9.8.2 Temporary Total Disablement :

If the Insured Person sustains an Injury in an Accident during the Policy Period and which completely incapacitates the Insured Person from engaging in any employment or occupation of any description whatsoever which the Insured Person was capableof performing at the time of the Accident (Temporary Total Disablement), compensation shall be payable, at the rate of 0.2% of the base sum insured per week, till the time the insured person is able to return to work, provided that:

i. Such period of temporary total disablement exceeds 4 weeks, however, benefit shall be payable for the entire duration of disablement.
ii. The compensation payable under this benefit mentioned under Section 11(a), shall not be payable for more than 100 weeks in respect of any one Injury calculated from the date of commencement of disablement and in no case shall exceed the Sum Insured.
iii. The Temporary Total Disablement is certified in writing by the treating Medical Practitioner to have commenced within 30 days from the date of the Accident.
iv. The compensation payable, shall be paid by the insurer at quarterly intervals, after ascertaining the amount payable. If the period of temporary total disablement is for

less than a quarter or three months, the compensation may be paid at the end of the disablement period.

v. During the course of payment under this benefit, the insurance company shall have right to call for a certification from an independent medical practitioner with regard to the continuity of temporary total disability specified under this section.

9.8.3 Hospitalisation Expenses due to Accident :

Hospitalisation expenses arising due to accident shall be indemnified up to the limit of 10% of base sum insured. The hospitalisation expenses shall cover the following:

i. Room, Boarding, Nursing Expenses as provided by the Hospital / Nursing Home.
ii. Surgeon, Anaesthetist, Medical Practitioner, Consultants, Specialist Fees whether paid directly to the treating doctor / surgeon or to the hospital.
iii. Anaesthesia, blood, oxygen, operation theatre charges, surgical appliances, medicines and drugs, costs towards diagnostics, diagnostic imaging modalities, and such other similar expenses.
(Expenses on Hospitalisation for a minimum period of 24 hours are admissible. However, this time limit of 24 hours shall not apply when the treatment does not require hospitalisation as specified in the terms and conditions of policy contract, where the treatment is taken in the Hospital and the Insured is discharged on the same day.)
iv. Intensive Care Unit (ICU) / Intensive Cardiac Care Unit (ICCU) expenses
v. The Cost of prosthetic and other devices or equipment if implanted internally during a Surgical Procedure carried out to treat the accidental injury covered under the policy
vi. Expenses incurred on hospitalization due to accident, under AYUSH (as defined in IRDAI (Health Insurance) Regulations, 11016) systems of medicine shall be covered without any sub-limits.

Note: The following expenses necessitated due to injury shall also be covered under the optional cover specified under Section 11(b):

a. Dental treatment.
b. Plastic surgery.
c. All the day care treatments.
d. Expenses incurred on road Ambulance subject to a maximum of Rs.11000/- per hospitalization.

9.8.4 Education Grant:

Following an admissible claim of the insured person under the policy towards Death or Permanent Total Disability of the insured person, a one-time Educational Grant of 10% of the Base Sum insured, per child, shall be payable, to all dependent children of the Insured provided that:

a. Such Dependent Child/ Children(s) is/are pursuing an educational course as a full-time student in an educational institution.
b. Age of the child or children as the case shall not be more than 25 completed years.
c. The benefits payable under each of the covers 11(a),11(b) and 11(c) are independent and over and above the base sum insured.
d. Claim admissibility under the optional covers “Temporary total disablement” and “hospitalization due to accident” is independent of claim admissibility under the base covers.

Note: No deductions are permitted in this product.

9.9 OTHER NORMS APPLICABLE FOR STANDARD PERSONAL ACCIDENT (PA) PRODUCT:

S.No	Particulars	Norms Applicable
	Plan Variants	No plan variants are allowed.
	Distributions Channels	Standard PA product may be distributed across all distribution channels including Point of sale persons and Common Public Service Centres, but must necessarily be offered through online channel by all insurers. Distribution of standard PA product shall be governed by the regulations of concerned distribution channels.
3	Individual Basis	Standard PA product shall be offered on Individual basis. When offered as a family cover, the chosen sum insured shall apply to each family member separately.
4	Definition of family	Family consists of the proposer and any one or more of the family members as mentioned below: (i) legally wedded spouse. (ii) Parents and Parents-in-law. (iii) dependent Children (i.e. natural or legally adopted) between the age 3 months to 25 years. If the child above 17 years of age is financially independent, he or she shall be ineligible for coverage in the subsequent renewals.
5	Category of Cover	The base covers of Standard PA product and the optional covers "temporary total disablement benefit" and "Education grant" shall be offered on benefit basis. The optional cover "Hospitalisation Expenses due to Accident" shall be offered on indemnity basis.
6	Grace Period for premium payment	Standard product shall comply with Regulation 2(i)(e) of HIR 11016 at the time of renewal of the policy. For Yearly payment of mode, a fixed period of 30 days is to be allowed as Grace Period and for all other modes of payment a fixed period of 15 days be allowed as grace period.
7	Minimum and Maximum Sum Insured	Minimum sum insured shall be Rs.2.5 lakhs and maximum sum insured shall be Rs.1 Crore. Sum insured offered shall be in multiples of Rs 50,000/-. Beyond the range specified above, insurers can offer on their own and can use the same name for the product if all terms and conditions remain the

		same.
8	Policy tenure	The individual standard PA product shall be offered with the policy tenure of one year.
10	Modes of premium payment	All the modes (Yly, Hly, Qly, Mly) shall be allowed for the standard PA product
10	Entry age	Minimum entry age shall be 17 years and maximum age at entry shall be at least 70 for the insured members including principal insured. Insurers are permitted to fix the maximum age at entry beyond 70 years, subject to underwriting policy. Dependent Child / children shall be covered from the age of 3 months to 25 years subject to the definition of 'Family' and underwriting policy.
11	Benefit Structure	The benefit pay out should be explicitly disclosed in the format of application (Form – IRDAI-UNF-PASP) along with other relevant documents.
12	Underwriting	Underwriting of the proposals received under this product shall be based on the board approved underwriting policy.
13	Pricing	Insurer shall disclose applicable premium rates in the prospectus and other relevant documents. The prices may be displayed on the websites of the insurers.

9.10 PROCEDURE FOR INSURING UNDER PERSONAL ACCIDENT INSURANCE POLICY :

a. Submission of proposal form
b. Assessment of the proposal form and premium rate to be quoted
c. Payment of the premium
d. Issue of policy document

9.10.1 Submission of proposal form :

The person who is interested to insure himself under this policy will submit the information in the prescribed proposal form as follows:

- Personal details i.e., age, height and weight, full description of occupation and average monthly income.
- Physical condition
- Habits and pastimes
- Other or previous insurances
- Previous accidents or illness
- Selection of benefits and sum insured
- Declaration.

9.10.2 Assessment of the proposal form and premium rate to be quoted :

While the assessing the proposal form the sum insured is selected by the insured but insurers exercise some control. The sum insured is compared with the average monthly income of the insured. The age of a person should be between 5 years to 70 years.

9.10.3 Rating :

In personal accident insurance, the rating factor used is the occupation. Generally speaking, exposure to personal accidents at home, on the street etc. is the same for all persons, But the risks associated with occupation vary according to the nature of work performed.

For example, an office manager is less exposed to risk at work than a civil engineer working at a site where a building is constructed. It is not practicable to fix a rate for each profession or occupation. Hence, occupations are classified into groups, each group reflecting, more or less, similar risk exposure.

- **i. Risk Group I**: (Lowest Premium rate) Accountants, Doctors, Lawyers, Architects, Consulting Engineers, Teachers, Bankers, Persons engaged in administration functions. Persons primarily engaged in occupations of similar hazards.
- **ii. Risk Group II:** (Higher Premium rate) Builders, Contractors and Engineers engaged in superintending functions only, Veterinary Doctors, paid drivers of motor cars and light motor vehicles and persons engaged in occupation of similar hazards and not engaged in manual labour. All persons engaged in manual labour (Except those falling under Group III), Cash Carrying Employees, Garage and Motor Mechanics, Machine Operators, Drivers of trucks or lorries and other heavy vehicles. Professional Athletes, and Sportsmen, Woodworking Machinists and Persons engaged in occupations of similar hazards.
- **iii. Risk Group III :** (Highest Premium Rate) Persons working in underground mines, explosives, magazines, workers involved in electrical installation with high tension supply. Jockeys, Circus Personnel, Persons engaged in activities like racing on wheels or horseback, big game hunting, mountaineering, winter sports, skiing, ice hockey, ballooning, hang gliding, river rafting, polo and persons engaged in occupations/activities of similar hazard.

9.10.4 Payment of the premium :

Based on the above risk category the person will pay the premium to insurance company to insure himself.

9.10.5 Issue of Policy Document :

Based on the proposal form and the premium amount is received the policy document is issued which contains the following

a. Name of the person and address
b. Age
c. Occupation
d. Sum insured
e. Nominee
f. Policy Conditions
  - **i.** Written notice of claims with full particulars. In case of death written notice must, unless reasonable cause is shown, be so given before internment or cremation, and in any case, within one calendar month after the death.
  - **ii.** In the event of loss of sight or amputation of limbs, written notice thereof must be given within one calendar month after such loss of sight or amputation.
  - **iii.** Proof of claim satisfactory to the Company shall be furnished.

- **iv.** Any doctor on behalf of the company shall be allowed to examine the person of the Insured on the occasion of any alleged injury or disablement and as may reasonably be required.
- **v.** A post mortem examination report, if necessary, be furnished within the space of fourteen days after demand in writing.
- **vi.** In the event of loss of sight, the Insured shall undergo at the Insured's expense such operation or treatment as the company may reasonably deem desirable.
- **vii.** No sum payable under this policy shall carry interest.
- **viii.** No claim is payable if the claim is fraudulent or supported by fraudulent statement.
- **ix.** The insured shall give immediate notice to the company of any change in his business or occupation. The insured shall on tendering any premium of the renewal of this policy give notice in writing to the company of any disease, physical defect or infirmity with which he has become affected since the payment of last preceding premium
- **x.** The policy is cancellable by either party. Pro-rata refund of premium is made if cancelled by insurers and short period refund of premium, subject to no claim under the policy, if cancelled by the insured.
- **xi.** The Company shall not be bound to take notice or be affected by any notice of any trust, charge, lien, assignment or other dealing with or relating to this policy but the receipt of the Insured or his legal personal representatives shall in all cases be an effective discharge to the Company.
- **xii.** The Company treats the insured as the absolute owner of the policy. Receipt of the insured or his legal personal representatives that is, those with a Succession Certificate etc. granted by a court of law will be an effective discharge to the Company.
- **xiii.** Differences regarding amount of loss (not question of liability) are to be referred to arbitration. The award of arbitration is a precedent to suit in Court of Law.
- **xiv.** If the insurers disclaim liability the insured has to file a suit in a Court of Law within 12 months from the date of such disclaimer.

The insurer is not liable for :

1. Compensation under more than one of causes (death or disability)
2. Once a claim is settled under one of the causes the policy becomes inoperative. No further claim can be admitted under the policy.
3. Payment of weekly compensation (until the total amount shall have been ascertained and agreed). Although, the benefit is known as weekly compensation the payment is generally made in one lump sum after the quantum of liability is agreed. It is felt that periodical part payments may encourage a claimant to deliberately prolong the disablement. In genuine hardship cases however 'on account' payment is made which is then adjusted against the final payment due.

9.11 CLAIM PROCEDURE OF THE POLICY :

9.11.1 Intimation:

Immediately the intimation to be sent to the insurance company in writing mentioning the nature of loss and the policy number.

9.11.2 Claim form:

The claim form is designed to elicit information, among other things, on the following:

i. Personal details such as age, occupation, etc.
ii. Details of accident, nature of injuries, etc.
iii. Name and address of the attending doctor.
iv. Medical certificate of the attending doctor (sometimes this is issued as a separate form).
v. Details of other insurances to apply contribution, if applicable and to check whether they had been disclosed in the proposal form.

9.11.3 Documents :

The following documents are sent along with the claim form

- **Medical Certificate**: to obtain medical opinion on the cause or extent of incapacity or progress towards recovery.
- **Medical examiner's Report**: To corroborate medical certificate in doubtful cases, or if other causes are in operation.
- **Receipt / Discharge form**: to acknowledge the money and to confirm the finality of the settlement.
- **Death Certificate:** To give the date and cause of death. Post mortem reports where a post-mortem has been done.
- **Probate or letters of administration**: the legal document to prove the title of an executor or an administrator (i.e., if no assignment is made) For disablement claims the documents, inter-alia, required are
  - Medical Certificate, diagnostic reports etc.
  - Prescription, bills and receipts.
  - Leave of absence certificate from the employer.
  - Medical fitness certificate

Questions:

1. Up to what age the Personal Accident Insurance Policy can be issued.
2. Can contract of indemnity be applied to Personal Accident Insurance Policy.

9.12 SUMMERY :

In summary, non-life insurance encompasses diverse forms such as health, property, motor, travel, and liability insurance, each designed to mitigate financial risks associated with specific aspects of life. Key features include premium payments, coverage limits, deductibles, and policy terms. In the event of a claim, policyholders must promptly notify the insurer, providing necessary documentation and evidence. The claims procedure involves investigation, assessment, and payout based on the policy terms. The Insurance Regulatory and Development Authority of India (IRDA) sets guidelines to ensure fair practices, compliance with laws, and protection of policyholders' interests, thereby maintaining the integrity and stability of the non-life insurance sector.

9.13 KEY WORDS :

1. **Hull insurance :** Hull insurance is a type of insurance that covers physical damage to a ship or boat, as well as machinery and equipment on board. This type of insurance is typically purchased by shipowners, boat owners, and marine businesses to protect against a range of risks associated with owning and operating vessels.
2. **Good faith :** Each party to the insurance contract – the policyholder, the insurer and a third-party beneficiary (a person who is entitled to the benefits of the insurance

policy) – must act with fairness, decency and fair dealing as well as honesty in their dealings with one another.

3. **Insurable interest :** Insurable interest refers to an investment that protects anything subject to a financial loss. A person or entity may have an insurable interest in an event, item, or, action when the loss or damage of the insured object or person can cause a financial loss.
4. **Base cover :** The coverages available under this policy are classified as Base Cover and Optional Cover. Base Cover refers to the coverage available as default under Individual Health Insurance Policy whereas Optional Cover is available only upon payment of additional premium.
5. **Risk group :** Risk Groups are classifications that describe the relative hazard posed by infectious agents or toxins in the laboratory.

9.14 SELF-ASSESSMENT QUESTIONS :

1. Write about different forms of non – life insurances in India.
2. What are the coverages under personal accident insurances?
3. What are the key features of non – life insurances?
4. What are the exemptions under non – life insurance policies?
5. Write a note on IRDA guidelines for non – life insurances.
6. What is the procedure of claim in personal accident insurances?

9.15 FURTHER READINGS :

1. R. S. Arora, "Insurance and Risk Management" - Himalaya Publishing House
2. H. L. Kumar, "Insurance Principles and Practices" - S. Chand & Company Ltd.
3. R. K. Gupta, "Insurance: Principles and Practice" - McGraw Hill Education
4. Dr. R.M. Premkumar, "General Insurance: Principles and Practices" - Notion Press
5. S. S. Grewal, "Insurance Planning and Risk Management" - Taxmann Publications Pvt. Ltd.
6. M. N. Mishra, "General Insurance Underwriting and Claims" - McGraw Hill Education
7. Dr. G. S. Grewal, "General Insurance and Risk Management" - Excel Books
8. Dr. R. K. Srivastava, "General Insurance: Business and Product Knowledge" - Taxmann Publications Pvt. Ltd.
9. Dr. S. Sankaran, "General Insurance and Legal Principles" - Eastern Book Company
10. Anmol Agarwal, "Non-Life Insurance in India: Key Trends and Opportunities" - LAP Lambert Academic Publishing

LESSON - 10

HEALTH INSURANCE AND MEDICLAIM POLICES

LEARNING OBJECTIVES :

- To understand the concept of health insurance
- To know the various types of health insurances
- To understand the need of health insurance
- To understand the procedure of health insurance
- To know the various schemes available for health in India.

STRUCTURE :

10.1 Introduction

10.2 Definition of health insurance

10.3 Key Features of Health Insurance

10.4 Different types of Health Insurance

10.4.1 Individual Health Insurance

10.4.2 Health Guard Family Floater Plan

10.4.3 Critical Illness Insurance

10.4.4 Silver Health Insurance plan

10.4.5 Extra Care Plus Policy

10.5 Why should a person have a Health Insurance Policy?

10.6 Benefits of health insurance policies

10.7 Factors to consider before deciding on a health insurance plan:

10.8 Different schemes of health insurance in India

10.8.1 Pradhan Mantri Jan Arogya Yojana (PMJAY)

10.8.2 Rastriya Swasthya Bima Yojana (RSBY)

10.8.3 Employee State Insurance (ESI) Scheme

10.8.4 Central Government Health Scheme (CGHS):

10.8.5 Arogya Sanjeevani Policy

10.8.6 Pradhan Mantri Suraksha Bima Yojana (PMSBY)

10.8.7 Pradhan Mantri Vaya Vandana Yojana (PMVVY)

10.8.8 State-Specific Health Insurance Schemes

10.8.9 Private Health Insurance Plans

10.9 Procedure to be followed for buying health insurance policy

10.10 Miscellaneous conditions/benefits

10.11 Claim settlement procedure

10.11.1 Reimbursement of expenses

10.11.2 Cashless facility for planned hospitalization

10.11.3 Cashless facility for emergent hospitalization

10.12 Examples for individual health insurance policies

10.13 Different forms of non – life insurances

10.14 Personal Accident Insurance

10.15 Who Should Consider Personal Accident Insurance
10.16 Exemptions/ Exclusions to the policy
10.17 Summery
10.18 Key wards
10.19 Self-Assessment questions
10.20 Further readings

10.1 INTRODUCTION :

Health is one of the most important facets of your life, and it is in your best interest to have insurance that can cover you in case you face any health-related issues. Health insurance is one such financial product that can take care of the finances if you or your family members have a medical emergency. Health insurance is a crucial investment in today's world, where medical costs are on the rise, and healthcare has become expensive.

Healthcare expenses are increasing at a rate higher than medical inflation, and that is why it is must for everyone to have a health insurance cover which not only helps you to save your emergency funds and saving of lifetime, in case any medical emergency occurs to you or your near and dear ones, but also supports you to deal with rising medical costs.

Experts believe that a health insurance policy must be a part of your financial planning and it should be purchased early when you are young and responsible to stay safe and secured. Investing in a health insurance plan at an early age also provides other numerous advantages such as better sum insurance coverage, lower premium rates, no medical tests and so on.

10.2 DEFINITION OF HEALTH INSURANCE :

Health insurance is a type of insurance that provides financial coverage for medical expenses and treatments. It is a contract between the insured person and the insurance company, where the insured pays a premium in exchange for the promise of the insurance company to cover the medical expenses incurred by the insured person/persons. Having a health insurance policy gives you peace of mind in times of crisis and provides you access to quality healthcare services.

Section 2 (6C) of Insurance Act, 1838 defines Health Insurance Business as under:

> "Health insurance business" means the effecting of contracts which provide for sickness benefits or medical, surgical or hospital expense benefits, whether in-patient or out-patient travel cover and personal accident cover "

Hence, it is concluded that a health insurance is a financial arrangement that provides individuals and families with coverage for medical and healthcare-related expenses. It helps in managing the costs associated with healthcare by reimbursing the insured for medical services, treatments, prescriptions, and other healthcare-related expenses.

10.3 KEY FEATURES OF HEALTH INSURANCE :

1. **Premiums**: Health insurance is paid for through regular premiums, typically on a monthly or annual basis. The premium amount varies based on the plan, coverage, age, health status, and other factors.

2. **Coverage and Benefits:** Health insurance plans outline the specific medical services and treatments they cover. This can include doctor visits, hospital stays, surgeries, prescription drugs, preventive care, mental health services, maternity care, and more.
3. **Deductibles:** A deductible is the amount you must pay out of pocket for covered medical expenses before your insurance plan starts to pay. Higher deductibles often result in lower premiums but require higher initial spending on healthcare.
4. **Co-payments and Co-insurance:** Co-payments are fixed amounts you pay for specific services, like a doctor's visit or prescription, while co-insurance is a percentage of the costs you share with the insurer after meeting your deductible.
5. **In-Network and Out-of-Network Providers**: Insurance companies often negotiate discounted rates with certain healthcare providers (in-network), making healthcare more affordable. Using out-of-network providers usually involves higher out-of-pocket costs.
6. **Networks**: Health insurance plans have networks of healthcare providers, including doctors, hospitals, and clinics, with whom they have negotiated rates. It's important to choose healthcare providers within your plan's network to maximize coverage and minimize costs.
7. **Exclusions and Limitations**: Health insurance policies specify what is not covered or has limited coverage. Pre-existing conditions, cosmetic procedures, experimental treatments, and certain elective procedures are often excluded.
8. **Prescription Drug Coverage:** Many health insurance plans provide coverage for prescription drugs, often with varying levels of cost-sharing such as co-payments or co-insurance.
9. **Lifetime and Annual Limits:** Health insurance plans may have limits on the amount they will pay for certain services over the course of a year or over the lifetime of the policy.

   Renewability and Portability: Health insurance plans typically allow for policy renewal, ensuring continued coverage. Many plans also allow portability, allowing individuals to maintain coverage even if they change jobs or locations.

Preventive Care: Health insurance plans often cover preventive care services without requiring a co-payment or deductible. These may include vaccinations, screenings, and annual check-ups.

Emergency Services: Health insurance often covers emergency medical services, whether or not they're provided by in-network or out-of-network providers.

10.4 DIFFERENT TYPES OF HEALTH INSURANCE :

Are you wondering what the different types of health insurance policies are and what each health insurance policy is like? Here is a brief overview of the several types of health insurance policies available in the market, each with its features and benefits, so that you can choose which suits you the best.

10.4.1 Individual Health Insurance:

This type of health insurance policy covers a single person and provides coverage for hospitalisation, medical expenses, and treatments. It covers individuals who are 17 years of age and above. It offers sum insured options ranging from INR 1.5 lakhs to INR 50 lakhs and comes with a lifelong renewal facility. The premium for an individual health insurance policy is based on the age, health condition, and medical history of the insured person.

10.4.2 Health Guard Family Floater Plan:

This family floater health insurance covers the entire family under a single policy. The SI (Sum Insured) options range from INR 1.5 lakhs to 50 lakhs with these plans for

families. Policy term options offer extended coverage for up to 3 years. The premium for a family floater health insurance policy is based on the age, health condition, and medical history of the family members covered under the policy.

10.4.3 Critical Illness Insurance:

Critical illness insurance is a type of health insurance policy that covers specific critical illnesses such as cancer, heart attacks, strokes, and kidney failure. * The policy pays a lump sum amount on the diagnosis of the critical illness, which can be used to cover medical expenses and loss of income.

10.4.4 Silver Health Insurance plan :

This insurance plan is specifically designed to cater to the needs of the elderly. The entry age for this insurance plan is 46 years to 70 years with a lifelong renewal option. This plan provides the financial security you need in your later years by covering you for the medical treatments you require in your old age.

10.4.5 Extra Care Plus Policy :

It is an additional cover available to you, over and above your existing cover. This is a top-up plan that can prove beneficial in case you exhaust your SI during the treatment. * While these are a few of the plans that have been elaborated on here, there are many more plans and top-up cover, which you can check on our website. All the plans come with a fixed set of features, inclusions, and exclusions. It is best advised that you should thoroughly go through the policy wording to avoid any confusion while filing the claim. Now that you may know what health insurance is and the different types of plans offered, let us look at the benefits one can gain from health insurance.

10.5 WHY SHOULD A PERSON HAVE A HEALTH INSURANCE POLICY? :

Purchasing a health insurance plan is something that we all avoid till the time we understand its importance. Before buying one, it is crucial to understand the various benefits of a health insurance plan as medical emergencies can knock anytime and could make a big hole in your pocket. Therefore, it is advisable to buy a health insurance policy at a very young age, where one can have the comprehensive coverage at an affordable premium cost, plus you also get the advantage of tax deductions on premium paid. In a nutshell, one should purchase a health insurance policy because:

- It facilitates you to get medical treatment without any worry of high medical costs.
- Offers specialized coverage for critical illnesses.
- Covers road emergency ambulance costs.
- Offers an affordable premium for youngsters.
- Provides cashless claim benefit, which allows you to take care of your health instead of worrying about hefty medical bills.
- Protect your savings during medical emergencies.
- Provides tax benefits under Section 80D.
- Lastly, it safeguards you and your family and protects your savings.

10.6 BENEFITS OF HEALTH INSURANCE POLICIES :

Health insurance policies offer a range of benefits that contribute to the overall well-being and financial security of individuals and families. Here are some key benefits associated with having health insurance:

1. **Financial Protection:** Health insurance provides financial protection by covering a significant portion of medical expenses, reducing the financial burden on policyholders. This can include hospitalization, surgeries, medications, diagnostic tests, and other healthcare services.
2. **Access to Healthcare Services:** Insured individuals have access to a network of healthcare providers, including doctors, specialists, hospitals, and clinics. This ensures prompt medical attention and appropriate care when needed.
3. **Preventive Care and Screenings**: Many health insurance plans cover preventive care services without cost-sharing, encouraging regular check-ups, vaccinations, screenings, and early detection of potential health issues. Preventive care can lead to early intervention and better health outcomes.
4. **Emergency and Urgent Care Coverage:** Health insurance provides coverage for unexpected medical emergencies and urgent care, ensuring immediate attention and treatment during critical situations.
5. **Prescription Drug Coverage**: Health insurance often includes coverage for prescription medications, making essential drugs more affordable for policyholders and improving medication adherence.
6. **Maternity and Childbirth Coverage**: Health insurance often covers maternity care, prenatal and postnatal visits, childbirth, and related services, providing financial support during the crucial stages of pregnancy and early childhood.
7. **Chronic Disease Management**: For individuals with chronic conditions such as diabetes, asthma, or heart disease, health insurance offers coverage for ongoing management, medication, and specialized care.
8. **Mental Health Coverage**: Many health insurance plans cover mental health services, counselling, and therapy, promoting mental well-being and providing assistance for mental health conditions.
9. **Rehabilitation Services**: Health insurance often includes coverage for rehabilitation services like physical therapy, occupational therapy, and speech therapy following an injury or surgery.
10. **Dental and Vision Care**: Some health insurance plans offer optional coverage for dental and vision care, including routine check-ups, cleanings, eyeglasses, and contact lenses.
11. **Flexibility and Customization:** Health insurance plans can be tailored to meet individual needs and preferences, allowing policyholders to choose coverage options that suit their health requirements and budget.
12. **Health and Wellness Programs**: Some health insurance policies provide access to health and wellness programs that offer guidance on healthy lifestyles, fitness, nutrition, and disease prevention.
13. **Global Coverage**: Some insurance plans offer coverage for medical emergencies and services when traveling abroad, providing peace of mind for international travel.

By providing financial support, access to healthcare, preventive services, and specialized care, health insurance helps individuals and families maintain good health and manage healthcare costs effectively.

10.7 FACTORS TO CONSIDER BEFORE DECIDING ON A HEALTH INSURANCE PLAN :

Selection and chousing correct health policy for an individual and his/her family porpoise is not an easy task. However, the following four steps must be considered by one, who need to choosing a health policy:

Step 1: Finding the Right Insurance Company: Here are some factors that you can use in deciding on the right health insurance company:

a. **The Range of Plans Offered:** Check out the different types of plans that a company offers as well as the plan USPs. Some companies offer a range of products to suit the varied coverage requirements that you have. Choose a company with a diverse range of plans so that you can find the right policy suiting your needs.
b. **The Network of Hospitals:** The network of hospitals is extremely important for availing cashless claims. The wider the network that an insurer has, the better it would be. This would allow you to locate the nearest cashless hospital with ease.
c. **Claim Settlement Ratio:** The claim settlement ratio points to one thing – what percentage of claims did the company settle in a financial year. A higher ratio indicates that the company is steadfast in settling its claims. A factor that works in favour of the insurer.
d. **Claim-Based Loading:** Some companies tend to increase the renewal premium if you made claims in the previous years. This converts to higher premium expenses. As such, avoid companies that follow this practice.
e. **Premium Rate:** Pricing policy is how much premium the company charges vis-à-vis its competitors. You can check the pricing policy by comparing similar plans across different companies. For instance, the Aarogya Sanjeevani policy offers uniform coverage features across all insurers. Its premiums, however, depend on the insurer's pricing policy. Compare the premium of the plan across insurers to find the insurer that charges the least. Chances are, its pricing policy would be fair across all its plans.
f. **Ease of Claim Settlement:** Insurers have revolutionized their claim process and made it simpler. The following concepts are gaining traction:

   - AI-enabled claim processing
   - WhatsApp intimation
   - Digital documentation
   - Quicker approvals
   - App-based claim intimation and tracking, etc.

   Such facilities speed up the claim process and make it hassle-free. Thus, look for insurers that provide such facilities for quicker claim settlements.
g. **Reviews:** Lastly, don't ignore customer testimonials and reviews. Most insurers showcase their customers' reviews on their websites. You can check them out. Alternatively, you can talk to your friends and relatives about their insurers. If they have made a claim, find out their claim experience to know which company follows the best practices.

Step 2: Finding the right plan: Once you have zeroed in on the right insurance company, the next, and also the most important, step would be to select the plan. With multiple insurers offering multiple plans, you have a lot of choices. However, choosing the right policy is important. As such, here are some factors that would help you with the same –

a. **Coverage benefits:** The first thing that you need to check is the coverage benefits that are offered by different plans. While most plans offer the basic coverage benefits, look for plans that have unique features.
   i. First, assess your coverage needs and then look for plans that offer those. For instance, if you are planning to have a child in the near future, look for plans

that offer maternity coverage. Alternatively, if your family is complete, skip such plans.

ii. Second, look for other additional features that might enhance the scope of coverage. For instance, sum insured restoration, high no claim bonus, value-added benefits, annual health check-ups, etc. are some of the features to look for.Choose a plan which has the most comprehensive scope of coverage. This would minimize your out-of-pocket expenses during claims and give you better financial security.

b. Customization option: Look for plans that allow you to customize the coverage features as per your requirements. This is possible through add-ons that health insurance plans offer. The add-ons help you to opt for additional coverage features as per your needs and make customization possible.

c. Premium Amount: Of course, the premium amount is important. Check the premium charged vis-à-vis the coverage offered. To get a better idea, compare. Compare the premium across other plans of different insurers that have similar coverage benefits. See if the premium is competitive or inflated given the coverage.Choose a plan with the most competitive premium rate for the same coverage benefits, even if it means selecting another insurance company.

d. Sub-Limits: Health plans might have sub-limits on different expenses like room rent, ICU room rent, AYUSH coverage, domiciliary treatments, etc. These sub-limits limit the scope of coverage and might result in out-of-pocket expenses. As such, choose a policy that has no sub-limits so that you can enjoy the maximum possible coverage.

e. Co-Payment Clause: Health insurance plans might have co-payment clauses for different reasons. Co-payments mean that in every instance of a claim, you are supposed to pay the specified part of the claim from your pockets. For instance, a co-payment of 10% means that 10% of every claim would be borne by you. Common co-payment clauses are applicable in the following instances:

i. If the insured is aged 61 years and above at the time of buying the policy.

ii. If you buy the policy in a city belonging to a lower Tier and avail of treatments in a city in a higher tier.

iii. In the case of specified illnesses and/or treatments.

Look for health insurance plans that do not have the co-payment clause. Even if the clause is unavoidable, like in the case of senior citizen plans, opt for plans with a lower co-payment rate.

f. Waiting Period: The waiting period is when specific coverage is not allowed by the health insurance policy. Once the waiting period is over, coverage is allowed. Health insurance plans impose waiting periods in various instances. These include the following:

i. First 30 or 60-day waiting period for the coverage of illnesses. This is also called the cooling-off period during which illnesses are not covered. Accidental injuries, however, are covered from day 1.

ii. Waiting period for specific illnesses or treatments like hernia, fissures, hydrocele, tonsillectomy, cataract, joint replacement, etc. This waiting period is generally 24 months. In some plans, however, the tenure might vary.

iii. Pre-existing waiting period ranges from 12 months to 48 months. This waiting period is for illnesses or medical conditions that you might have when buying a fresh policy. Complications arising out of existing conditions are not covered during this period.

iv. The maternity waiting period might range from 10 months to 48 months.
v. Waiting period for the coverage of OPD expenses, bariatric treatments, etc.

Waiting periods are inevitable. However, you can find a plan where the period is low. This is especially relevant if you are looking for maternity coverage or if you have pre-existing conditions and you want coverage for them at the earliest.

g. Discounts Available: Health insurance plans allow various types of discounts to lure customers. Some of the commonly available discounts include the following:

- Discount for buying a two or three-year policy
- Discount for covering two or more members under the policy on an individual basis
- Discount for buying the policy online
- Discount for paying the premium in a lump sum rather than in instalments
- Discount for the existing customers of the company
- Discount for maintaining a healthy lifestyle
- Renewal discount if you have not made a claim in the last policy year
- Discount for choosing a voluntary deductible
- Discount for availing of treatments at a network hospital.

Look for the available discounts. Choose a plan that offers the highest discount so that you can get the best deal on the premium. Now that you have found the best company and the most suitable plan, you might think that your work is done. It is not. You should keep in mind another aspect – choosing the right sum insured.

Step 3: How to find the right coverage amount? An optimal sum insured is important to ensure that your health plan sufficiently covers your medical expenses. A low sum insured defeats the whole purpose of investing in health insurance and is a strict no-no. Selecting the right sum insured is easier than you think. You just have to consider the following factors:

- The number of members being insured under the policy
- Whether you or any other member suffers from any pre-existing condition
- The basic cost of hospitalization and medical treatments
- The rising medical inflation.

Most insurers help you calculate the ideal sum insured based on your income, expenses, existing coverage and members to be insured. You can also estimate the optimal requirement through a simple formula which is as follows:

Sum insured = 50% of your annual income + total hospitalization costs incurred during the last 3 years

For instance, say your annual income is INR 15 lakh and in the last three years you have incurred a hospital bill of INR 5 lakh. In this case, the optimal sum insured would be calculated as follows:

50% of INR 15 lakh + INR 5 lakh = INR 12.5 lakh

Step 4: How to afford a health plan: The premiums of health insurance plans are affordable. Moreover, insurers offer you the facility of instalment premiums wherein you can pay the premium monthly, quarterly or half-yearly. This makes the health plans affordable.

Furthermore, if affording a high sum insured poses a challenge, you can opt for super top-up health plans. Super top-up plans help in enhancing the coverage while keeping the premium low.For instance, say you want coverage of INR 15 lakh but the premiums are

unaffordable. In such cases, you can opt for a comprehensive health plan of INR 5 lakh or INR 10 lakh and add a super top-up plan of INR 10 lakh or INR 5 lakh respectively.The super top-up plan would help you enjoy an aggregate coverage of INR 15 lakh. However, the aggregate premium would be lower compared to buying a health plan of INR 15 lakh.

10.8 DIFFERENT SCHEMES OF HEALTH INSURANCE IN INDIA :

In India, there are several health insurance schemes offered by various insurance companies and government bodies to cater to the diverse healthcare needs of the population. Here are some of the prominent health insurance schemes available in India:

10.8.1 Pradhan Mantri Jan Arogya Yojana (PMJAY) - Ayushman Bharat:

Launched by the Government of India, PMJAY is a national health protection scheme providing health coverage of up to ₹5 lakh per family per year for secondary and tertiary care hospitalization. It targets vulnerable families based on the Socio-Economic Caste Census (SECC) database.

10.8.2 Rashtriya Swasthya Bima Yojana (RSBY):

RSBY is a government-funded health insurance scheme for Below Poverty Line (BPL) families, unorganized sector workers, and their families. It provides cashless health insurance coverage for hospitalization expenses.

10.8.3 Employee State Insurance (ESI) Scheme:

ESI is a social security scheme for employees in the organized sector, providing comprehensive medical care and other benefits to insured individuals and their families. It is administered by the Employees' State Insurance Corporation (ESIC).

10.8.4 Central Government Health Scheme (CGHS):

CGHS is a health scheme for Central Government employees and pensioners, providing comprehensive healthcare services through a network of dispensaries, hospitals, and diagnostic centers.

10.8.5 Arogya Sanjeevani Policy:

A standard health insurance policy introduced by the Insurance Regulatory and Development Authority of India (IRDAI), providing basic health coverage with a uniform set of features across all insurance companies.

10.8.6 Pradhan Mantri Suraksha Bima Yojana (PMSBY):

PMSBY is a government-sponsored accidental insurance scheme offering coverage for accidental death and disability at a nominal premium.

10.8.7 Pradhan Mantri Vaya Vandana Yojana (PMVVY):

PMVVY is a pension scheme for senior citizens offering guaranteed pension payouts, administered by the Life Insurance Corporation of India (LIC).

10.8.8 State-Specific Health Insurance Schemes:

Many states in India have their own health insurance schemes targeted at specific demographics or income groups. Examples include the Mukhyamantri Amrutum Yojana in Gujarat, Rajiv Arogya Bhagya in Karnataka, and Tamil Nadu Chief Minister's Comprehensive Health Insurance Scheme.

10.8.9 Private Health Insurance Plans :

Several private insurance companies offer a wide range of health insurance plans catering to different needs and preferences, including individual health policies, family floater plans, senior citizen plans, critical illness plans, and more.

10.9 PROCEDURE TO BE FOLLOWED FOR BUYING HEALTH INSURANCE POLICY :

1. **Filling of proposal form**: The proposal form will contain the personal information of the person like name, address, age, occupation, sum insured etc. and two photographs of an individual is to be enclosed.
2. **Declaration of good health/medical questionnaire:** A person should give a declaration of his good health. In case of adverse health then he should submit the certificate from the doctor.
3. **Medical examination report**: It is required from the doctor, who is having the qualification of MD, if the age of person is more than 45 years. It is must even if the person is possessing good health.
4. **Payment:** The premium is paid through cheque to get the tax benefit under Income Tax Act, 1861**.**
5. **Issue of Policy documents:** The policy document is issued once above-mentioned information/documents submitted.
6. **Issue of Photo Card by Third Party Administrator (TPA):** After issuing the policy documents, the TPA will issue the photo identity card for each person which will help to get the treatment in the hospital on cashless basis. TPA are licensed by the IRDA who will settle the health insurance claims on behalf of the insurance companies. TPAs have empanelled various hospitals on all India basis who will provide the health treatment on cashless basis meaning thereby, that the policyholder will not pay any amount to the hospital and the hospital will get the payment directly from the TPA up to the sum insured of a person. If some insured is not sufficient to meet the bill of the hospital, then the excess amount will be paid by the policyholder.

10.10 MISCELLANEOUS CONDITIONS/BENEFITS :

a. **Age Limit:** This insurance is available to persons between the age of 5 years to 80 years. Children between the age of 3 months to 5 years can be covered provided one or both parents are covered concurrently.

b. **Family Discount**: This discount of 10% in the total premium is allowed to a family comprising the insured and any one or more of the following:
   - i) Spouse
   - ii) Dependent children (i.e., legitimate or legally adopted)
   - iii) Dependent parents

c. **Cumulative Bonus:** The sum insured is increased by certain percentage, say 5% for each claim from the year of insurance subject to a maximum accumulation of 10 years. In the event of a claim, the increased percentage will be reduced to a certain percentage, say the double of the bonus rate by 10% of the sum insured at the next renewal but the basic sum insured will remain the same. Some companies do not allow this cumulative bonus but instead of this allow a discount in the premium on the next renewal if no claim is reported during the currency of the previous policy.

d. **Cost of Health Checkup:** The insured shall be entitled to reimbursement of medical check-up, generally once in every four underwriting years, subject to no claim

preferred during this period. The cost shall not exceed 1% of the average sum insured during the block of four years.

e. **Extension of Cover:** The health cover is available for Indian Territories but it can be extended to Nepal and Bhutan with prior permission.

10.11 CLAIM SETTLEMENT PROCEDURE :

If any claim arises in health insurance policy, the same can be settled in any of the following ways:

1. Reimbursement of expenses.
2. Cashless facility for planned hospitalization
3. Cashless facility for emergency hospitalization

10.11.1 Reimbursement of expenses :

If a policyholder falls sick and hospitalized in non-empanelled hospital then he should follow the following procedure:

a. Intimation to the insurer/ Third Party Administrator (TPA) along with the name of the person who has fallen sick
b. Policy number
c. Name of the hospital
d. Name of the doctor

The above information should be sent within 7 days of the hospitalization. Within 30 days final claim form should be furnished along with the following documents:

- Hospital receipts/ original bills.
- Cash memos. Various reports and tests.
- Hospital admission and discharge slip.
- Case history.
- Any other documents desired by TPA or hospital.

Note: Kindly ensure that insured person has been admitted to a hospital/nursing home as defined in the policy.

10.11.2 Cashless facility for planned hospitalization :

- The expected expenses to be incurred should be sent to TPA through the agreed list of network hospital
- Policy no. & card number should be shown to the hospital
- On confirmation from the TPA the treatment can be taken in that hospital.
- If expenses increase during the treatment, then the hospital will send revised estimate to the TPA for their approval.
- For any post hospitalization treatment, the original bills/cash memos can be sent to the TPA after completing the treatment for the reimbursement.

10.11.3Cashless facility for emergent hospitalization:

- A card issued by the insurer should be shown to the hospital.
- The expected expenses may send to the TPA for their approval.
- For any post hospitalization treatment, the original bills/cash memo can be sent to the TPA after completing the treatment for the reimbursement.

Important: Kindly ensure that the Identity-Card is easily available with the policyholder.

Examples for individual health insurance policies:

Two popular individual health insurance policies available in India are traying to present for your better understanding. However, please note that policies and features may have changed or new policies may have been introduced since then. It's crucial to verify the most up-to-date information directly from the respective insurance companies.

Example 1: Max Bupa Health Companion Individual Plan:

Features:

- Comprehensive coverage for hospitalization, pre and post-hospitalization expenses, daycare procedures, and more.
- Cashless hospitalization at a wide network of hospitals across India.
- Coverage for alternative treatments like Ayurveda, Unani, Siddha, and Homeopathy.
- Annual health check-up benefit for policyholders.
- Maternity and newborn baby cover as an optional add-on.
- No claim bonus (NCB) for claim-free years, increasing the sum insured without an increase in premium.
- Lifetime renewability.

Coverage: Covers hospitalization expenses, pre- and post-hospitalization expenses, daycare procedures, ambulance charges, alternative treatments, maternity benefits, etc.

Sum Insured: Various sum insured options are available, depending on the policyholder's needs.

Premium: Premiums vary based on age, sum insured, and other factors.

Network Hospitals: Offers a vast network of hospitals for cashless treatment.

Example 2:Apollo Munich Optima Restore Individual Plan (Now HDFC ERGO Optima Restore):

Features:

- Unique feature of restoring the sum insured at no extra cost if it is fully utilized during the policy year.
- Coverage for hospitalization, pre- and post-hospitalization expenses, daycare procedures, organ donor expenses, and more.
- No-claim bonus for claim-free years, enhancing the sum insured.
- Optional add-ons like critical illness cover, personal accident cover, etc.
- Worldwide emergency coverage for accidents and illnesses.
- Coverage for Ayurvedic, Homeopathic, and Unani treatments up to a certain limit.

Coverage: Hospitalization expenses, pre- and post-hospitalization expenses, daycare procedures, maternity benefits, ambulance charges, and more.

Sum Insured: Multiple sums insured options are available to choose from.

Premium: Premiums are determined based on factors like age, sum insured, policy term, etc.

Network Hospitals: Provides access to a wide network of hospitals for cashless treatment.

It's important to carefully read and understand the policy documents, terms, conditions, and exclusions of any health insurance policy before making a decision. Additionally, consider consulting an insurance advisor to select a policy that best fits your specific health and financial needs.

10.12 SUMMARY :

In conclusion, health insurance plays a vital role in safeguarding individuals and families from the financial burden of medical expenses. Key features of health insurance include coverage for hospitalization, outpatient services, medication, and preventive care. The rising healthcare costs and the unpredictability of medical emergencies underscore the necessity of health insurance. In India, various schemes are available, ranging from government-sponsored initiatives like Ayushman Bharat to private insurance plans catering to diverse needs. These schemes strive to enhance accessibility and affordability of healthcare services, promoting a healthier and economically secure society. It is imperative for individuals to carefully evaluate and select health insurance plans that align with their specific requirements to ensure adequate coverage and peace of mind in times of illness or injury.

10.13 KEY WARDS :

1. **Network hospitals :** This refer to hospitals and clinics with which your health insurer has a collaboration, and these hospitals are on the empanelled list of your insurer. Every health insurer has a tie-up with different hospitals (in your state and outside), clinics, and treatment care centres. These are known as network hospitals with which your health insurance company has a contract. When you get admitted to any network hospital, you are eligible to receive cashless treatment facilities, subject to the policy's terms and conditions.
2. **Floater plan :** A floater health insurance plan covers more than one member of a family. That is, if you buy a floater health insurance plan it will provide cover to you, your spouse, children, and parents – depending on whose name you want to include in the plan.
3. **Chronic disease :** Chronic diseases are defined broadly as conditions that last 1 year or more and require ongoing medical attention or limit activities of daily living or both. Chronic diseases such as heart disease, cancer, and diabetes are the leading causes of death and disability.
4. **Rehabilitation services :** Health care services that help you keep, get back, or improve skills and functioning for daily living that have been lost or impaired because you were sick, hurt, or disabled.
5. **Global coverage :** Global Coverage means the maximum geographic coverage of the earth towards the northernmost and southernmost parallels visible from satellites deployed in geostationary orbital locations
6. **Premium rate :** Broadly speaking, a premium is a price paid for above and beyond some basic or intrinsic value. Relatedly, it is the price paid for protection from a loss, hazard, or harm (e.g., insurance or options contracts). The word "premium" is derived from the Latin premium, where it meant "reward" or "prize."
7. **Co – payment clause :** Co-payment is the percentage of the claim that the insured agrees to pay from his/her pocket irrespective of the claim amount. It usually varies from 10% to 30% and is insisted mostly under senior citizen health insurance policies. The insurer only pays the balance claim amount.

10.14 SELF-ASSESSMENT QUESTIONS :

1. Define health insurance and write its features?
2. What are the different types of health insurances?
3. White an essay on health guard family floater plan?

4. What are the benefits of health insurance policies?
5. What factors consider for selection of a health insurance plan?
6. What are schemes of health insurance available in India?

10.15 FURTHER READINGS :

1. Dr. R. K. Sahay, "Health Insurance: Products and Plans" - PHI Learning Private Limited.
2. Sanket D. Kharat, "Health Insurance in India: Challenges and Opportunities" - Notion Press
3. Dr. Vipin Garg, "Health Insurance in India: A Study of its Functioning" - LAP Lambert Academic Publishing
4. Dr. V. S. Verma, "Health Insurance: Principles and Practice" - Taxmann Publications Pvt. Ltd.
5. Dr. K. S. Patel, "Health Insurance: Claims and Underwriting" - Notion Press
6. Dr. Sandeep S. Bhanot, "Understanding Health Insurance in India" - LAP Lambert Academic Publishing
7. Dr. R. K. Srivastava, "Health Insurance: Business and Product Knowledge" - Taxmann Publications Pvt. Ltd.
8. Anmol Agarwal, "Health Insurance Market in India: Challenges and Prospects" - LAP Lambert Academic Publishing
9. S. K. Sethi, "Health Insurance Handbook" - Taxmann Publications Pvt. Ltd.
10. Dr. S. D. Gupta, "Health Insurance Policies and Procedures" - Excel Books

LESSON - 11

LIABILITY INSURANCE

LEARNING OBJECTIVES :

- To understand the concept of liability insurance
- To know the different types of liability insurances
- To understand the basic principles of liability insurance
- To understand the concept of indemnity in insurance
- To know the concepts of proximate and subrogation etc.

STRUCTURE :

11.1Introduction

11.2Definition of liability insurance

11.3key features of liability insurance

11.4Liability insurance in India – historical background

11.3.1 Early Stages (Pre-Independence)

11.4.1 Post-Independence Period

11.4.2 Insurance Act of 1838

11.4.3 Nationalization of General Insurance

11.4.4 Introduction of IRDA Act (181010)

11.4.5 Liberalization and Entry of Private Players (11000s)

11.4.6 Growth and Modernization (21st Century)

11.5 Types of liability insurance

11.5.1 Causes of civil liability

11.5.2 Classification of liability insurance

11.5.3 Liability insurance is more commonly classified as

11.6 Basic principles of liability insurance

11.6.1 Insurable Interest

11.6.2 Utmost Good Faith (Uberrimae Fidei):

11.7 Indemnity

11.7.1 Financial Compensation for Losses

11.7.2 Principle of Restitution

11.7.3 No Gain from Loss

11.7.4 Actual Loss Calculation

11.7.5 Limitation to Policy Terms and Conditions

11.7.6 Avoidance of Overcompensation

11.7.7 Restoration of Financial Position

11.8 Proximate Cause

11.8.1 Definition

11.8.2 Determining Coverage

11.8.3 Causation Analysis

11.8.4 Direct Link to Liability

11.8.5 Limitations and Policy Wording

11.9 Subrogation

11.9.1 Contribution
11.9.2 Mitigation of Loss
11.9.3 Causa Proxima (Nearest Cause)
11.9.4 Loss Payable Clause
11.10 Available liability insurances in India
11.11 Important aspects
11.11.1 How Does Personal Liability Insurance Differ from Business Liability Insurance?
11.11.2 What Is Backdated Liability Coverage?
11.12 Burglary Insurance
11.13 Different types of Burglary Insurances
11.14 Summery
11.15 Key wards
11.16 Self-Assessment questions
11.17 Further readings

11.1 INTRODUCTIONS :

Liability insurance is a type of insurance coverage that provides financial protection to an insured party (individual or business) in the event they are held legally liable for injuries, damages, or losses suffered by another party. It is designed to cover the costs associated with legal defense, settlements, or judgments that may result from a covered incident.

Liability insurance is an insurance product that provides protection against claims resulting from injuries and damage to other people or property. Liability insurance policies cover any legal costs and payouts an insured party is responsible for if they are found legally liable. Intentional damage and contractual liabilities are generally not covered in liability insurance policies.Unlike other types of insurance, liability insurance policies pay third parties, and not policyholders.

11.2 DEFINITION OF LIABILITY INSURANCE :

“Liability insurance is also called third-party insurance”.

Liability insurance is designed to offer specific protection against third-party insurance claims, i.e., payment is not typically made to the insured, but rather to someone suffering loss who is not a party to the insurance contract. In general, damage caused intentionally as well as contractual liability are not covered under liability insurance policies. When a claim is made, the insurance carrier has the duty (and right) to defend the insured.

The legal costs of a defence normally do not affect policy limits unless the policy expressly states otherwise; this default rule is useful because defence costs tend to soar when cases go to trial. In many cases, the defense portion of the policy is actually more valuable than the insurance, as in complicated cases, the cost of defending the case might be more than the amount being claimed, especially in so-called "nuisance" cases where the insured must be defended even though no liability is ever brought to trial.

11.3 KEY FEATURES OF LIABILITY INSURANCE :

1. **Financial Protection:** Liability insurance protects the insured from financial losses that may arise due to legal claims or lawsuits for injuries, property damage, or other liabilities.
2. **Legal Defense Coverage**: The insurance policy typically covers the costs of legal defense, including attorney fees, court costs, and other legal expenses associated with defending a liability claim.
3. **Coverage Types:**
   i. **Bodily Injury Liability**: Covers injuries caused to others by the insured party or their property.
   ii. **Property Damage Liability**: Covers damage to another person's property caused by the insured party.
   iii. **Personal and Advertising Injury Liability**: Protects against claims related to defamation, libel, slander, and false advertising.
   iv. **Product Liability:** Covers damages arising from defects in products the insured party produces or sells.
4. **Policy Limits and Deductibles**: Liability insurance policies have coverage limits, which is the maximum amount the insurer will pay for a covered claim. Deductibles are the amount the insured must pay out of pocket before the insurance coverage kicks in.
5. **Premiums:** The insured pays regular premiums to the insurance company to maintain coverage. The premium amount is determined based on various factors such as the type of coverage, coverage limits, the insured's risk profile, and other relevant factors.
6. **Exclusions**: Liability insurance policies may have certain exclusions, specifying what is not covered. Common exclusions include intentional acts or criminal behavior.
7. **Coverage for Legal Settlements and Judgments**: Liability insurance covers the costs of settlements or judgments that may be awarded to the injured party if the insured is found liable in a legal proceeding.
8. **Coverage Territory and Duration:** The policy will specify the geographical area (coverage territory) and the duration for which the coverage is in effect.
9. **Third-Party Protection:** Liability insurance provides protection for claims made by third parties, such as customers, visitors, or other individuals, rather than the policyholder themselves.

Liability insurance is essential for individuals and businesses to protect their financial well-being in case of unexpected events that result in liability claims or legal actions. It helps mitigate the financial risks associated with legal liabilities and provides peace of mind for the insured party.

11.4 LIABILITY INSURANCE IN INDIA – HISTORICAL BACKGROUND :

The history of liability insurance in India can be traced back to the early 110th century when insurance started to take shape in the country. However, the specific development of liability insurance as a distinct category is a more recent phenomenon.

11.4.1 Early Stages (Pre-Independence) :

Before India gained independence in 1847, insurance was primarily provided by foreign insurers operating in the country. These insurers, often of British origin, offered a range of insurance products, including life, property, and liability coverage.

11.4.2 Post-Independence Period:

After independence, the insurance industry underwent significant changes. In 1856, the Life Insurance Corporation of India (LIC) was established as a state-owned entity to consolidate and nationalize the life insurance business. However, general insurance, which includes liability insurance, remained predominantly in the private sector.

11.4.3 Insurance Act of 1838:

The Insurance Act of 1838 laid the foundation for insurance regulation in India. It provided the basic framework for the regulation and supervision of insurers, including those providing liability coverage. This act was revised and updated several times to adapt to changing needs and dynamics of the insurance sector.

11.4.4 Nationalization of General Insurance:

In 1872, the Indian government nationalized the general insurance business, leading to the formation of four public sector insurance companies: New India Assurance Company, Oriental Insurance Company, National Insurance Company, and United India Insurance Company. These companies played a crucial role in promoting and offering various forms of insurance, including liability coverage.

11.4.5 Introduction of IRDA Act (181010):

The Insurance Regulatory and Development Authority (IRDA) Act was enacted in 181010, establishing the IRDA as an autonomous regulatory body. The IRDA's primary role was to regulate and promote the growth of the insurance industry, ensuring that insurance providers, including those offering liability insurance, adhere to specified guidelines and standards.

11.4.6 Liberalization and Entry of Private Players (11000s):

The early 11000s saw the liberalization of the insurance sector in India, allowing the entry of private insurance companies. This led to increased competition, innovation, and diversification of insurance products, including liability insurance, to cater to the evolving needs of businesses and individuals.

11.4.7 Growth and Modernization (21st Century):

In the 21st century, liability insurance in India has experienced significant growth and modernization. Various public and private insurers now offer liability coverage across different sectors, including professional liability, product liability, public liability, and more. The awareness of the importance of liability insurance has also increased among businesses and professionals.

Today, liability insurance in India is an essential tool for managing risks and protecting businesses, professionals, and individuals from potential financial losses arising from legal liabilities and claims. The industry continues to evolve, adapting to changing regulatory frameworks, technological advancements, and market demands.

11.5 TYPES OF LIABILITY INSURANCE :

Legal liability may be classified into two categories.

1. **Criminal liability:** It is enforced by the State, resulting into punishment in the form of fine or imprisonment or both, and

2. **Civil liability:** Here action is brought by one party against another and dealt with according to law, resulting in payment of damages or compensation to the aggrieved party.

Note: Insurance coverage is provided only for civil liability claims. Any liability arising out of criminal act cannot be covered under insurance.

11.5.1 Causes of civil liability:

1. It may arise under common law which may be defined as a body of law Consisting of past court decisions, customs and usages recognized by courts.
   Example: A person may be liable to pay damages to another person under common law for negligently causing bodily injuries and/or property damage.
2. Civil liability may also arise under statutory law, i.e. under an Act of Parliament.
   Example: A person may be liable to pay damages to another person under common law for negligently causing bodily injuries and/or property damage.
3. civil liability may also arise under a contract between two parties.

   Example: A builder has made a contract with the owner to complete his building within a stipulated period. If the contractor fails to complete the building on time, then he has a civil liability to the owner.

11.5.2 Classification of liability insurance:

It can be classified into two types based on the category of liability covered:

- **Insurance covering Statutory liability i.e., liability defined by a specific law:**
  Example**:** Workmen's Compensation Act, Motor Vehicle Act, Indian Steamships Act, Public Liability Act etc. and
- **Insurance covering Tort liability i.e., common law judgments:**
  Example: public liability, professional liability, product liability etc.

11.5.3 Liability insurance is more commonly classified as:

i. Property and casualty liability i.e., acts of negligence resulting in loss or damage to property or death or injury of third party, or

ii. Financial liability i.e., negligence resulting in financial losses to third parties
Example: professional liabilities, directors' and officers' liabilities etc. The purpose of liability insurance is to provide indemnity to the insured in respect of the financial consequence of legal liabilities. The damages or compensation may become payable whenever any such liability arises under the law.

11.6 BASIC PRINCIPLES OF LIABILITY INSURANCE :

The basic principles of liability insurance outline the fundamental concepts and guidelines that govern how liability insurance operates. These principles help define the relationship between the insured party (individual or entity) and the insurer, ensuring clarity, fairness, and effective risk management. Here are the key principles:

11.6.1 Insurable Interest:

Insurable interest is the legal right to insure. The three essentials of insurable interest are:

1. The existence of a potential legal liability which is capable of being insured.
2. Such potential liability must be the subject matter of insurance, and

3. The insured must bear a legal relationship to the subject matter whereby he will benefit on freedom from liability and will lose financially on creation of liability.

Thus, the insured has an insurable interest in the financial loss that may be caused to him due to legal liability. Legal liability may arise when a person has to pay damages and incur legal costs and expenses, as a result of accidental damage to third parties' property or accidental bodily injuries to third parties. Likewise, the employer has a potential legal liability towards his employees in respect of work-related personal injuries. The law gives him a right to insure that liability. In addition to the insured, there may be some other parties who have insurable interest in the legal liability.

Example: If the insured has a technical collaboration agreement, the collaborator may also be exposed to the legal liability to the public risk and hence has insurable interest. The public liability policy may be extended in such case to cover the collaborator's liability.

11.6.2 Utmost Good Faith (Uberrimae Fidei) :

Good faith, known as "Utmost Good Faith" in insurance terminology, is a fundamental principle that governs the relationship between the insured and the insurer. It emphasizes honesty, fairness, and transparency throughout the insurance process. In the context of liability insurance, the principle of good faith has several key aspects:

- **Disclosure of Information**: The insured is required to provide complete, accurate, and honest information to the insurer during the application and underwriting process. This includes all relevant details about the risk being insured, any previous claims, the insured's history, and other pertinent facts that could influence the insurer's decision to provide coverage.
- **Duty to Volunteer Information**: Good faith requires the insured to proactively disclose information that the insurer may not be aware of but is material to the insurance contract. This ensures that the insurer has a comprehensive understanding of the risk and can properly underwrite the policy.
- **No Misrepresentation or Concealment:** The insured must not deliberately misrepresent or conceal any material information that could impact the insurer's assessment of risk or the terms of the insurance contract. Deliberate withholding of important information can be considered acting in bad faith.
- **True and Honest Intentions**: Both parties involved, the insured and the insurer, must enter into the insurance contract with true and honest intentions. This includes abiding by the terms of the policy, paying premiums on time, and not engaging in fraudulent activities.
- **Fair Claims Handling**: The insurer is expected to handle claims in good faith, promptly and fairly evaluating the claims based on the terms and conditions of the policy. This involves not unreasonably denying or delaying valid claims and honoring the commitments made in the insurance contract.
- **Good Faith Basis for Decision-Making**: Insurers are expected to base their decisions, including underwriting, claims handling, and policy issuance, on good faith principles. This includes treating all applicants and policyholders fairly and without bias.
- **Mutual Trust and Confidence:** Good faith fosters trust and confidence between the insured and the insurer. Both parties rely on each other to act honestly and ethically, creating a foundation for a successful insurance relationship.

Good faith is an essential ethical principle in liability insurance that ensures transparency, fairness, and trust in the insurance relationship. Both the insured and the insurer must act in good faith throughout the insurance process to maintain the integrity of the insurance contract.

11.7 INDEMNITY :

The fundamental principle of indemnity ensures that the insured is compensated to the extent of their actual financial loss, but not more. The purpose of liability insurance is to restore the insured to the same financial position they were in before the loss occurred, rather than providing an opportunity for gain.

Indemnity is a fundamental principle in insurance, including liability insurance, that ensures that the insured is restored to the same financial position they were in before a covered loss occurred. It is the basis of compensation in insurance and involves providing financial reimbursement to the insured to cover their actual financial losses resulting from a covered event.Here's a brief feature of the concept of indemnity in liability insurance:

11.7.1 Financial Compensation for Losses:

Indemnity in liability insurance means that the insurer will compensate the insured for financial losses they have suffered due to legal liabilities covered by the policy. This compensation is aimed at putting the insured back in the same financial position they were in prior to the occurrence of the covered event.

11.7.2 Principle of Restitution:

The principle of indemnity is based on the idea of restitution. The insured is not meant to profit from an insurance claim; rather, they should be "made whole" by receiving an amount equivalent to the actual loss incurred, subject to the policy limits and terms.

11.7.3 No Gain from Loss:

The concept of indemnity prevents the insured from gaining financially from the occurrence of a loss. The insured is not allowed to receive more than the actual amount of their loss, preventing situations where an insured could profit from an unfortunate event.

11.7.4 Actual Loss Calculation:

In liability insurance, the calculation of the indemnity is based on the actual financial loss suffered by the insured as a result of the liability claim. This may include legal expenses, settlement costs, judgments, and other related expenses directly attributable to the covered event.

11.7.5 Limitation to Policy Terms and Conditions:

The extent of indemnity is defined by the terms, conditions, and coverage limits of the insurance policy. The policy outlines the maximum amount the insurer will pay, based on the type of liability, policy limits, and any deductibles or exclusions specified in the policy.

11.7.6 Avoidance of Overcompensation:

The principle of indemnity prevents overcompensation by ensuring that the insured does not receive more than the actual loss. This aligns with the purpose of insurance, which is to provide financial protection rather than a means for profit.

11.7.7 Restoration of Financial Position:

The primary goal of indemnity is to restore the financial position of the insured to what it was before the loss, ensuring that they can continue their operations or activities without suffering a significant financial setback.

Indemnity in liability insurance serves to compensate the insured for actual financial losses incurred due to covered legal liabilities, maintaining the principle of restitution and avoiding unjust enrichment.

Example : A drug manufacturing company introduces a new drug in the market. The company had taken a liability insurance policy for a limit of Rs.1,000,000 to cover the liability from sale of this product. Unfortunately, the use of this drug resulted in ill health of many people. Those people filed lawsuits against the company due to which the company had to incur legal expenses with the consent of the insurer to defend their case. The company lost the case and was required to pay compensation to all the people who suffered. The total amount of claims along with all the legal costs were Rs.1,210,000. As the indemnity limit was Rs.1,000,000 only, the insurer paid up to that amount and the rest of the amount of Rs.210,000 was paid by the company. On the other hand, if the total amount of claims along with the legal costs would have been Rs.850,000, then the insurance company would have paid only Rs.850,000 and not Rs.1,000,000 as the insured (the drug manufacturing company) cannot make profit out of the liability insurance contract.

11.8 PROXIMATE CAUSE :

Proximate cause is a fundamental principle in insurance, including liability insurance, that determines the primary or most efficient cause of a loss or event leading to a claim. In the context of liability insurance, the concept of proximate cause helps in assessing whether a particular event or circumstance is covered by the insurance policy. Here's a brief overview of the concept of proximate cause in liability insurance:

11.8.1 Definition:

Proximate cause refers to the dominant or most immediate cause of a loss, which sets off a chain of events that result in the eventual loss or damage. It is the cause that directly leads to the loss, even if there are other contributing factors.

11.8.2 Determining Coverage:

In liability insurance, the concept of proximate cause is used to determine whether a particular event or action resulting in liability is covered by the policy. The policy will specify the types of events or circumstances that are covered, and proximate cause helps in evaluating if the event falls within the scope of coverage.

11.8.3 Causation Analysis:

Insurers and courts often perform a causation analysis to determine the proximate cause of a loss. They assess the series of events leading to the loss and identify the immediate or dominant cause that initiated the chain of events.

11.8.4 Direct Link to Liability:

The proximate cause in liability insurance must be directly linked to the legal liability for which the insured is seeking coverage. It establishes a clear connection between the insured's actions or circumstances and the resulting liability, influencing the decision on whether the claim will be covered.

Example: For example, in an automobile accident, if the proximate cause is determined to be the negligence of the insured driver (e.g., running a red light), and this negligence directly led to the accident and subsequent liability claims, then the liability insurance would likely cover the resulting damages and injuries.

11.8.5 Limitations and Policy Wording:

The extent to which proximate cause is considered for coverage may vary based on the specific terms and conditions of the insurance policy. Policy wording and definitions may further clarify the role of proximate cause in determining coverage.

Understanding the proximate cause is essential in liability insurance to ensure that claims are assessed accurately and fairly. It helps in identifying the cause that most directly contributed to the liability, assisting in the proper application of insurance coverage for the insured's legal responsibilities.

11.9 SUBROGATION :

Subrogation may be defined as the transfer of rights and remedies of the insured to the insurer who has indemnified the insured in respect of the loss.The principle of subrogation is corollary of the principle of indemnity. The latter principle does not allow the insured to make a profit out of his loss (i.e. from insurance contracts). It follows, therefore, that if the insured has any rights of recovery against any third party, who is primarily responsible for the loss, such rights are transferable to the insurer who, having paid the loss, is entitled to exercise these rights and recover the loss from the third party. Subrogation arises under common law, and is implied in all contracts of indemnity.

Example: A retailer of beauty products has taken a product liability policy to cover the sums which he may become legally liable to pay as damages. The insurance company has paid a claim to a customer on behalf of the retailer for a defective product. The retailer also has the right to recover these damages from the wholesaler or manufacturer who supplied the defective products. However, according to the principle of subrogation, the retailer’s rights of recovery against the wholesaler or manufacturer for delivery of such products will be transferred to the insurer. The insurer is entitled to recover the loss from the wholesaler or manufacturer by exercising these rights as they have already paid the loss of the retailer.

11.9.1 Contribution:

This principle applies when more than one policy exists covering the same loss. Contribution is the right of an insurer who has paid a loss under a policy to recover a proportionate amount of the loss from other insurers who are also liable for the loss. The right of contribution flows from and supports the principle of indemnity. Therefore, if the same subject matter is insured with more than one insurer under common law, the insured can recover his entire loss (subject to policy limits) from any one insurer, who can later recover proportionate shares of the loss from the other interested insurers. This common law position is modified in liability insurance policies as a clause to ensure that each insurer pays their own rateable share of loss.

11.9.2 Mitigation of Loss:

The insured has a duty to take reasonable steps to minimize or mitigate the loss or damage once an event occurs. Failing to mitigate losses may affect the extent of coverage provided by the insurer.

11.9.3 Causa Proxima (Nearest Cause):

In determining coverage, the nearest or direct cause of loss is considered. Liability insurance covers losses resulting from covered perils or events specified in the policy.

11.9.4 Loss Payable Clause:

The loss payable clause specifies the party or entity to whom the insurance proceeds will be paid in the event of a covered loss. Typically, this is the injured party or a beneficiary designated in the policy.

Understanding and adhering to these fundamental principles is essential for both insurers and insured parties to ensure the effectiveness, fairness, and ethical operation of liability insurance contracts.

11.10 AVAILABLE LIABILITY INSURANCES IN INDIA :

Business owners are exposed to a range of liabilities, any of which can subject their assets to substantial claims. All business owners need to have an asset protection plan in place that's built around available liability insurance coverage.
Here are the main types of liability insurance:

- **Employer's liability and workers' compensation:** It is mandatory coverage for employers which protects the business against liabilities arising from injuries or the death of an employee.

- **Product liability insurance**: It is for businesses that manufacture products for sale on the general market. Product liability insurance protects against lawsuits arising from injury or death caused by their products.

- **Indemnity insurance**: The insurance provides coverage to protect a business against negligence claims due to financial harm resulting from mistakes or failure to perform.

- **Director and officer liability coverage**: This insurance cover a company's board of directors or officers against liability if the company should be sued. Some companies provide additional protection to their executive team even though corporations generally provide some degree of personal protection to their employees.

- **Umbrella liability:**policies are personal liability policies designed to protect against catastrophic losses. Coverage generally kicks in when the liability limits of other insurance are reached. An umbrella insurance policy is additional liability insurance coverage that is purchased and goes beyond the dollar limits of the insured's existing homeowners, auto, or watercraft insurance.

- **Commercial liability insurance:** This type of insurance is a standard commercial general liability policy also known as comprehensive general liability insurance. It provides insurance coverage for lawsuits arising from injury to employees and the public, property damage caused by an employee, as well as injuries suffered by the negligent action of employees. The policy may also cover infringement on intellectual property, slander, libel, contractual liability, tenant liability, and employment practices liability.

- **Comprehensive general liability:** It is policies are tailor-made for any small or large business, partnership or joint venture businesses, a corporation or association, an organization, or even a newly acquired business. Insurance coverage includes bodily injury, property damage, personal and advertising injury, medical payments, and premises and operations liability. Insurers provide coverage for compensatory and general damages for lawsuits but not punitive damages.

11.11 IMPORTANT ASPECTS :

11.11.1 How Does Personal Liability Insurance Differ from Business Liability Insurance?

Personal liability insurance covers individuals against claims resulting from injuries or damage to other people or property experienced on the insured's property or as a result of the insured's actions. Business liability insurance instead protects the financial interests of companies and business owners from lawsuits or damages resulting from similar accidents but also extending to product defects, recalls, and so on.

11.11.2 What Is Backdated Liability Coverage? :

Usually, you must have liability coverage in place when an event happens those results in a claim. Backdated liability insurance, however, is insurance that provides coverage for a claim that occurred before the insurance policy was purchased. These policies are uncommon and usually available only to businesses.

11.12 BURGLARY INSURANCE :

Burglary insurance, also known as theft insurance, is a type of insurance policy that provides coverage for losses or damages to your property as a result of theft, burglary, or attempted burglary. It is designed to protect homeowners, renters, and business owners from financial losses associated with theft-related events. Here are the key features of burglary insurance:

- **Coverage for Theft and Burglary**: Burglary insurance primarily covers losses resulting from theft, burglary, or attempted burglary. This can include stolen valuables, damage to property during a break-in, and other related losses.
- **Valuables and Property Coverage:** The insurance typically covers a range of personal property, including electronics, jewelry, appliances, furniture, clothing, and other valuables. The coverage may extend to both the structure of the property and its contents.
- **Policy Limits and Deductibles**: The policy will have specific limits on the maximum amount it will pay for a covered loss. Deductibles, the amount you must pay out of pocket before the insurance coverage kicks in, are also a common feature.
- **Premiums and Payments:** You'll pay a regular premium to maintain the policy, typically monthly or annually. The premium amount is determined based on various factors, including the value of your property, the location of your property, and your chosen coverage limits.
- **Exclusions and Limitations:** Like all insurance policies, burglary insurance may have certain exclusions and limitations. Common exclusions may include losses due to fraud, employee theft, or losses outside the premises (unless specified otherwise).

- **Claim Process**: In the event of a theft or burglary, you would need to file a claim with your insurance provider. This process involves providing evidence of the theft, such as a police report, and documenting the value of the stolen or damaged items.
- **Optional Coverages**: Depending on the insurance provider and policy, you may have options to add additional coverages such as identity theft protection, coverage for stolen credit cards, or coverage for items taken outside your home.
- **Security Measures and Discounts**: Some insurance companies may offer discounts if you have security measures in place, such as alarms, surveillance systems, or reinforced locks. These measures can reduce the risk of theft and may lower your premium.

It's important to carefully review the terms, conditions, and coverage options of any burglary insurance policy to ensure it meets your specific needs and provides adequate protection for your property against theft and related risks.

11.13 DIFFERENT TYPES OF BURGLARY INSURANCES :

Burglary insurance typically falls under property insurance, specifically addressing theft-related risks to your property and possessions. Here are various types of coverage that may be included or related to burglary insurance:

- **Basic Theft Coverage**: This covers losses resulting from theft, burglary, or attempted burglary. It usually includes stolen valuables and damage to property during a break-in.
- **Personal Property Coverage**: This extends coverage to personal belongings inside the insured premises, such as electronics, jewellery, clothing, furniture, and appliances.
- **Home Contents Insurance**: Offers coverage for the contents of your home, including household items and personal possessions against theft or damage due to burglary.
- **Commercial Property Theft Insurance**: Provides protection for businesses against theft and burglary of company assets, equipment, and inventory.
- **Business Interruption due to Theft**: Covers financial losses a business may incur due to interruption of operations caused by theft or burglary.
- **Cash and Securities Coverage**: Protects cash, banknotes, coins, checks, and other valuable securities within your property in the event of theft.
- **Identity Theft Insurance**: Covers the costs associated with identity theft, such as legal fees, credit monitoring, and identity restoration services.
- **Travel Insurance for Theft:** Covers personal belongings and valuables while traveling, including theft of luggage or other belongings during your trip.
- **Garage or Shed Theft Insurance:** Extends coverage to theft or burglary of items stored in garages, sheds, or other detached structures on your property.
- **ATM Theft Insurance**: Covers theft or burglary related to automated teller machines (ATMs), including cash losses and damage to the ATM.
- **Cyber Theft and Fraud Insurance:** Covers losses resulting from cyber theft, hacking, or fraud, including stolen digital assets or financial losses due to online theft.
- **Fine Art and Collectibles Insurance**: Offers coverage for theft or burglary of valuable artwork, collectibles, antiques, and other high-value items.

- **Equipment and Tools Theft Insurance**: Covers theft or burglary of specialized equipment, tools, or machinery used for business or trade purposes.

It's essential to carefully review the terms, conditions, and exclusions of each specific insurance policy to understand the coverage provided and ensure it meets your needs and requirements related to burglary and theft protection. Additionally, consulting with an insurance professional can help you navigate the available options and choose the appropriate coverage for your situation.

11.14 SUMMARY :

It is summarized, liability insurance serves as a crucial risk management tool, providing protection against legal liabilities arising from personal injury, property damage, or negligence. Key features include coverage for legal defense costs, settlement amounts, and indemnification against losses. The need for liability insurance stems from the potential financial devastation resulting from lawsuits, making it essential for individuals and businesses alike. In India, various liability insurance schemes are available, encompassing public liability, professional indemnity, product liability, and employer's liability insurance. These schemes aim to mitigate the financial impact of legal claims and foster a sense of responsibility, ensuring a more secure and accountable society. Subrogation, an essential component of liability insurance, facilitates the recovery of losses from responsible third parties, contributing to the sustainability and effectiveness of the insurance system.

11.15 KEY WARDS :

1. **Civil liability :** Civil Liability can be defined as the obligation of a person who has caused damage to another (either actively or passively) to repair or compensate that damage, either in nature or by monetary compensation. Although in general the person who responds is the author of the damage, it is possible that another person may be held responsible, which is why it is called “responsibility for the acts of others”.
2. **Trot liability :** Tort liability can arise out of negligence or intentional wrongdoing. Some torts are also strict liability torts, which means a defendant is liable for damages regardless of whether they were negligent or intended to commit a wrongful act.
3. **Mutual trust :** Mutual trust refers to the confidence that each party will fulfill its obligations and behave as expected
4. **Indemnity :** Indemnity means making compensation payments to one party by the other for the loss occurred. Indemnity is based on a mutual contract between two parties (one insured and the other insurer) where one promises the other to compensate for the loss against payment of premiums.
5. **Umbrella liability :** Umbrella insurance provides coverage beyond the limits of your other insurance policies, or for claims that may not be covered by liability policies. Umbrella insurance generally provides liability coverage for: Injuries. Damage to property. Certain lawsuits.

11.16 SELF-ASSESSMENT QUESTIONS :

1. What is liability insurance? What are the its features?
2. Write a note on historical prospects of liability insurance.
3. What are the types of liability insurance in India?
4. What is indemnity? Write its principles.

5. Write a note on proximate cause.

11.17 FURTHER READINGS :

1. Dr. S. D. Gupta, "Liability Insurance Policies and Procedures" - Taxmann Publications Pvt. Ltd.
2. Dr. R. K. Gupta, "Liability Insurance: Principles and Practice" - Himalaya Publishing House
3. Dr. G. S. Grewal, "Liability Insurance and Risk Management" - Excel Books
4. V. Venkata Rao, "Indemnity and Guarantee Insurance: Principles and Practices" - Notion Press
5. Dr. S. K. Das, "Understanding Indemnity and Liability in Insurance" - LAP Lambert Academic Publishing
6. Dr. K. L. Gupta, "Liability Insurance: Concepts and Cases" - Taxmann Publications Pvt. Ltd.
7. Dr. R. N. Kapoor, "Professional Indemnity Insurance: A Comprehensive Guide" - Lexis Nexis
8. Dr. M. L. Saini, "Indemnity and Liability Clauses in Insurance Contracts" - LAP Lambert Academic Publishing
9. Dr. P. K. Jain, "Product Liability Insurance: Concepts and Applications" - Taxmann Publications Pvt. Ltd.
10. Dr. Anand Prakash, "Public Liability Insurance: Law and Practice" - Eastern Book Company

LESSON – 12
OTHER MISCELLANEOUS INSURANCES

LEARNING OBJECTIVES :

- To understand the miscellaneous concepts of insurance
- To know the different insurance concepts and their benefits
- To know the rural and other eco mode insurances
- To understand the government or public insurances in India
- To able to go through innovative insurance concepts in India

STRUCTURE :

12.1 Introduction
12.2 Travel Insurance
12.3 Home Insurance
12.4 Renter's insurance
12.5 Fire Insurance
12.5.1 Principles of fire insurance
12.6 Earthquake Insurance
12.7 Marine Insurance
12.7.1 Key points about marine insurance include
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12.12 Event Insurance
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12.14.1 Specialized Sports
12.15 NRI Insurance
12.16 Environmental Liability Insurance
12.16.1 Policy Types
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12.18 Pradhan Mantri Fasal Bima Yojana (PMFBY)
12.18.1 Objective
12.18.2 Eligibility Criteria
12.18.3 Coverage of Risks and Exclusions
12.19 Rashtriya Swasthya Bima Yojna (RSBY)
12.19.1 Objective
12.19.2 Other criteria
12.19.3 Enrolment Process for Beneficiaries
12.19.4 A government officers
12.20 Summery

12.21 Key wards
12.22 Self-Assessment questions
12.23 Further readings

12.1 INTRODUCTION :

Insurance in India spans beyond traditional categories like life and health, encompassing a range of specialized coverages tailored to meet diverse needs. Travel insurance, home insurance, pet insurance, and miscellaneous insurances form an essential part of this expansive landscape. These insurance types are crafted to provide financial protection and peace of mind in specific areas of life that may be vulnerable to unforeseen events. Travel insurance offers coverage for medical emergencies, trip cancellations, baggage loss, and other related mishaps during domestic or international travels. It ensures that travellers are protected from unexpected disruptions, enabling them to navigate their journeys with confidence.

Home insurance protects one's residence and its contents against risks such as fire, theft, natural calamities, and more. It covers damages to the structure of the house as well as valuable possessions inside, assuring homeowners of financial assistance in case of unfortunate incidents. Pet insurance is a specialized coverage designed to address the health and well-being of pets. It provides financial assistance for veterinary care, surgeries, medications, and other healthcare needs, easing the financial burden on pet owners while ensuring the best care for their beloved pets.

Miscellaneous insurances encompass a wide range of unique and specialized insurance products that cater to specific risks and situations. These can include wedding insurance, event cancellation insurance, appliance protection, cyber insurance, and more. Each of these serves a distinct purpose and helps individuals or businesses manage risks associated with specific circumstances. Understanding the features, benefits, and claims procedures associated with these specialized insurances is crucial for individuals and entities seeking to protect themselves, their assets, and their loved ones from unforeseen circumstances. As the insurance landscape in India continues to evolve, these specialized insurance offerings play an increasingly significant role in providing tailored coverage and enhancing overall financial security.

In India, the insurance industry offers a wide range of insurance products to cater to various needs and risks. Here's a list of miscellaneous insurances available in India:

12.2 TRAVEL INSURANCE:

Travel insurance in India is a financial protection plan that offers coverage for medical emergencies, trip cancellations or interruptions, baggage loss, flight delays, and personal liabilities during both domestic and international travel. It provides peace of mind and assistance during unforeseen events while traveling, including medical expenses, evacuation, and emergency assistance. Travelers can choose between single-trip or multi-trip policies based on their travel needs. Premiums depend on factors like age, trip duration, destination, and coverage options. It's crucial to understand the policy terms, coverage limits, and exclusions before purchasing travel insurance to ensure comprehensive protection. Different types of travel insurances**:**

- Domestic Travel Insurance

- International Travel Insurance
- Student Travel Insurance
- Senior Citizen Travel Insurance

12.3 HOME INSURANCE :

Home insurance, also known as homeowners' insurance, is a type of insurance policy that provides financial protection and coverage for your home and its contents in case of damage, loss, or certain liabilities. Here are the key features of home insurance:

- **Dwelling Coverage**: Protects the structure of your home, including walls, roof, floors, and attached structures like garages, in case of damage from covered perils such as fire, hail, wind, or lightning.
- **Contents Coverage**: Covers personal belongings and possessions inside your home, including furniture, appliances, clothing, electronics, and other valuable items, against covered perils.
- **Liability Protection**: Provides coverage for personal liability if someone is injured on your property or if you cause damage to another person's property. This can include legal expenses and settlement costs.
- **Additional Living Expenses (ALE):** Reimburses you for temporary living expenses, such as hotel bills or rental costs, if your home is uninhabitable due to a covered peril.
- **Personal Property Off-Premises Coverage:** Extends coverage to personal belongings even when they are outside your home, such as belongings stolen from your car.
- **Named Perils vs. All-Risk Policies**: Home insurance can be based on named perils (specific events or risks that are listed and covered) or all-risk (covers all perils unless explicitly excluded).
- **Policy Limits and Deductibles**: Home insurance policies have coverage limits, specifying the maximum amount the insurance company will pay for a covered loss. Deductibles are the amount you must pay before the insurance coverage applies.
- **Coverage for Additional Structures**: Covers separate structures on your property, such as sheds, garages, or fences, for a specified percentage of the overall dwelling coverage.
- **Optional Endorsements or Riders**: Homeowners can often customize their policies with optional endorsements or riders to add specific coverage for high-value items, jewellery, art, or to cover risks like earthquakes or floods that are typically excluded.
- **Loss Assessment Coverage**: Provides protection if you are assessed a portion of a loss by a homeowner's association, typically applicable to condominium or community living.
- **Risk Mitigation Discounts**: Insurance providers often offer discounts for home security systems, smoke alarms, fire extinguishers, and other safety measures that reduce the risk of damage or loss.
- **Personalized Premiums:** Premiums are determined based on various factors, including the location of your home, its age and condition, the level of coverage selected, and your claims history.

12.4 RENTER'S INSURANCE :

It is also known as tenant's insurance, is a type of insurance policy designed to provide financial protection for individuals who rent or lease a residential property. While the landlord typically ensures the building structure, renter's insurance covers the tenant's personal belongings and provides liability coverage. Here are the key aspects of renter's insurance:

- Protects a tenant's personal belongings, including furniture, electronics, clothing, appliances, and other valuables, against covered perils such as fire, theft, vandalism, or certain natural disasters.
- Offers coverage for liability in case the tenant is found legally responsible for causing bodily injury or property damage to others. This can include medical expenses, legal fees, and settlement costs.
- Similar to home insurance, renter's insurance policies can be based on named perils (specific events or risks that are listed and covered) or all-risk (covers all perils unless explicitly excluded).
- The policy will have specific coverage limits and deductibles that define the maximum amount the insurance company will pay and the amount the policyholder must pay out of pocket, respectively.
- Provides coverage for medical expenses if a guest is injured while on the rented property, regardless of fault.
- Covers theft or loss of personal belongings even if they are outside the rented premises, such as items stolen from a car.Tenants can often customize their policies by adding endorsements or riders for specific coverage needs, such as high-value items, earthquake coverage, or identity theft protection.

Renter's insurance is essential for safeguarding a tenant's personal property and offering liability protection, giving renters peace of mind and financial security in case of unexpected events or accidents. It's important to carefully review policy terms, coverage options, and exclusions to ensure the policy meets your specific needs and circumstances.

12.5 FIRE INSURANCE:

As per the Insurance Act 1838, under Section 2 (6A), Fire Insurance is defined as:

> "The business of effecting, otherwise than independently to some other class of business, contracts of insurance against loss by or incidental to fire or other occurrence customarily included among the risks insured against in fire insurance policies."

Fire insurance is an agreement whereby one party (the insurer), in return, for a consideration undertakes to the indemnify the other party (the insured) against financial loss which he may sustain by reason of certain defined subject matter being damaged by the destroyed by fire or other defined perils up to an agreed amount.

The word fire here does not mean the fire used for domestic and household activities. It refers to fire which is not caused intentionally and has no bound, and it is production of ignition, light and smoke by combustion.

12.5.1 Principles of fire insurance :

- Insurable Interest in Fire Insurance (insurable interest in the subject matter of the contract both in the at the time of taking the policy and the at the time of loss)
- The principle of Good Faith in Fire Insurance
- The principle of indemnity
- Proximate Cause of Fire Insurance
- The doctrine of Subrogation
- Warranties in Fire Insurance

According of section 2 of the insurance act 1838, the scope of fire insurance includes.,

(a). Fire insurance business is different from other insurance business operation and covers the risks caused by fire:

(b) In addition to the risk cause by the fire, it also includes other reasons and occurrences, which can be customarily be included among risk insured under fire insurance contracts., υ Thus the scope of fire insurance can be studied from two angles viz.,

(1) Ordinary scope of fire insurance and
(2) Comprehensive scope of fire insurance

12.6 EARTHQUAKE INSURANCE :

Earthquake insurance is a specialized type of insurance coverage that helps protect individuals, businesses, and property owners against the financial losses resulting from earthquake-related damages. It is essential for those residing in areas prone to seismic activity, often known as earthquake-prone regions. Key points about earthquake insurance include:

1. **Coverage and Damages:** Earthquake insurance typically covers damages to structures, personal belongings, and additional living expenses incurred due to earthquake-related destruction. This can include repairs to the building, replacement of personal items, and temporary housing costs.
2. **Exclusions and Deductibles:** Policies may have exclusions, such as landslides or tsunamis triggered by earthquakes. Additionally, earthquake insurance often comes with high deductibles, which are the out-of-pocket expenses the policyholder must pay before the insurance coverage kicks in.
3. **Policies and Premiums:** Earthquake insurance can be a standalone policy or added as an endorsement (rider) to an existing homeowners or property insurance policy. Premiums for earthquake insurance are determined based on various factors, including location, construction type, age of the building, and the coverage amount desired.
4. **Risk Assessment:** Insurance companies assess earthquake risk based on historical seismic activity, geological data, and other relevant factors. Areas with a higher risk of earthquakes typically have higher premiums.
5. **Government Involvement:** In some earthquake-prone regions, governments may offer specialized earthquake insurance programs or assistance to encourage residents to obtain coverage due to the significant risk associated with earthquakes.

6. **Mitigation Measures:** Some insurers may offer reduced premiums for policyholders who have taken measures to mitigate earthquake damage, such as reinforcing buildings or securing heavy objects.
7. **Claims and Adjustments:** In the event of an earthquake, policyholders must promptly report damages and file a claim with their insurance provider. An adjuster will assess the damage and determine the amount of compensation according to the terms of the policy.

It's crucial for individuals residing in earthquake-prone areas to carefully consider earthquake insurance to protect their assets and financial well-being in the event of a seismic event. Consulting with insurance professionals to understand policy specifics and coverage options is advisable.

12.7 MARINE INSURANCE :

Marine insurance is a type of insurance that provides coverage for risks associated with maritime activities, including transportation of goods, vessels, and cargo over water. It's a vital form of insurance for anyone involved in maritime trade, shipping, or activities on the seas. Marine insurance includes:

- Marine Cargo Insurance
- Marine Hull Insurance

12.7.1 Key points about marine insurance include:

1. **Coverage and Risks:** Marine insurance covers a range of risks related to the transportation of goods and vessels over water. This includes perils like loss or damage to the ship, cargo, and liabilities associated with maritime activities.
2. **Types of Policies:** There are various types of marine insurance policies, including hull insurance (covering the ship), cargo insurance (covering goods being transported), and liability insurance (covering third-party liabilities).
3. **Insurance Conditions:** Marine insurance policies often have specific conditions related to the voyage, the type of cargo, the ship's condition, the route taken, and compliance with safety regulations. The conditions can affect the coverage and premiums.
4. **Premiums and Underwriting:** Premiums for marine insurance are determined based on factors such as the type of coverage, the value of the vessel or cargo, the voyage route, safety measures, and the insurer's assessment of risks involved.
5. **Valuation and Agreed Value:** The valuation of the insured items can be determined as "agreed value" (a fixed amount agreed upon by the insurer and insured) or "actual cash value" (the current market value at the time of loss).
6. **General Average:** In maritime law, "general average" refers to the practice of sharing the losses resulting from a voluntary sacrifice of part of the ship or cargo to save the whole during an emergency. Marine insurance often covers the insured's contribution to general average.
7. **Claims Process:** In case of a covered event, the insured must notify the insurer promptly and provide all necessary documentation. An adjuster will assess the damage and losses to determine the amount of compensation to be paid.

Marine insurance is crucial for the protection of assets and interests in the maritime industry, ensuring that the risks associated with transporting goods and vessels across water

are adequately mitigated. Understanding the terms, conditions, and coverage of marine insurance policies is essential for businesses and individuals involved in maritime activities.

12.8 COMMERCIAL INSURANCE :

Commercial insurance, also known as business insurance, is a type of insurance policy designed to protect businesses, organizations, and professionals from financial losses and liabilities that may arise during the course of their operations. It provides coverage for a wide range of risks and potential incidents that could impact a business's ability to operate or its financial stability. Key features and aspects of commercial insurance include:

- **Coverage Scope:** Commercial insurance policies offer coverage for a variety of risks, including property damage, liability, employee-related risks, business interruption, equipment breakdown, and more. The specific coverage depends on the type of policy and the needs of the business.
- **Tailored Policies:** Businesses can customize commercial insurance policies to suit their unique needs and industry requirements. Policies can be tailored based on the type of business, industry sector, size, location, and specific risks they face.

Types of Commercial Insurance:

- **Property Insurance:** Covers damage or loss of physical assets, such as buildings, equipment, inventory, and other business property.
- **Liability Insurance:** Protects against claims of negligence, personal injury, property damage, or other liabilities that a business may face.
- **Business Interruption Insurance:** Compensates for lost income and ongoing expenses when a covered event disrupts normal business operations.
- **Workers' Compensation Insurance:** Provides coverage for medical expenses and lost wages for employees injured or ill due to work-related activities.
- **Commercial Auto Insurance:** Covers vehicles used for business purposes against accidents, damage, and liability.
- **Professional Liability (Errors and Omissions) Insurance:** Protects professionals from claims of negligence or inadequate services.
- **Cyber Insurance:** Covers losses and liabilities associated with data breaches, cyber-attacks, or other cyber-related risks.

- **Premiums and Deductibles**: The cost of commercial insurance, known as the premium, is determined based on factors such as the type of coverage, industry risk, business size, location, claims history, and other relevant aspects. Policyholders typically choose a deductible, the amount they pay out of pocket before insurance coverage begins.
- **Legal and Regulatory Compliance:** Businesses may be required by law, industry regulations, or contracts with third parties to carry specific types of commercial insurance. Compliance with these requirements is essential to operate legally and fulfil contractual obligations.

- **Different types of commercial insurances:**
  - Business Interruption Insurance
  - Industrial All Risk Insurance

- Machinery Breakdown Insurance
- Fire Insurance for Business

Commercial insurance is a vital tool for managing and mitigating risks inherent in running a business. It provides peace of mind to business owners and stakeholders by safeguarding the organization's financial health and ensuring continuity of operations in the face of unexpected events. Consulting with insurance professionals is advisable to determine the most appropriate coverage for a specific business.

12.9 CYBER INSURANCE :

Cyber insurance, also known as cyber liability insurance or cyber risk insurance, is a specialized insurance product designed to protect individuals and businesses from financial losses and liabilities resulting from cyber-attacks, data breaches, and other cyber-related incidents. As technology becomes increasingly integral to business operations, the need for cyber insurance has grown significantly to mitigate the risks associated with the digital landscape. Key points about cyber insurance include:

- **Coverage Areas:** Cyber insurance covers a wide range of risks associated with cyber incidents, including data breaches, cyber-attacks, ransomware, business interruption, network damage, privacy liability, and legal expenses.
- **Data Breach Response:** This aspect of cyber insurance helps businesses manage and respond to data breaches effectively. It covers expenses related to notifying affected individuals, credit monitoring, legal fees, public relations efforts, and other incident response costs.
- **Ransomware and Extortion Coverage:** Cyber insurance often includes coverage for ransomware attacks, which involve payment demands to restore access to encrypted data or prevent the release of sensitive information. This coverage can extend to the ransom payment and associated expenses.
- **Business Interruption and Loss of Income:** Cyber insurance can cover financial losses resulting from a cyber incident that disrupts business operations, leading to a temporary or prolonged loss of income. It helps compensate for revenue loss, extra expenses, and potential increased costs to recover from the incident.
- **Liability and Legal Protection:** Cyber insurance protects against legal claims and liabilities that may arise from a cyber event, such as alleged failure to protect sensitive data, privacy violations, or negligence. It can cover legal defense costs and settlements or judgments.
- **Regulatory Fines and Penalties:** Some cyber insurance policies cover fines and penalties imposed by regulatory authorities due to non-compliance with data protection laws following a cyber incident.
- **Risk Assessment and Mitigation:** Insurers often provide resources and guidance to help policyholders assess their cyber risks, improve cybersecurity measures, and develop incident response plans to reduce the likelihood and impact of cyber incidents.
- **Premiums and Policy Limits:** Premiums for cyber insurance are based on factors such as the type and size of the business, industry, cyber risk profile, security measures in place, and desired coverage limits. Policy limits define the maximum amount the insurer will pay for a covered claim.

Cyber insurance is essential for organizations of all sizes to mitigate financial and reputational risks associated with cyber threats. It can provide crucial support in navigating the complex and evolving landscape of cybersecurity threats and regulatory requirements. Businesses should carefully review policy terms, consult with insurance professionals, and tailor coverage to their specific needs and risk profile.

12.10 HOME APPLIANCE INSURANCE :

Home appliance insurance, also known as home appliance protection or appliance warranty, is an insurance policy that provides coverage for the repair or replacement of household appliances in the event of mechanical breakdowns, malfunctions, or failures. This type of insurance can be valuable for homeowners and renters looking to safeguard their investments and mitigate unexpected repair costs associated with essential home appliances. Key points about home appliance insurance include:

- **Coverage and Appliances:** Home appliance insurance covers a range of household appliances, including refrigerators, ovens, microwaves, dishwashers, washing machines, dryers, air conditioning units, water heaters, and more. The specific appliances covered may vary based on the insurance policy and provider.
- **Protection against Breakdowns:** The insurance provides protection against unexpected mechanical or electrical breakdowns of covered appliances. If a covered appliance malfunctions, the insurance typically covers the cost of repairs or, in some cases, a replacement.
- **Repair or Replacement:** Depending on the insurance policy, the insurance provider may either arrange and pay for authorized repair services or provide a replacement appliance if the original appliance cannot be repaired economically.
- **Premiums and Deductibles:** Homeowners pay a regular premium for the appliance insurance, typically on a monthly or annual basis. Additionally, there might be a deductible or service fee that the homeowner must pay for each repair visit, similar to other types of insurance.
- **Term and Renewal:** Appliance insurance policies have specific terms of coverage, usually ranging from one to five years. Homeowners can often choose to renew the policy after the initial term to continue coverage.
- **Exclusions and Limitations:** Appliance insurance policies often have exclusions or limitations, such as pre-existing conditions, cosmetic damage, intentional damage, misuse, acts of nature, and appliances beyond a certain age. Homeowners should carefully review policy terms to understand what is covered and what is not.
- **Convenience and Peace of Mind:** Home appliance insurance offers convenience and peace of mind, knowing that unexpected appliance breakdowns can be quickly addressed without incurring significant out-of-pocket costs.
- **Considerations:** Before purchasing home appliance insurance, homeowners should assess the condition and age of their appliances, weigh the cost of the insurance premiums against potential repair or replacement costs, and consider the manufacturer's warranty or extended warranty options that might already be in place.

Home appliance insurance can be a prudent investment for homeowners seeking to protect their budget from unexpected repair expenses and ensure the continued functionality of essential household appliances. It's important to carefully read and understand the policy terms, including coverage, limitations, and exclusions, before purchasing this type of insurance.

12.11 PET INSURANCE :

Pet insurance is a specialized type of insurance that provides coverage for various veterinary costs and medical expenses associated with the healthcare of pets. It's designed to help pet owners manage the financial burden of unexpected veterinary bills and ensure that their beloved pets receive necessary medical care.Key points about pet insurance include:

- **Coverage and Veterinary Expenses:** Pet insurance typically covers a range of veterinary expenses, including accidents, illnesses, surgeries, hospitalization, diagnostic tests, medications, emergency care, and sometimes routine preventive care such as vaccinations and annual check-ups.
- **Policy Types and Options:** Pet insurance policies come in various types, including accident-only coverage, illness coverage, and comprehensive coverage (combining accident and illness coverage). Pet owners can choose the type of policy and coverage options that suit their needs and budget.
- **Premiums and Deductibles:** Pet owners pay a regular premium to maintain the insurance policy, usually on a monthly basis. Additionally, there's a deductible, which is the amount the pet owner must pay before the insurance coverage kicks in. Higher deductibles often result in lower premium costs.
- **Reimbursement Percentage:** Pet insurance policies specify the reimbursement percentage, indicating the portion of covered expenses that the insurer will reimburse after the deductible has been met. Common reimbursement percentages range from 70% to 100%.
- **Exclusions and Waiting Periods:** Pet insurance policies have exclusions, which are specific conditions or situations not covered by the policy. Additionally, there may be waiting periods after policy inception before certain coverage becomes effective.
- **Pre-existing Conditions:** Like other forms of insurance, pre-existing conditions are typically excluded from coverage. These are health issues or conditions that were present in the pet before the insurance policy was purchased.
- **Breed and Age Considerations:** The breed, age, and overall health of the pet can impact the cost of premiums and the availability of coverage. Some breeds prone to specific health issues might have higher premiums.
- **Claim Process:** When a pet requires medical attention, the pet owner pays the veterinary bill and then submits a claim to the insurance provider. The insurer will review the claim and reimburse the eligible expenses as per the policy terms.

Pet insurance provides peace of mind to pet owners, enabling them to make healthcare decisions for their pets based on medical need rather than financial constraints. It can be particularly beneficial in managing unexpected and high veterinary costs, ensuring that pets receive the best possible care. However, it's essential for pet owners to carefully review policy terms and coverage options to choose a plan that aligns with their pet's health requirements and budget.

12.12 EVENT INSURANCE :

Event insurance, also known as special event insurance or event liability insurance, is a type of insurance coverage that provides protection and financial security for individuals or organizations hosting events. It helps mitigate the risks associated with hosting events, such as weddings, parties, festivals, conferences, and other special occasions.Key points about event insurance include:

Event insurance typically offers two main types of coverage:

- **Event Liability Insurance:** Covers third-party bodily injury or property damage claims that may occur during the event.
- **Event Cancellation Insurance:** Protects against financial losses if the event is cancelled, postponed, or rescheduled due to unforeseen circumstances like severe weather, illness, or venue issues.

Provides coverage for accidents, injuries, or damages to third parties during the event. Can cover medical expenses, legal fees, property damage costs, and more. Essential for protecting event hosts from potential lawsuits and liabilities. Covers financial losses incurred due to event cancellation or interruption. Typically includes deposits, vendor payments, advertising costs, and other non-refundable expenses. Helps event organizers recover losses and potentially reschedule the event. The cost of event insurance, known as the premium, depends on various factors, including the type of event, number of attendees, coverage amounts, and location. Event insurance policies have specific terms and conditions that define the coverage, exclusions, and any required documentation. Some event insurance policies offer additional coverage options such as liquor liability insurance (for events serving alcohol), rented equipment coverage, and event organizer's professional liability.

Event insurance is suitable for a wide range of events, including weddings, birthday parties, concerts, exhibitions, corporate events, trade shows, and more. Tailored policies are available to suit the unique needs and risks associated with different event types. Many event venues may require event organizers to obtain event liability insurance to protect both parties from potential liabilities. Event insurance provides event organizers with financial protection and peace of mind, ensuring that unexpected events or accidents do not result in significant financial losses. It's an essential tool for anyone planning and hosting events, helping them manage risks and create a safe and successful event environment.

12.13 TERRORISM INSURANCE :

Terrorism insurance is a specialized type of insurance coverage designed to protect individuals, businesses, and property owners from financial losses resulting from acts of terrorism. It is meant to mitigate the economic impact and liabilities associated with damages or losses caused by acts of terrorism, which can include acts of violence, sabotage, or coercion perpetrated by individuals or groups to achieve political, ideological, or religious goals. Key points about terrorism insurance include:

Terrorism insurance typically covers property damage, business interruption, and liability resulting from acts of terrorism. It may encompass damage to buildings, contents, loss of income, extra expenses, and liability to third parties. Insurance policies usually define what constitutes an act of terrorism, often referring to government declarations or specific criteria related to intent, violence, and impact on a broader population. Terrorism insurance often involves a partnership between private insurance companies and government-backed insurance programs or reinsurance, especially for catastrophic losses resulting from large-scale terrorist attacks. The availability of terrorism insurance and its terms can vary by country. In some regions, the government may mandate insurers to offer terrorism coverage, while in others, it is optional.

Premiums for terrorism insurance are determined based on factors such as the location of the insured property, the level of perceived risk, the type of coverage, and the insurer's assessment of potential exposure. Policies often come with a deductible, which is the amount the policyholder must pay before insurance coverage applies. Insurers assess the risk of terrorism based on factors like location, previous terrorist activities in the area, security

measures in place, and other relevant considerations. Some policies require certification of terrorism insurance coverage to qualify for government assistance or recovery in the event of a terrorist attack. Having terrorism insurance is often part of a business's broader risk management and business continuity strategy to ensure resilience and the ability to recover after a terrorist event.

Terrorism insurance is critical for businesses and property owners, particularly those in areas with a higher risk of terrorism. It provides a layer of financial protection against the potential devastating effects of terrorist acts, allowing businesses to recover and rebuild after such tragic events. Understanding the terms, conditions, and coverage specifics of terrorism insurance policies is essential for individuals and businesses seeking this type of coverage.

12.14 SPORTS INSURANCE :

Sports insurance is a specialized type of insurance coverage designed to protect individuals and organizations involved in sports activities from a range of risks, injuries, liabilities, and financial losses associated with participating in sports events or organizing sports-related activities. Key points about sports insurance include:

- **Accident and Medical Coverage:** Covers medical expenses resulting from injuries sustained during sports activities.
- **Liability Insurance:** Protects against claims of negligence or injury brought by third parties (e.g., spectators, participants, or property owners) due to sports-related incidents.
- **Disability Insurance:** Provides financial benefits to individuals who suffer a disabling injury during sports activities, compensating for lost income or medical costs.
- **Event Cancellation Insurance:** Covers financial losses incurred due to the cancellation, postponement, or abandonment of a sports event due to unforeseen circumstances.

Sports insurance can cover a range of stakeholders, including athletes, coaches, event organizers, teams, sports clubs, sports associations, sports facilities, and event sponsors. Coverage can extend to amateur and professional athletes, as well as volunteers and staff involved in organizing and managing sports events. Insurance providers assess the risks associated with the specific sport, event type, number of participants, location, and other relevant factors to determine appropriate coverage and premiums. The cost of sports insurance (premiums) is influenced by the level of coverage, type of sport, participant age and health, and the insurance company's assessment of risk. Policy terms may vary, ranging from short-term event-specific coverage to long-term policies providing continuous protection for athletes and sports organizations.

12.14.1 Specialized Sports :

Different sports have varying risks and insurance needs. Extreme sports, contact sports, water sports, and team sports may require specialized insurance tailored to the particular risks associated with each activity. Professional athletes may opt for insurance to protect their careers and potential earnings, covering injuries, disability, or loss of endorsements. Sports organizations and event organizers may be required to have specific insurance coverage to comply with regulations, secure permits, or fulfil contractual obligations.

Sports insurance plays a crucial role in ensuring the safety and financial security of individuals and organizations involved in sports. It helps manage risks, promotes participation, and provides peace of mind to athletes, organizers, and stakeholders, allowing them to focus on enjoying the sports experience. Understanding the specific needs and risks associated with each sport is essential for obtaining the right type and level of sports insurance coverage.

12.15 NRI INSURANCE :

"NRI insurance" typically refers to insurance products or coverage options specifically designed for Non-Resident Indians (NRIs). Non-Resident Indians are individuals of Indian origin who live and work in a foreign country but maintain strong financial, familial, or cultural ties to India. NRI insurance aims to address the unique needs and circumstances of NRIs, providing coverage for various aspects of their lives, assets, and interests in India.

NRI insurance can encompass a range of insurance products, including life insurance, health insurance, property insurance, travel insurance, investment-linked insurance plans, and other forms of coverage.NRI insurance is designed to accommodate the unique circumstances, needs, and preferences of individuals living outside India while maintaining ties with the country. It offers a way for NRIs to ensure the protection of their loved ones, assets, and interests in India. It's advisable for NRIs to consult with insurance professionals or agents to understand the available insurance options and select the appropriate coverage based on their specific situation and requirements.

12.16 ENVIRONMENTAL LIABILITY INSURANCE :

Environmental liability insurance, also known as environmental impairment liability insurance (EIL), is a specialized type of insurance coverage that protects individuals, businesses, and organizations from financial losses resulting from pollution or environmental damage caused by their operations, activities, or products. It helps manage the potential liabilities associated with environmental harm and pollution-related incidents. Key points about environmental liability insurance include:

12.16.1 Policy Types:

- **Pollution Liability Insurance:** Provides coverage for sudden or gradual pollution events, such as spills, leaks, or emissions, resulting from business operations.
- **Remediation Cost Insurance:** Covers the costs associated with cleaning up and restoring the environment after a pollution incident.
- **Third-Party Liability Insurance:** Protects against claims and legal liabilities from third parties, including cleanup costs and property damage.

12.16.2 Policy Exclusions:

Policies may exclude intentional or criminal acts, pre-existing pollution conditions, fines and penalties, professional errors, and certain hazardous activities or substances. Policies often exclude known or suspected contamination before the policy inception.

Insurance providers conduct thorough risk assessments of the insured's operations, industry, location, and environmental practices to determine appropriate coverage and premiums. Premiums for environmental liability insurance are based on factors such as the type of coverage, industry, location, risk profile, and desired coverage limits. Policyholders

choose a deductible, the amount they pay out of pocket before insurance coverage applies. Environmental liability insurance is crucial for industries such as manufacturing, chemical, oil and gas, waste management, transportation, and construction, where environmental risks are significant.

Environmental liability insurance is vital for businesses to protect themselves from the potential financial and legal consequences of environmental incidents. It encourages responsible environmental practices and supports sustainable business operations while ensuring compliance with environmental laws and regulations. Businesses should carefully review policy terms and consult with insurance professionals to determine the most suitable coverage for their specific needs.

12.17 RURAL INSURANCE :

Rural insurance is fundamentally an insurance program that has been specifically proposed for the rural population section to guarantee and ensure their agriculture-related tools, businesses like poultry, cattle, etc., from the government. The advantages of rural insurance lie in the concept of allowing the individual to get the benefits in any case of death of cattle or in crises such as loss of reaping crop species. Rural insurance policy defines the insurance companies to keep aside for individuals belonging to the financially vulnerable and economically challengeable segment of the population. Also, the IRDA has attempted to compile the two segments of the Insurance Act by creating it mandatory for insurers who tend to provide general guarantees to help flourish businesses in the rural economic sector. Further, the development of various rural development programmes and different types of rural insurance has also provided a developed concept of rural insurance meaning. Two of the prime government involved rural insurance schemes are discussed below:

12.18 PRADHAN MANTRI FASAL BIMA YOJANA (PMFBY) :

The PMFBY was launched in 11016 and replaces all the prevailing yield insurance schemes in India. The scheme has been launched with an impetus on rural sector. The scheme has extended coverage under localized risks, post-harvest losses etc. and aims at adoption of technology for the purpose of yield estimation. Through increased farmer awareness and low farmer premium rates the scheme aims at increasing the crop insurance penetration in India.

12.18.1 Objective:

Pradhan Mantri Fasal Bima Yojana (PMFBY) aims at supporting sustainable production in agriculture sector by way of:

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

12.18.2 Eligibility Criteria:

Compulsory Component All farmers availing Seasonal Agricultural Operations (SAO) loans from Financial Institutions (i.e., loanee farmers) for the notified crop(s) would

be covered compulsorily. Voluntary Component, The Scheme would be optional for the non-loanee farmers.

12.18.3 Coverage of Risks and Exclusions:

Following stages of the crop and risks leading to crop loss are covered under the scheme.

- **Prevented Sowing/ Planting Risk:** Insured area is prevented from sowing/ planting due to deficit rainfall or adverse seasonal conditions.
- **Standing Crop (Sowing to Harvesting):** Comprehensive risk insurance is provided to cover yield losses due to non- preventable risks, viz. Drought, Dry spells, Flood, Inundation, Pests and Diseases, Landslides, Natural Fire and Lightening, Storm, Hailstorm, Cyclone, Typhoon, Tempest, Hurricane and Tornado.
- **Post-Harvest Losses:** coverage is available only up to a maximum period of two weeks from harvesting for those crops which are allowed to dry in cut and spread condition in the field after harvesting against specific perils of cyclone and cyclonic rains and unseasonal rains.
- **Localized Calamities:** Loss/ damage resulting from occurrence of identified localized risks of hailstorm, landslide, and Inundation affecting isolated farms in the notified area.

Note: Losses arising out of war and nuclear risks, malicious damage and other preventable risks shall be excluded.

12.19 RASHTRIYA SWASTHYA BIMA YOJNA (RSBY):

RSBY has been launched by the Ministry of Labour and Employment, Government of India to provide health insurance coverage for Below Poverty Line (BPL) families.

12.19.1 Objective:

Provide protection to BPL households from financial liabilities arising out of health shocks that involve hospitalisation. The following are eligibilities:

- Beneficiaries under RSBY are entitled to hospitalisation coverage up to ₹30,000 for most of the diseases that require hospitalisation.
- Government-fixed package rates for the hospitals for a large number of interventions.
- Pre-existing conditions are covered from day one and there is no age limit.
- Coverage extends to five members of the family, which includes the head of the household, spouse and up to three dependents. Beneficiaries need to pay only `30 as registration fee while central and state government pays the premium to the insurer selected by the state government on the basis of a competitive bidding.

12.19.2 Other criteria:

RSBY provides the participating BPL household with the freedom of choice between public and private hospitals and makes him a potential client worth attracting on account of the significant revenues that hospitals stand to earn through the scheme.

The scheme has been designed as a business model for a social sector scheme with incentives built for each stakeholder. The insurer receives a premium for each household enrolled under RSBY. A hospital has the incentive to provide treatment to a large number of beneficiaries as it is paid per beneficiary treated. Even public hospitals have the incentive to treat beneficiaries under RSBY, as the money from the insurer will flow directly to the

concerned public hospital, which they can use for their own purposes. Intermediaries such as NGOs and MFIs have a greater stake in assisting BPL households. The intermediaries will be paid for the services they render in reaching out to the beneficiaries. By paying only a maximum sum up to ₹750 per family per year, the government is able to provide access to quality healthcare to the BPL population.

12.19.3 Enrolment Process for Beneficiaries:

An electronic list of eligible BPL households is provided to the insurer using a pre-specified data format. An enrolment schedule for each village, along with dates, is prepared with the help of the district level officials. As per the schedule, the BPL list is posted in each village at the enrolment station and prominent places prior to the enrolment and the date and location of the enrolment in the village is publicised in advance. Mobile enrolment stations are set up at local centres (e.g., public schools) at each village. These stations are equipped with the hardware required to collect biometric information (fingerprints) and photographs of the members of the household covered, and a printer to print smart cards with photo. The smart card, along with an information pamphlet describing the scheme and the list of hospitals, is provided on the spot once the beneficiary has paid the registration fee. The process normally takes less than ten minutes. The cards are handed over in a plastic cover.

12.19.4 A government officers:

Field Key Officer (FKO) needs to be present and must insert his/her own, government-issued smart card to verify the legitimacy of the enrolment. (In this way, each enrolee can be tracked to a particular state government official). In addition to the FKO, an insurance company representative / smart card agency representative must be present. At the end of each day of enrolment, the list of households that have been issued smart cards is sent to the state nodal agency. This list of enrolled households is maintained centrally and is the basis for financial transfers from the Government of India to the state governments. This list of enrolled households is maintained centrally and is the basis for financial transfers from the Government of India to the state governments.

RSBY has a provision whereby an insurer has to hire intermediaries (e.g. NGOs, MFIs, etc.) to provide grassroots outreach and assist members in utilising the services after enrolment.

12.20 SUMMERY :

Miscellaneous insurances encompass a wide range of unique and specialized insurance products that cater to specific risks and situations. These can include wedding insurance, event cancellation insurance, appliance protection, cyber insurance, and more. Each of these serves a distinct purpose and helps individuals or businesses manage risks associated with specific circumstances. Understanding the features, benefits, and claims procedures associated with these specialized insurances is crucial for individuals and entities seeking to protect themselves, their assets, and their loved ones from unforeseen circumstances. As the insurance landscape in India continues to evolve, these specialized insurance offerings play an increasingly significant role in providing tailored coverage and enhancing overall financial security.

12.21 KEY WARDS :

1. **Liability insurance :** Liability insurance is a general term to describe different types of insurance coverage that helps protect you or your business if someone files a lawsuit or reports a claim against your company.

2. **Additional Living Expenses :** Additional living expense (ALE) insurance refers to coverage under a homeowner, condominium owner's, or renter's insurance policy that covers the additional costs of living incurred by a policyholder should they be temporarily displaced from their place of residence.
3. **Cargo Insurance :** Transporting goods around the world is not without certain risks. And if you've ever shipped something internationally, you realize just how many things could go wrong while goods are in transit. That's where cargo insurance comes in. Marine cargo insurance is the most common method used to protect the value of your goods from physical damage, theft, or general average. Cargo insurance is not always automatically included for all shipped goods—this often varies by region. Instead, shippers or consignees can purchase policies in the insurance market from niche providers, large brokers, local agents, websites, and freight forwarders.
4. **Hull Insurance :** Hull insurance is a type of insurance that covers physical damage to a ship or boat, as well as machinery and equipment on board. This type of insurance is typically purchased by ship owners, boat owners, and marine businesses to protect against a range of risks associated with owning and operating vessels.
5. **Tailored insurance :** Tailored insurance is a type of insurance that is specifically tailored to the needs of an individual or business. This type of insurance is designed to protect you from a range of potential risks, including personal injuries, property damage, and business losses.

12.22 SELF-ASSESSMENT QUESTIONS :

1. What is travel insurance? How it operates?
2. What are the features of home insurance?
3. Define renter's insurance, what is its coverage?
4. How fire insurance works?
5. What is the coverage of earthquake insurance?
6. What are various types of commercial insurances?
7. What type of sports insurances are available in India?

12.23 FURTHER READINGS :

1. Dr. S. D. Gupta, "General Insurance Policies and Practices" - Taxmann Publications Pvt. Ltd.
2. R. K. Gupta, "General Insurance: Principles and Practice" - Himalaya Publishing House
3. Dr. H. L. Verma, "General Insurance: Practices and Procedures" - Bharat Law House Pvt. Ltd.
4. S. N. Mishra, "General Insurance Underwriting and Claims" - S. Chand & Company Ltd.
5. R. S. Arora, "General Insurance and Risk Management" - Himalaya Publishing House
6. T. S. Vijayaraghavan, "General Insurance: An Introduction" - McGraw Hill Education
7. Dr. K. R. Chandratre, "Fire Insurance: Principles and Practices" - Taxmann Publications Pvt. Ltd.
8. Dr. V. S. Varshney, "Insurance for Small Scale Industries: Concepts and Applications" - Deep & Deep Publications Pvt. Ltd.
9. Dr. S. S. Grewal, "Pet Insurance: A Comprehensive Guide" - Notion Press
10. Anmol Agarwal, "Travel Insurance: Policies and Procedures" - LAP Lambert Academic Publishing

LESSON - 13
DOCUMENTATION

AIMS AND OBJECTIVES :

- To know about documentation in general insurance
- Proposal form
- Underwriting
- Premium receipts
- Cover notes
- Certificate of insurance
- Warranties
- Endorsement

STRUCTURE :

13.1 Introduction
13.2 Proposal Form
  13.2.1 Common types of proposal forms
13.3 Insurance Underwriting
  13.3.1 Insurance Underwriter
  13.3.2 What is included in Insurance Underwriting?
  13.3.3 Process of Underwriting
  13.3.4 Difference between Insurance Underwriter and Insurance Advisor / Broker
  13.3.5 Difference between Insurance Underwriter and Surveyors
13.4 Premium Receipt
13.5 Cover Notes
  13.5.1 Subject Matter of Cover Notes
  13.5.2 Purpose of Cover Notes
  13.5.3 Limitations of Cover Notes
  13.5.4 Difference between proposal form and cover notes
13.6 Certificate of Insurance
  13.6.1 Difference between Cover Note and Certificate of Insurance
13.7 Warranties
  13.7.1 Types of warranty
13.8 Endorsement
  13.8.1 Types of Endorsement
13.9 Self-Assessment Questions
13.10 Suggested Readings

13.1 INTRODUCTION :

The two major pillars of risk management for insurers are underwriting and claims. These factors impact a portfolio's profitability, security, and ultimate realization of the insurance risk.

13.2 PROPOSAL FORM :

A policy is offered by an insurance provider based on a proposal form. It is the most crucial and basic document required by insurance companies and contains basic information about the insured such as residence, age, name, education, occupation, and so on. The proposal form assists the insurance firm in calculating all potential risks associated with the insurance policy and, as a result, determining the premium amount.

Under the IRDA (Protection of Policyholders' Interests) Regulations, 11002, a proposal form is defined as "a form to be filled in by the proposer for insurance in order to furnish all material information required by the insurer in respect of a risk, in order to enable the insurer to decide whether to accept or decline, to undertake the risk, and in the event of acceptance of the risk, to determine the rates, terms and conditions of a cover to be granted."

Definition of Proposal form :

“Proposal form is a detailed application document which is used in the insurance sector. It is the first stage in applying for insurance coverage, collecting vital information and insurance subject.”
The IRDA regulations categorize the Proposal form into the following major categories:

- Section A-comprises information on the Proposer;
- Section B- contains specialized/additional information that may vary depending on the product;
- Section C- offers a suitability analysis, which is strongly recommended;
- Section D- contains product specifics.

Insurers typically print proposal forms containing the insurance company's name, logo, address, and the class/type of insurance / product that is used.

Declaration in the proposal form-

Insurance companies typically include a declaration at the end of the proposal form for the insurer to sign. The declaration assures that the insured accurately filled out the form and comprehended the facts contained therein, so that there is no chance of arguments at the time of claim due to misrepresentation of facts.

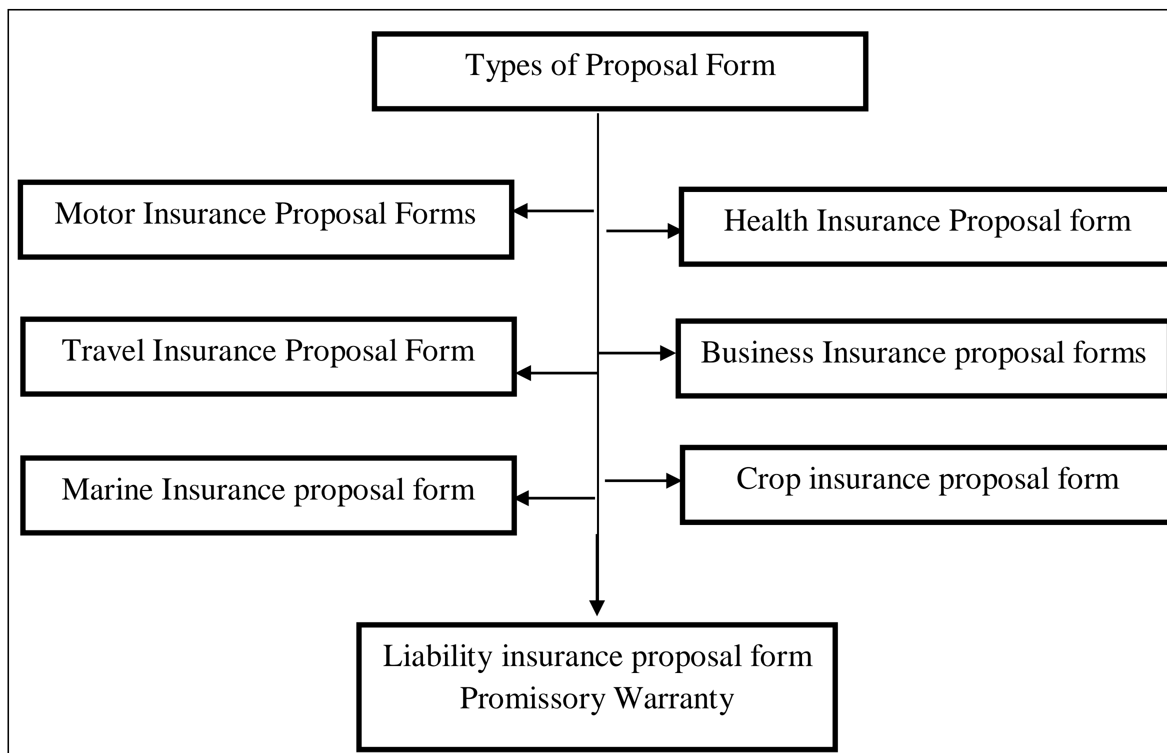
Example- Ajay needed a health insurance policy from an insurance company. The insurance company handed him a proposal form in which he was asked for information such as his previous claim history, age, pre-existing ailments, occupation and any existing policy. The insurance company will issue the policy to Ajay based on the information on the proposal form.

13.2.2 Common types of proposal forms :

Proposal forms are many types of that depend on the type of insurance and the needs of the policyholder. Following are some common types of proposal forms-

Motor Insurance Proposal Forms :

This form is used when a person is applying for vehicle insurance coverage this form normally requires vehicle information such as make, model, registration number, intended use, policyholder’s driving history and any previous claims.



- **Health Insurance Proposal form:** This proposal form is used when someone is seeking coverage for medical bills. With the help of this form insurance company want to know about the applicant's medical history, pre-existing diseases.
- **Travel Insurance Proposal Form:** This proposal form is used when individuals or families plan a trip and want coverage for unexpected incidents while travelling. This form inquires about the trip destination, duration purpose of trip, desired coverage for trip cancellation, medical emergencies and lost luggage.
- **Business Insurance proposal forms:** Insurance companies use this proposal form for business which are seeking insurance coverage for various risks, such as property, liability and workmen compensation. This form typically ask information related to the business nature, its assets and potential risk.
- **Marine Insurance proposal form:** These forms are necessary for organizations involved in shipping and transportation. Insurance company collect data about the transported cargo, mode of transportation (i.e., ship, plane or truck), route of transportation and policyholder's previous marine insurance history.
- **Crop insurance proposal form:** These forms are used by farmers and agriculture enterprises to safeguard their crops from poor weather conditions and other dangers. These forms require information related to crops, acreage, estimated yield and historical data on crop production.
- **Liability insurance proposal forms:** These forms are used by the businesses and individual seeking coverage for liability and include the information related to the nature of liability, intended coverage limit and any previous claims.

13.3 INSURANCE UNDERWRITING :

A process of selecting, classifying and pricing insurance applicants is known as underwriting. For example For example, if Mr. X is youthful, healthy, and leads a low-risk lifestyle, he is likely to be less expensive to insure. Mr. Y's provider, on the other hand, is

more likely to have to pay out an insurance claim if he is older or participates in riskier activities.

13.3.1 Insurance Underwriter :

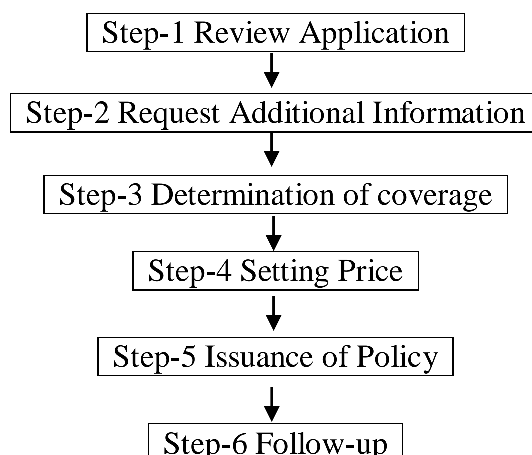
A person who assesses and analyses the future risks associated with insuring individuals and assets is known as an insurance underwriter. Pricing for accepted insurable risks is decided by insurance underwriters. He charge premiums in exchange for a commitment to reimburse the client in the event of damage / occurrence.

13.3.2 What is included in Insurance Underwriting? :

General insurance underwriting is a thorough and data-driven process for analyzing, pricing, and managing risks connected with insurance Policies. Its main purpose is to find a balance between providing financial security to policyholders and safeguarding insurance company profitability and survival.

- **Assessment of Risk :** Underwriters are responsible for assessing the risks connected with an insurance application. This includes looking at things like the applicant's age, health, employment, location, and the sort of coverage they want. Property insurance takes into account aspects such as the condition and location of the property.
- **Selection of risk:** Underwriting assists insurance companies in deciding whether to accept or deny an insurance application. If an applicant is deemed too high-risk, the insurer may refuse coverage, issue coverage at a higher premium, or impose particular restrictions in order to mitigate the risk.
- **Regulatory Compliance:** Underwriters must ensure that their underwriting methods are in accordance with relevant insurance laws and regulations. This involves following regulatory rules to safeguard customers and ensure insurance businesses' financial viability.
- **Data Analysis:** Underwriters conduct risk assessment and pricing decisions based on historical data, actuarial analysis, and statistical models. In this process, advanced analytics and technology have become increasingly vital.
- **Pricing:** Underwriters establish the appropriate premium that the insured party should pay for coverage based on the risk assessment. Individuals or properties with higher risk often pay higher insurance, whereas applicants with lesser risk pay lower premiums.
- **Terms and Conditions of Policy**: Underwriters also set the terms and conditions of the insurance policy. This includes defining the policy's coverage limits, deductibles, and any exclusions or limitations.
- **Loss Prevention and Risk Management:** Insurance underwriters collaborate with other departments within the insurance firm, such as loss prevention and risk management teams. They work together to devise methods for lowering the possibility of claims and successfully managing risks.
- **Policy Renewals and Adjustments:** Underwriting is a continuous process that does not end with the issue of a policy. At the time of policy renewal, insurance firms assess policies and may increase prices, conditions, or coverage depending on changes in risk factors or the insured party's history.

13.3.3 Process of Underwriting :



Step-1 Review Application :

To evaluate the acceptability of a submission, underwriters conduct an initial evaluation of an insurance application and accompanying papers. When a person applies for an insurance policy, the underwriter looks at his or her financial situation to determine if he or she can afford the premium. If a risk does not conform to a company's requirements, the underwriter will reject the submission form and if a submission falls within the company's risk tolerance, the underwriter will do a more in-depth examination to decide if the risk is acceptable as-is or whether it has to be modified.

Step-2 Request Additional Information :

In the next step the underwriter determine what additional information are required to assess the risk. Some applications contain detailed information in such cases thorough underwriting can be done but in some applications detailed information are not given the underwriter request the necessary information from the agent.

Step-3 Determination of coverage :

If a risk fulfils the company's specified criteria as supplied, the underwriter will approve it and proceed on to the rating procedure. When coverage changes are made, marginal submissions are sometimes acceptable. The underwriter may recommend deductibles, limitations, limiting endorsements, or other changes to make the risk acceptable. The risk must be declined if it does not suit the intended profile and cannot be adjusted.

Step-4 Setting Price :

Following the assessment of coverage, the next stage in underwriting is to determine the account's pricing. Standard company products can be written with manual or specified price, but the preferred program comes with a credit already. Another way to issue credit is through agency stratification or segmentation. As a result of their favoured status, these agents and brokers are entitled for special credit consideration. Because these lines are rigorously monitored, there is no room for subjectivity.

Step-5 Issuance of Policy :

After the setting price next step in underwriting is the issuance of policy. The policy is issued when the agent gets a quotation and the insured purchases coverage. Policies are either issued electronically or mailed to the insured, with a copy sent to the agent; however, certain regulators may not allow policies to be given electronically.

Step-6 Follow-up :

The last step in the underwriting process is follow-up. Policies are sometimes written subject to particular criteria and require follow-up. These might involve, for example, receiving more information or adhering to loss control procedures.

13.3.4 Difference between Insurance Underwriter and Insurance Advisor / Broker

Sr. No.	Basis	Insurance Underwriter	Insurance Advisor / Broker
1	Meaning	The person who responsible for issuance of insurance policy.	The person who is responsible for the sake of insurance policy
2	Representation	Insurance underwriter represents the insurance company and try to enhance profitability of the insurance company.	The insurance advisor / broker represents the insured and try to fulfil
3	Compensation	Insurance underwriters often work for insurance businesses as salaried personnel. Their pay is unrelated to the selling of insurance products.	Insurance brokers/advisors are paid commission or fees for policies sold. So their compensation is directly related to the sale of insurance products.
4	Knowledge	These are highly trained and have complete knowledge of insurance and its technical aspects.	These are also trained but compared to insurance underwriter have limited knowledge and skills.
5	Power	Insurance underwriter can deny to issue insurance policy.	Insurance advisor / broker does not have any control over issuance or rejection of insurance policy
6	Role	Insurance underwriter analyse the risk associated with the insurance policy.	Insurance advisor / broker work as an intermediary between insurance company and clients.

13.3.5 Difference between Insurance Underwriter and Surveyors

Basis	Insurance Underwriter	Surveyors
Meaning	The person who responsible for issuance of insurance policy.	He figure out what happened and how much it will cost to fix or replace things and whether policy covers the damages or not.
Role	Insurance underwriter analyse the risk associated with the insurance policy.	Surveyors identify the claim's underlying cause and the loss incurred.
Responsibility	Responsibility of insurance underwriter occurs at the time of policy is issued	Responsibility of surveyors come at the time when there is claim
Decision	Determines coverage terms and	Determines amount of claim

Making	premium of policy.	that insurance company will pay.

13.4 PREMIUM RECEIPT :

A receipt for premiums paid under an insurance policy is referred to as an insurance premium receipt or we can say, in an insurance contract, a premium is the payment made by the insured to the insurer as compensation for providing coverage for the insurance's subject matter.

Methods of premium payment :

- Cash
- Debit Card / Credit Card
- Bank guarantee or cash deposit
- Internet banking
- E-transfer
- Postal Money order
- Any other payment method as may be approved by the Authority from time to time

Remember, As per IRDA Regulations if the policy holder wants to make payment through net banking or debit /credit card, payment must be made only through Net Banking or debit/credit card issued on the name of policyholder.

13.5 COVER NOTES :

It may take some time after underwriting is finished for the insurance policy to be issued. A cover note is issued to certify protection under the policy while the policy is being prepared, or while insurance discussions are ongoing and it is required to offer cover on a provisional basis, or while the premises are being examined to determine the real rate applicable.

A cover note is a temporary document issued by an insurance company that serves as proof of coverage until a final insurance policy is issued. A cover note is distinct from a certificate of insurance or an insurance policy paperwork. For example-Cover notes can be quite useful when acquiring a vehicle with a loan. This is because most lending institutions will not allow a vehicle purchaser to drive it off the lot without insurance.

13.5.1 Subject Matter of Cover Notes :

A cover note in general insurance in India normally adheres to a predetermined format that is governed by the Insurance Regulatory and Development Authority of India (IRDAI). The subject matter of cover notes is as –

- ❖ **Title:** The title “Cover Note” is usually prominently displayed at the top of the page.
- ❖ **Information of Insurance Company**: Details of insurance company Name, logo, address, contact details etc., are given in the cover note.
- ❖ **Number on Cover Note:** For referencing purpose the insurance company provide the cover note a unique identification number.
- ❖ **Details of the policyholder:** Details of policyholder like- full name, address, contact details and unique identifier PAN or Aadhaar number are also given in the cover notes.

- **Subject matter or insured property:** Details of what is insured, such as property address for property/home insurance or vehicle make and model for auto insurance are given in the cover note.
- **Type of Insurance:** In the cover note which kind of insurance is given is also provided such as- auto insurance, home insurance etc.
- **Period of coverage:** The cover note also disclose about the start and end date of coverage. It lasts for a short term like-15 to 30 days.
- **Premium Details:** In cover notes details of premium like-due date, amount of premium are also given.
- **Signature and stamp:** Some cover notes may have a space for the official endorsement of the insurance company to be provided by the signature and stamp of a duly authorised representative of the insurance company.
- **Legal Disclaimer:** legal disclaimers required by regional insurance laws are also given in the cover notes.

13.5.2 Purpose of Cover Notes :

- **Immediate Insurance Coverage:** A cover note's principal function is to give immediate insurance coverage. This is especially important when individuals or organizations want immediate protection, such as when purchasing a new car or property.
- **Compliance:** Having insurance coverage is often a legal obligation. While their entire policies are being reviewed, cover notes assist people and corporations in complying with these rules.
- **Risk Mitigation:** Cover notes safeguard policyholders against potential risks and obligations while their comprehensive insurance policies are being finalized.

13.5.3 Limitations of Cover Notes :

When the policy is being processed, a cover note offers immediate coverage and serves as a temporary proof of insurance, but it also has some restrictions.

- **Short-Term Coverage:** Cover notes only offer coverage for a limited time, frequently up to 60 days. The cover letter expires after this time, and you will need to continue using the entire insurance policy.
- **Limited Information:** Cover notes might not fully describe all the terms and conditions that are included in a formal insurance policy. Since they are issued swiftly to offer coverage right away, some details can be lacking.
- **Potential Coverage Gaps:** The terms and conditions of the full insurance policy can be different from those of the cover note. Insured should be aware of any potential coverage gaps or discrepancies.
- **Not All Types of Insurance:** Cover notes are generally issued for some types of insurance, such as auto insurance or property insurance. They might not be applicable to all types of insurance.
- **Legal Requirements:** In some instances, government authorities may demand the delivery of a complete insurance policy document in order to complete a transaction or meet regulatory requirements. Sometimes a cover note is insufficient.
- **Limited Documentation:** In some cases, the supporting documentation with cover note may not be sufficient to satiate legal or regulatory needs. It could be necessary to produce the entire insurance policy document for some transactions or authorities.

- **Risk of Misuse:** Because cover notes are distributed swiftly, there is a chance of misuse or fraudulent applications. To lessen this risk, insurers must thoroughly verify the data given.

13.5.4 Difference between proposal form and cover notes :

Sr. No.	Aspect	Proposal Form	Cover Notes
1	Purpose	Proposal form is used to apply for and insurance coverage	While the entire policy is being processed, a temporary document that provides instant insurance coverage.
2	Commencement	Proposal form is Completed by the potential policyholder	after examining the proposal form and approving the application, the insurance Issues a cover note
3	Content	Proposal form Contains comprehensive information on the applicant, the insurance topic, the desired coverage, and more.	Cover note contains essential information like-name of policyholder, coverage type, period of coverage and premium
4	Timing of completion	It is filled out at the time of beginning of insurance application process	It is issued as soon as possible, frequently the same day as the insurance application, to provide prompt coverage.
5	Decision-Making	Proposal form is used by the insurer to evaluate risk, set premiums, and specify the conditions of coverage.	Cover note is issued following the insurer's inspection and approval of the application's proposal form.
6	Period	It is a step in the initial application process; there is no set time limit.	Temporary, with a short shelf life, typically between days and weeks.
7	Settlement of claims	Proposal form does not deal with claims directly; rather, claims are dealt with in accordance with the conditions of the concluded policy.	A claim during the cover note period is handled by the insurer in accordance with the conditions stated in the cover note.

13.6 CERTIFICATE OF INSURANCE :

It is a legal record that certify the existence on an insurance policy. It serves as proof that the policyholder is in possession of an insurance policy with the required level of coverage. It is issued by an insurance company or its designated representative.

Features of Certificate of insurance :

- A certificate of insurance acts as concrete proof that the policyholder has legitimate insurance coverage for a particular risk or asset.
- In India, some insurance policies, including auto insurance, are required by law. Individuals and corporations can comply with these regulations and stay out of trouble by using certificates of insurance.
- Contractual Assurance: Certificates of insurance guarantee that the policyholder has sufficient insurance protection to uphold the terms of a contract. This guarantee is given to partners in contracts. It also lowers the possibility of liabilities while improving trust in commercial interactions.
- Businesses can make sure that the people they work with have the right insurance coverage by requesting certificates of insurance from vendors, subcontractors, or contractors.
- By explicitly stating important policy terms, like coverage limitations and effective dates, certificates of insurance provide transparency. This makes the scope of coverage more clearly to all parties concerned.
- By consulting the data in certificates of insurance, third parties can quickly and simply check the correctness and legality of insurance coverage. Time and resources are saved in this way.
- As required by contractual agreements, certificates may be modified to incorporate particular endorsements or additional insured parties.

Sample of Certificate of Insurance :

Certificate of Insurance

Policy Number: ……………………..
Issued To: ………….. (Name of Policy Holder) …………..
Policyholder's Address: ……………………..
Effective Date: ……………………..
Expiration Date: ……………………..

This Certificate of Insurance is issued to confirm that the above-named policyholder holds an active insurance policy with [Insurance Company Name], hereinafter referred to as the "Insurer." The policy provides coverage for the following:
1. Type of Coverage: (Type of Coverage, e.g., General Liability Insurance)
2. Coverage Limits: (Coverage Limits, e.g., ₹10,00,000)
3. Policy Period: From (…..Effective Date…..) to (…..Expiration Date…..)

Additional Information:

4. Insured Property: (……Details of insured ……)
5. Policyholder's Interests: (……Additional Insured Parties or Interests Covered……)
6. Additional Policy Endorsements: (……List of Any Policy Endorsements or Special Provisions……)

This certificate is issued in accordance with the terms and conditions of the insurance policy and does not alter, extend, or modify the coverage provided therein. It is intended for informational purposes only.

If you have any questions or require further information about this insurance policy,

please contact our office at (……Contact Information……).

(Insurance Company Logo)

(Authorized Signature)

(Date)

13.6.1 Difference between Cover Note and Certificate of Insurance :

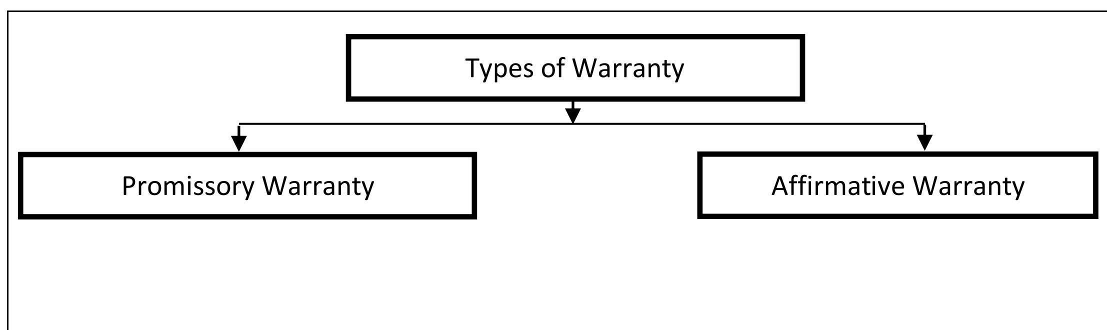
Sr. No.	Aspect	Certificate of Insurance	Cover Notes
1	Objective	Certificate of insurance is an Evidence of existing insurance coverage, frequently used to demonstrate compliance with legal obligations.	Cover note is a temporary evidence of immediate insurance coverage which is valid until the entire policy is processed
2	Issued	It is issued following the payment of the premium and the effective date of the insurance policy.	In order to provide rapid protection, it is frequently issued the same day as the insurance application.
3	Content	It includes a thorough description of the insurance policy's terms, conditions, and coverage limits.	Cover note contains only basic information like- name of policy holder, coverage period and coverage type and details of premium.
4	Validity	It is valid for the duration of policy that can be ranged from months to years.	Its validity is limited ranging from a few days to few weeks.
5	Operation	It is used to demonstrate coverage over time, such as for contractual or regulatory compliance.	During the time that the official insurance policy is being created, it offers temporary coverage.
6	Claim processing	It is used for filing and processing insurance claims under the policy.	Normally, within the time period covered by the cover note, claims are handled in accordance with the conditions stated in the cover note.

13.7 WARRANTIES :

The Insurance Act of 1838 covers rules relating to warranties and regulates insurance contracts in India. The impact of warranties in insurance contracts is addressed under Section 10 of the Act. The term "warranties" refers to certain provisions or requirements found in an insurance policy that must be met by the policyholder in order to continue receiving benefits. Warranties are an essential part of the insurance contract and are legally binding.

A condition that is explicitly stated in the policy and must be adhered to in its entirety for the contract to be legitimate is the warranty. It is included in both the cover note and the policy statement; the warranty is not a separate document. The policy becomes voidable if the warranty is breached even if the breach has not caused any particular loss.

13.7.1 Types of warranty :



- **Promissory Warranty:** In this scenario, the policyholder agrees to carry out particular actions or uphold certain conditions throughout the policy period. For example, a warranty may call for the policyholder to swear to put security measures in place to safeguard the covered property.
- **Affirmative Warranty:** The policyholder must specifically affirm any fact or condition covered by this kind of warranty. For instance, a warranty in auto insurance can ask the policyholder to declare that they won't permit anyone to drive the covered vehicle without a valid driver's license.

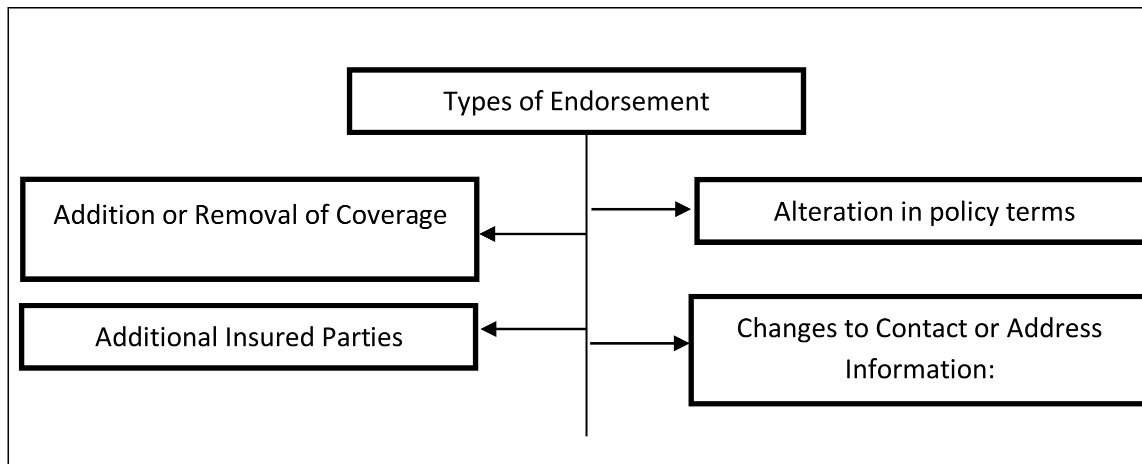
13.8 ENDORSEMENT :

When an insurer issues policies in a standard format with specific risks covered and others excluded, this practice is known as endorsement. When the insured and insurer agree to a policy amendment, the insurer prepares an endorsement that will be attached to the policy.

Definition of endorsement :
“When particular policy terms and conditions need to be altered at the time of issuance, an endorsement document is used to lay out the additions or adjustments.”

13.8.1 Types of Endorsement :

Addition or Removal of Coverage: The insurance may have certain coverage added or removed as a result of an endorsement. For example, A policyholder may ask to include flood Coverage in their homeowners policy.



- **Alteration in policy terms:** Endorsement can be used to alter or adjust policy terms, like- change in duration, premium payment frequency or amount.
- **Additional Insured Parties:** Some policy endorsements include additional parties, such as landlords or lenders who demand proof of insurance from tenants or borrowers.
- **Changes to Contact or Address Information:** Policyholders can ask for endorsements to change their contact information or the address connected to the policy.

13.9 SELF-ASSESSMENT QUESTIONS :

1. What do you understand by Insurance Underwriting?
2. Difference between Insurance Underwriter and Insurance Advisor / Broker
3. What is cover note? How it is different from proposal form
4. Explain certificate of insurance and its feature.

13.10 SUGGESTED READINGS :

- George E. Rejda Michael J. McNamara,Principles of “Risk Management and Insurance” Pearson
- Insurance Institute of India-IC 11- Practice of General Insurance
- Insurance Institute of India-IC 34- General Insurance

LESSON - 14

HAZARDS

AIMS AND OBJECTIVES :

- To know risk and its classification
- Effective risk management
- To know hazards
- Moral hazards
- Physical hazards
- Effects of hazards on general insurance
- Mitigation of hazards

STRUCTURE :

14.1 Introduction

14.1.1 Difference between risk, peril and hazards

14.2 Types of risk

14.2.1 Pure and speculative risk

14.2.2 Diversifiable risk and non-diversifiable risk

14.2.3 Enterprise risk

14.2.4 Effective risk management in insurance

14.3 Hazards

14.4 Moral hazard

14.4.1 Effect of moral hazards on different insurance

14.4.2 Remedies for moral hazards

14.5 Physical hazards

14.5.1 Effects of physical hazards

14.5.2 Remedies for physical hazards

14.6 Difference between moral hazards and physical hazards

14.7 Morale Hazard (Attitude Hazard)

14.7.1 Difference between Moral hazards and Morale hazards

14.8 Self-Assessment Questions

14.9 Suggested Readings

14.1 INTRODUCTION :

Risk-Risk is the potential for anything negative or unexpected to occur. This may involve the disappearance, theft, or destruction of priceless property, as well as the loss or injury of someone. The risk is any unforeseen incident or circumstance that, if it occurs, could result in a person's death or significant financial loss. The risk is neither inescapable nor predicable. In the event of risk insurance or risk in insurance, insurers evaluate the policy chosen by the

policyholder and pay the amount of money (financial value of damages caused) depending on terms and circumstances covered in the approach to make up for the loss experienced by the policyholder.

Peril- A peril is a situation or incident that causes property damage.Perils are events or circumstances that may vary depending on the type of insurance and type of policy, and may lead to a covered loss. For example- a house is damaged by fire then fire will be considered as peril.

Hazard- Anything that either enhances the possibility of a loss or immediately causes one is a hazard. Hazards can be objects or actions that increase the likelihood of mishaps, damage, or issues. Hazards are a major concern for insurance firms because they influence the likelihood and severity of insurance claims.

14.1.1 Difference between risk, peril and hazards :

Sr. No.	Aspect	Risk	Peril	Hazard
1	Meaning	A chance of occurring an event that leads to loss or damage.	Specific cause that can lead to a loss or damage.	Condition, factor or situation that increases the chance of a peril occurring.
2	Nature	A broad and vague notion that includes uncertainty.	Loss can be caused by specific, identifiable events or causes.	a peril's genesis or aggravation due to certain circumstances or factors.
3	Measurement	Frequently quantified using probability calculations, actuarial analysis, and risk assessment.	Perils are often classified and grouped according to their characteristics and potential effects.	Hazards are recognized and rated according to how likely they are to cause peril to occur.
4	Examples	Risk of car accident	Fire, flood, earthquake, and theft etc.	Moral hazard, physical hazard and morale hazard etc.

14.2 TYPES OF RISK :

- Pure and speculative risk
- Diversifiable risk and non-diversifiable risk
- Enterprise risk

14.2.1 Pure and speculative risk :

Pure Risk: When there are only two possible outcomes—loss or no loss—it is said that there is pure risk present. The only outcomes that can occur are negative (loss) and neutral (no

loss). For example- early death, work-related accidents, exorbitant medical costs, and loss of property due to fire, lightning, flood, or earthquake. These risks are frequently coverable by insurance since they solely carry the danger of financial loss; there are no prospects for gain or profit. Uncertainty and the absence of any chance of financial gain are characteristics of pure risk. There are three main categories of pure risk-

a) **Personal risk:**Personal risk is risk that a person or family directly faces. The possibility of loss or reduction of earned income, additional expenses, and the depletion of financial assets are all factors in these risks. Examples- Premature death , Insufficient income during retirement, Poor health, Unemployment
b) **Property risk:** Property risk include the possibility of physical assets like homes, cars, or commercial property being damaged or lost. Property loss can occur as a result of accidents, theft, fires, and natural catastrophes. These kinds of pure risks are covered by property insurance, such as homeowners insurance and auto insurance.
c) **Liability risk:** If you commit an act that causes another person's physical harm or property damage, you may be held legally responsible. You could be forced to pay the victim of your negligence significant damages by a court of law. Being held legally accountable for inflicting harm or injury to other people or their property presents liability issues. The financial repercussions of legal claims and lawsuits brought about by such risks are covered by liability insurance products like general liability insurance and professional liability insurance.

Speculative risk: It is also known as dynamic risk and refers to a situation in which there is a chance of both profit and loss. Investment in stock/bonds, real estate, betting on a horse race are some examples of speculative risk. Speculative activities with uncertain outcomes are generally not covered by insurance or we can say that speculative risk are not insurable. If a company wants to survive in the market it need to earn profit. That’s why they only agree to cover risks that they deem to be insurable—risks that allow them to yield a profit. An insurer will only consider a risk to be insurable if it can charge a premium that pays for any claims and operational costs while turning a profit. Depending on how comfortable a person is with the chance of losing everything, they will engage in speculative activities to varying degrees. Speaking with a financial advisor, insurance broker or agent, or other experts may be able to shed some light on the risks associated with engaging in a particular activity as well as the results of an all-encompassing loss of the investment. It may be thrilling and transformative to consider the possibility of significant gain, but only if you're ready to take the chance that things could also turn out badly.

14.2.2 Diversifiable risk and non-diversifiable risk :

Diversifiable risk: It is also known as unsystematic risk and refers to firm-specific risk that affects the price of specific stock rather than the whole industry in which the firm operates. In context of insurance sector diversifiable risk refers to risk associated with particular policies or covered assets that can be reduced by spreading the risk across a broader portfolio of policies or assets. Reinsurance and diversification are two strategies used by insurance firms to lessen the impact of these particular risks and improve their overall risk management procedures.

Non-diversifiable risk: A risk that cannot be eliminated through diversification is one that affects the entire market or broad segment of market. It is also known as systematic risk or market risk. Individual investors or companies cannot control it because it is a natural part of

the wider economic and financial ecosystem. Examples include war, cyclical unemployment, fast inflation, hurricanes, floods, and earthquakes because they affect numerous people or groups.

14.2.3 Enterprise risk :

It is refers to the thorough and well-rounded method that insurance companies use to detect, evaluate, manage, and keep an eye on risks that could have an impact on the entire business and includes all significant risks that that a company firm may encounter. These risks include financial risk, operational risk, strategic risk, and pure risk.

- **Financial risk:** When we talk about financial risk, we're talking about the possibility of losing money due to unfavourable changes in commodity prices, interest rates, foreign exchange rates, and the value of money. For instance, if grain prices increase, a food company that agreed to deliver cereal to a supermarket chain in six months at a predetermined price may suffer financial losses.
- **Operational risk:** Operational is a result of how the company conducts business. For instance, if "hackers" gain access to a bank's computer and use it to commit fraud, the bank can lose money.
- **Strategic risk:** It is the unpredictability of a company's financial aims and objectives; for instance, if a company starts a new business line, the line may not be profitable.

14.2.4 Effective risk management in insurance :

It is necessary for insurance company to identify, evaluate and minimise the numerous risks they confront in their business operations. Effective risk management enables insurer to sustain their financial stability, make sure that they can fulfil their responsibility to policyholders and operate business profitably in the long run. A systematic process called enterprise risk management (ERM) involves recognizing numerous risks, both internal and external, and creating plans to successfully mitigate or manage them. The risk management structures may be used to assist other risk mitigation systems if a corporation establishes risk management as a disciplined and continuous process for the aim of detecting and addressing issues. Budgeting, cost management, and planning are some of them. As long as proactive risk management is prioritized, the company won't typically encounter many surprises in such a scenario.

Benefits of effective risk management :

- By identification and mitigation of risk, insurance companies are better equipped to deal with unexpected events that helps insurance companies to maintain financial stability.
- When insurance companies are manage their risks well, they can offer more competitive / lower premiums to policyholders.
- Effective risk management helps insurance companies to provide protection to policyholders.
- Compliance with legal and financial criteria is made easier for insurance company through effective risk management.
- Protecting the environment.
- Reduced liability.

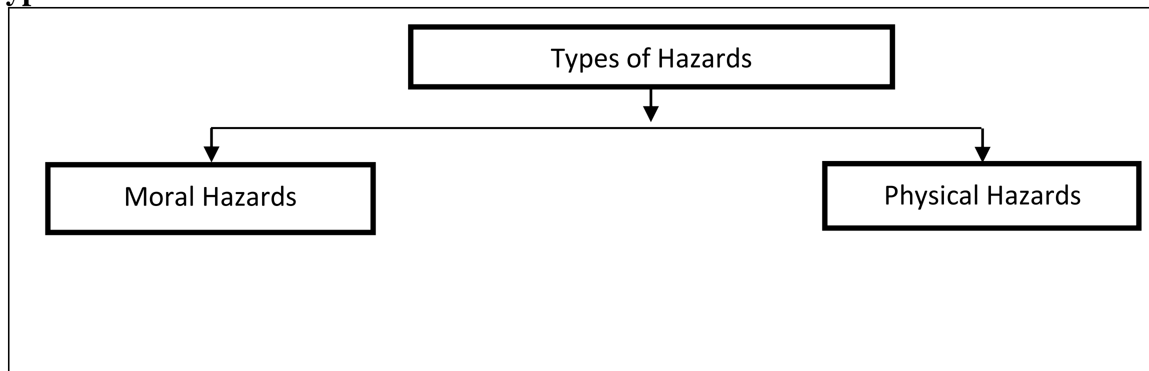
Effective risk management does not eliminate. However, it shows that organisation is committed to loss reduction or prevention. It makes company better to insure risk.

14.3 HAZARDS :

By "hazards," we mean circumstances, events, or things that make it more likely that there will be risks or dangers that could result in losses. For instance, gas furnaces can cause carbon monoxide poisoning.

For insurers to appropriately price policies, underwrite successfully, and preserve financial stability, dangers must be identified and managed. Insurance firms inquire in-depth questions about your home before deciding to offer coverage because the existence of specific hazards raises the likelihood of a loss.

Types of Hazards



14.4 MORAL HAZARD :

Losses brought on by dishonesty are known as moral hazards. Due to overstated or false claims, insurance companies consequently suffer losses. These are not obvious and cannot be found by simply looking at the risk or insurance subject. Moral hazard may occasionally, but always, be a factor in any risk. I is a situation in which policyholder alter their behaviour moral hazard refers to a situation where a policyholder may intentionally or unintentionally in way that raises the possibility of a loss or a claim. Moral hazard describes a circumstance in which a policyholder might alter their conduct or actions—either consciously or unintentionally—in a way that raises the possibility of a loss or a claim. When people are aware that they are insured and will receive compensation in the event of a loss, their behaviour frequently changes as a result.

Examples-

Ajay usually drive a car while texting or using a smartphone, and he thinks that auto insurance will cover any accident.

Ravi (A traveller) requests reimbursement for non-refundable travel costs after making a bogus claim that their trip was cut short even though nothing unplanned happened.

14.4.1 Effect of Moral Hazards on different insurance :

The effect of moral hazards depends on the type of insurance. Following are major effects of moral hazards on different insurance-

- **Medical Insurance:** Overuse of Medical Services: To make the most of their health insurance benefits, policyholders could have needless tests, treatments, or hospital stays.
- **Vehicle Insurance:** Driving Carelessly: Considering that their vehicle insurance will cover accidents, some people may participate in risky driving habits like speeding or driving while intoxicated.

- **Real Estate Insurance:** The policyholder may neglect of routine property maintenance because he believe his property insurance will cover any resultant damages may fail to perform regular property maintenance, such as fixing leaks or addressing safety issues.
- **Term Life Insurance:** Because of risky behaviour of policyholder, he may engage in risky pursuits without disclosing them to the insurer, which could have an impact on underwriting and premium estimations.
- **Business Insurance:** Inventory or revenue underreporting: To lower insurance rates, business owners may understate the worth of their inventory or income, which could result in insufficient insurance coverage in the event of a loss.
- **Worker's Compensation Insurance:** Employees may exaggerate or fabricate occupational injuries in order to obtain compensation, which would increase costs for employers and insurance.
- **Crop Insurance:** The policyholder may ask for fraudulent Claims of Crop loss in order to earn insurance pay-outs, farmers may submit fraudulent claims of crop loss brought on by bad weather.
- **Travel Insurance:** In travel insurance policyholder may ask for false claims of trip disruption: In order to get reimbursed for non-refundable travel costs, travellers may make fictitious claims of trip cancellation or interruption.
- **Marine Insurance:** With the goal of lowering insurance costs, shippers may choose not to reveal precise information about the goods being transported, such as its worth or nature.

14.4.2 Remedies for moral hazards :

Asymmetric information is the primary cause of moral hazard. Moral hazard occurs when someone acts in a way that raises the cost for insurance company. Insurance company have to make some arrangements so that the moral hazard can be reduced to minimum otherwise company has to suffer losses. Here are some ways used by insurance company to minimise moral hazards-

Effective Underwriting:

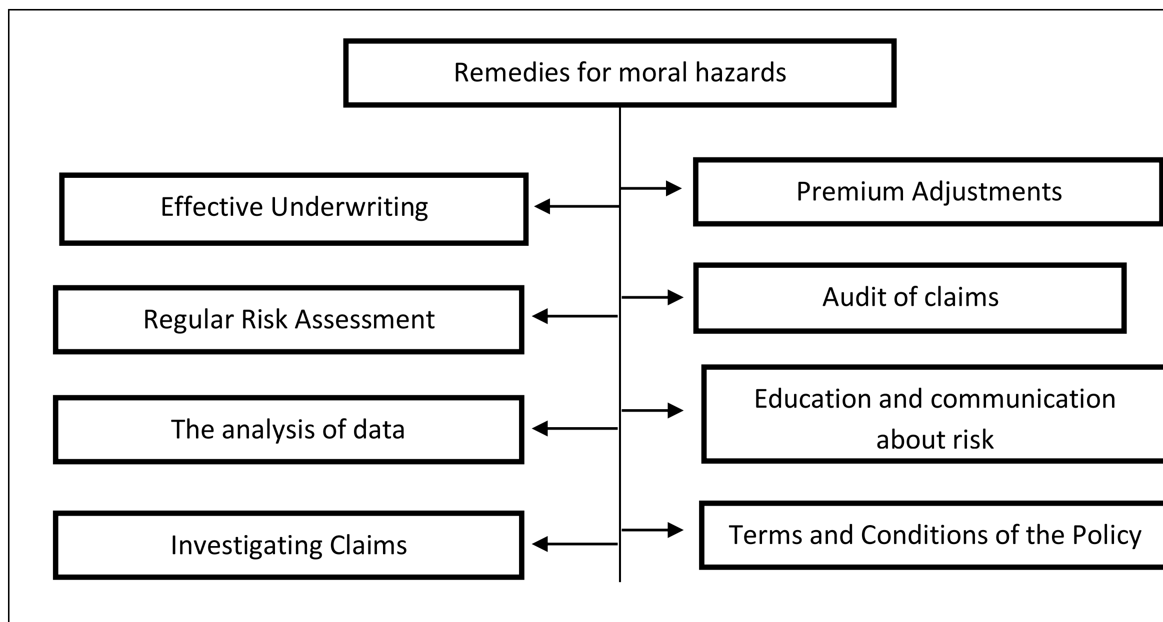
The insurance company should conduct thorough underwriting analyses for accurately assessment and price risk. The background, past, and pertinent risk factors of the policyholder should be thoroughly investigated. This aids insurers in establishing fair premiums based on the actual risk profile.

Premium adjustments:

In order to reflect the heightened risk, insurer may raise premium if policyholder exhibits high-risk behaviour. The insurer can adjust premium rates on the basis of the risk profile and claim history or the insured or policyholder.

Regular Risk Assessment:

The insurer review the risk profiles and actions of the policyholder on a regular basis. If a risk factor or alteration in behaviour are found, insurer can adjust fees and coverage.



- **Audit of claims:** The insurer can regularly audit claims and complete review of medical bills, repair estimates and other supporting documents. It makes it easier to spot and stop exaggerated or fraudulent claims.
- **The analysis of data:** Insurance Company utilize data analytics and predictive modelling to find out if policyholder behaviour is changing or exhibiting any unexpected tendencies. By examining claim data and policyholder details, these technologies can assist insurers in identifying potential moral hazards.
- **Education and communication about risk:** By educating policyholder about the value of risk management and ethical conduct insurer can encourage them to prevent losses and risk. The development of responsibilities can be aided by clear communication.
- **Investigating Claims:** To ensure that claims are valid, the insurer conduct in-depth claim investigations. To gauge the magnitude of losses and confirm that claims are in line with the provisions of the policy, insurers can employ experts and adjusters.
- **Terms and Conditions of the Policy:** By outlining terms, conditions and exclusions in the insurance contract, the insurers ensure that the policyholder is aware of his responsibilities, limitations and obligations. These transparent policies can discourage dishonest behaviour of policyholder.

14.5 PHYSICAL HAZARDS :

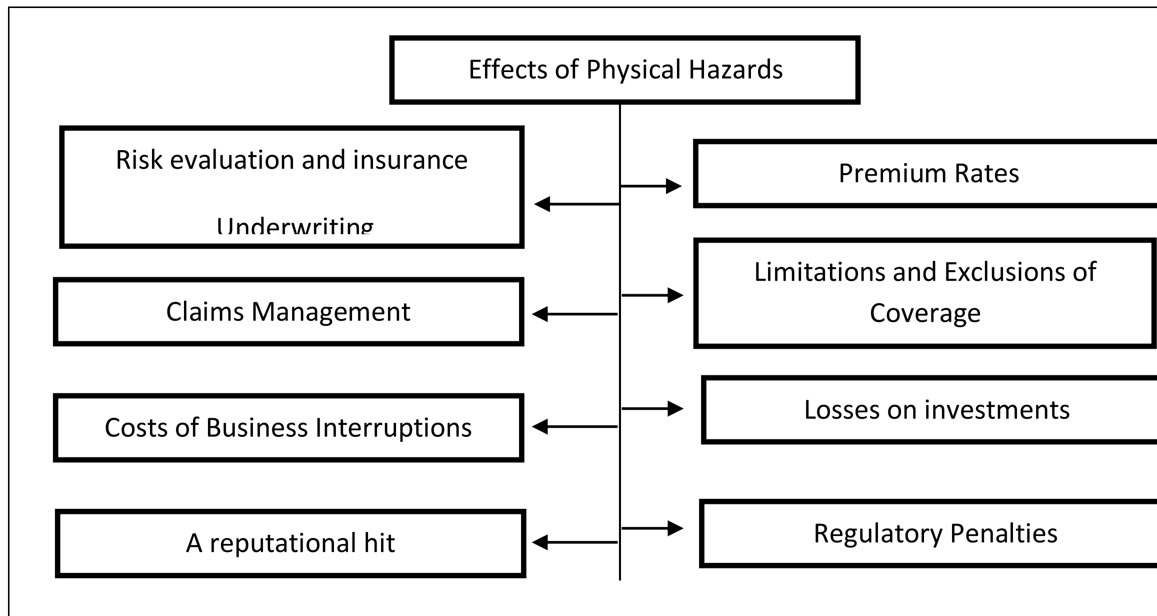
The physical factors that raise the chance of loss to insurer are known as physical hazards. These factors highlight the risk associated with the insurance and can be discovered through a risk analysis. Physical factors of insured subject matter are frequently related to these hazards. Physical hazards include things like liquid spills, frayed electrical wiring, working at heights, and operating heavy machinery.

14.5.1 Effects of physical hazards :

Physical hazards can effect policyholders, insurers, and the insurance industry as a whole in a number of significant ways. These effects play a crucial role in influencing insurance company financial health, claim resolution procedures, and underwriting procedures. Major effects are-

Risk evaluation and insurance Underwriting: When evaluating insurance applications, insurers must thoroughly investigate and evaluate physical hazards. This entails taking into account the state and security of insured cars, buildings, or people. Setting suitable premiums and policy conditions depends on accurate risk assessment.

Premium Rates: Higher insurance costs may result from the presence of physical hazards. If a property or circumstance has physical risks, an insurer may charge a higher premium to cover the increased risk. For policyholders, this can have an impact on affordability.



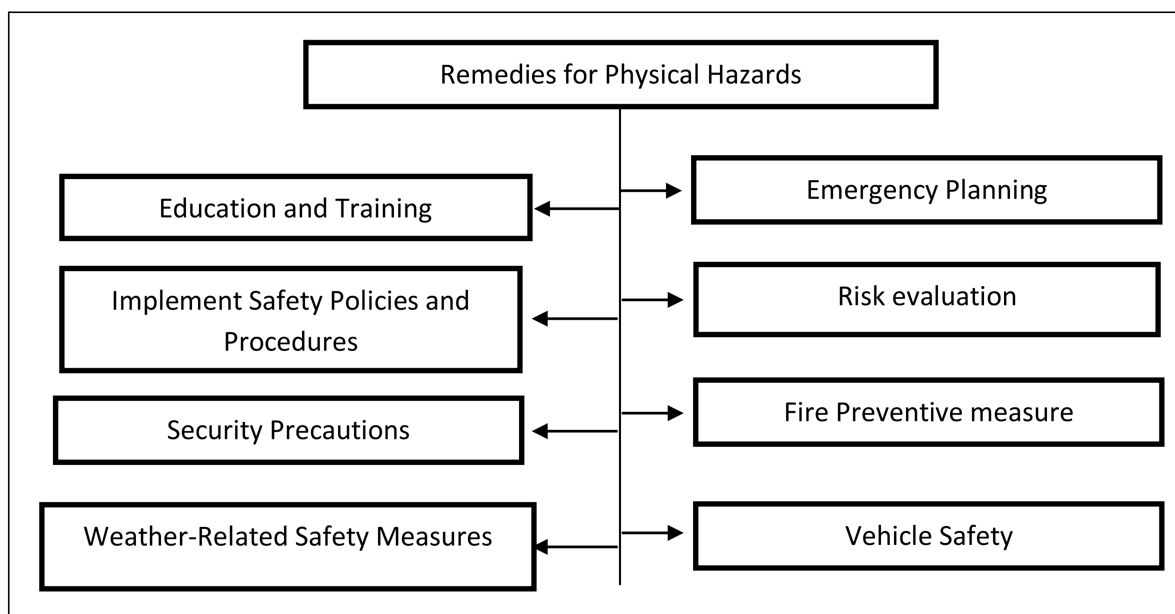
- **Claims Management:** Insurers will evaluate the effect of the physical hazard on the claim when a loss attributable to the hazard occurs. Physical hazards might affect the quantity of damage, the cost of repairs, and the truthfulness of the claim. Physical hazard claims could necessitate expert inspections and investigations.
- **Limitations and Exclusions of Coverage:** Regarding particular physical hazards, insurers may impose coverage restrictions or exclusions. They might limit coverage for houses with structural problems, for instance, or they might eliminate coverage for flood damage in flood-prone locations.
- **Costs of Business Interruptions:** Physical risks might impair operations and result in business interruption claims. The loss of income and additional costs that policyholders incur as a result of business interruptions brought on by risks like fires, natural catastrophes, or equipment failures may need to be covered by insurers.
- **Losses on investments:** The insurance companies invest their premium received from policyholders is invested by insurance companies to generate profits and cover claims in future. Portfolios of investments, however, may suffer large losses as a result of physical hazards. For example- Investments in homes impacted by a natural disaster might lose value.
- **A reputational hit:** Physical hazards can damage an insurer's reputation if losses are frequently experienced or are handled improperly. The insurer may struggle to attract new clients and experience attrition if policyholders lose faith in its capacity to offer dependable coverage.
- **Regulatory Penalties:** In the event of significant losses brought on by physical hazards, failure to comply with regulatory standards relating to capital adequacy and solvency may result in regulatory penalties and fines.

- **Costs of reinsurance:** If insurers' reinsurance coverage has been used up owing to claims relating to physical hazards, they may need to pay reinsurers additional premiums.

14.5.2 Remedies for Physical Hazards :

Managing physical hazards is taking steps to lessen the chance of mishaps or damage to any property. In order to minimise their risk insurance companies frequently issue guidelines and recommendations on how to avoid certain hazards. Here are a few major remedies for controlling physical hazards-

- **Education and Training:** To increase awareness and advance employees' knowledge of hazard control, the insurer regularly conducts safety training sessions for staff. Companies Inform workers about safest procedures for avoiding mishaps.
- **Emergency Planning:** The insurer develop and maintain emergency action plans for a range of situations, including fires, natural catastrophes, and chemical spills. To guarantee that everyone is capable of responding appropriately in an emergency, insurer conduct drills and exercises.
- **Implement Safety Policies and Procedures:** Implementations of safety policies and procedure: The insurer should develop and enforce comprehensive safety policies and procedures that address identified physical hazards. The insurer ensure that all staff members are trained on these guidelines and are aware of their responsibilities for hazard control.
- **Risk evaluation:** To identify all potential physical dangers unique to your property or business, do a complete risk assessment. This should involve a thorough assessment of the facilities, tools, and processes.
- **Security Precautions:** For regions where high risk the owner of property should consider hiring security personnel. In order to stop or control theft and vandalism of property, should install security cameras, alarm and access control system. They should use security doors and strong locks for entries.
- **Fire Preventive measure:** To avoid loss due to fire, the policyholder install fire extinguishers, sprinkler systems and fire alarm. They should regularly inspect and maintain electrical equipment and implement safe practices for handling and storing flammable items.



- **Weather-Related Safety Measures:** The policyholder should take precautions against weather-related dangers like wildfires, storms, and flooding. Where necessary, install the necessary safety measures, such as flood barriers or storm shutters.
- **Vehicle Safety:** The Company Implements safe driving policies for employees who operate company vehicles. Fleet vehicles should be regularly serviced and maintained to lower the chance of accidents.

14.6 DIFFERENCE BETWEEN MORAL HAZARDS AND PHYSICAL HAZARDS :

Sr. No.	Aspects	Moral Hazards	Physical Hazards
1	Meaning	These arise from choices or actions made in one's behaviour that raise the likelihood of taking risks or acting recklessly as a result of diminished personal accountability.	These result from the inherent capacity of a thing, substance, or circumstance to cause harm or injury.
2	Nature	Nature of Moral hazards are related to the human behaviour and decision making.	Nature of Physical hazards is related to the properties or characteristics of physical entities.
3	Effect on risk	Moral Hazards raise the possibility of harm or damage	Physical hazards are those that actually cause harm or loss
4	Control	These are often controlled through claim investigation, policy exclusions, and underwriting procedures.	These are often controlled by safety precautions, laws, audits, and emergency action plans.
5	Asymmetry of the information	Moral hazards are frequently linked to asymmetric information, in which one party is more informed about the activities and intentions of the other.	While information asymmetry could exist, it usually isn't as severe as it is in moral hazards.
6	Examples	Insurance fraud, Reckless driving, Excessive borrowing and default	Fire, Natural Disaster, Machinery malfunction, chemical spills,

14.7 MORALE HAZARD (ATTITUDE HAZARD) :

Morale hazards also known as attitudinal hazards and refers to an act of carelessness or disregard for a loss that heightens its likelihood or severity. Attitude hazards include things like leaving the door unlocked, which makes it easier for a burglar to break in, leaving the car keys in the ignition, which increases the risk of theft, and lane-changing abruptly on a busy freeway without signalling, which raises the risk of an accident. Such careless behaviour raises the frequency and magnitude of loss. Today, it is more often employed, less perplexing to pupils, and more descriptive of the topic at hand.

14.7.1 Difference between Moral hazards and Morale hazards :

Sr. No.	Aspect	Moral hazards	Morale hazards
1	Meaning	In moral hazards individuals intentionally take more risk as they are covered by insurance.	In morale hazards individuals become less careful or diligent in their activities due to insurance coverage or safety net.
2	Nature of behaviour	Involves planned behaviour and intentional risk-taking.	Involves a loss of effort or alertness.
3	Risk Type	Linked to the intentional rise of risk.	Connected to a loss of vigilance or caution.
4	Management	Underwriting, risk analysis, premium recalculation, and policy exclusions are used to manage.	Managed with the help of deductibles, risk-reduction techniques, and loss-control services.
5	Example	A driver who speeds and drives carelessly and thinks their comprehensive vehicle insurance would cover any losses.	Homeowners who disregard their homes' upkeep because they have property insurance and believe that any damages will be covered.

14.8 SELF-ASSESSMENT QUESTIONS :

1. What do you mean by risk? What are its different types?
2. What is effective risk management?
3. Define hazards.
4. What is moral hazards? What is the effect of moral hazards?
5. What is physical hazards? What are the remedies to physical hazards?

14.9 SUGGESTED READINGS :

- George E. Rejda Michael J. McNamara,Principles of “Risk Management and Insurance” Pearson
- Insurance Institute of India-IC 11- Practice of General Insurance
- Insurance Institute of India-IC 34- General Insurance

LESSON -15

RISK SPREADING AND PREMIUM

AIMS AND OBJECTIVES :

- To know what is spreading of risk
- What are the methods of risk spreading
- To know what is premium rating
- To what is premium loading
- Importance of Premium Loading and how to remove it.
- Major factors affecting Insurance premium rate

STRUCTURE :

15.1 Introduction

15.2 Risk Spreading

    15.2.1 Methods of Spreading Risk

    15.2.2 Regulations on Risk Spreading

15.3 Premium Rating

    15.3.1 Factors Affecting Insurance Premium Rate

    15.3.2 Premiums calculations

    15.3.3 What Insurance Company does with premiums?

    15.3.4 What Is an Actuary?

15.4 Premium Loading

    15.4.1 Types of Premium Loading

    15.4.2 Importance of Premium Loading

    15.4.3 Calculation of Premium Loading

    15.4.4 Reviewing or removing of premium loadings

    15.4.5 Reviewing or removing percentage loadings

    15.4.6 Reviewing or removing per-mille loadings

    15.4.7 Difference between premium rating and premium loading

15.4 Self-assessment questions

15.5 Suggested readings

15.1 INTRODUCTION :

In the bustling heart of the city, where dreams and aspirations intersect with the unpredictable twists of fate, there lies a small but vital office - an insurance agency. It's a place where people from all walks of life gather seeking protection, a financial shield against life's uncertainties. The risk is a chance of occurring a loss so each and everyone wants to reduce or mitigate his risk. Risk play a vital role in determining. Insurance just lessens the potentially very large financial burden; it does not and cannot completely remove risk.

15.2 RISK SPREADING :

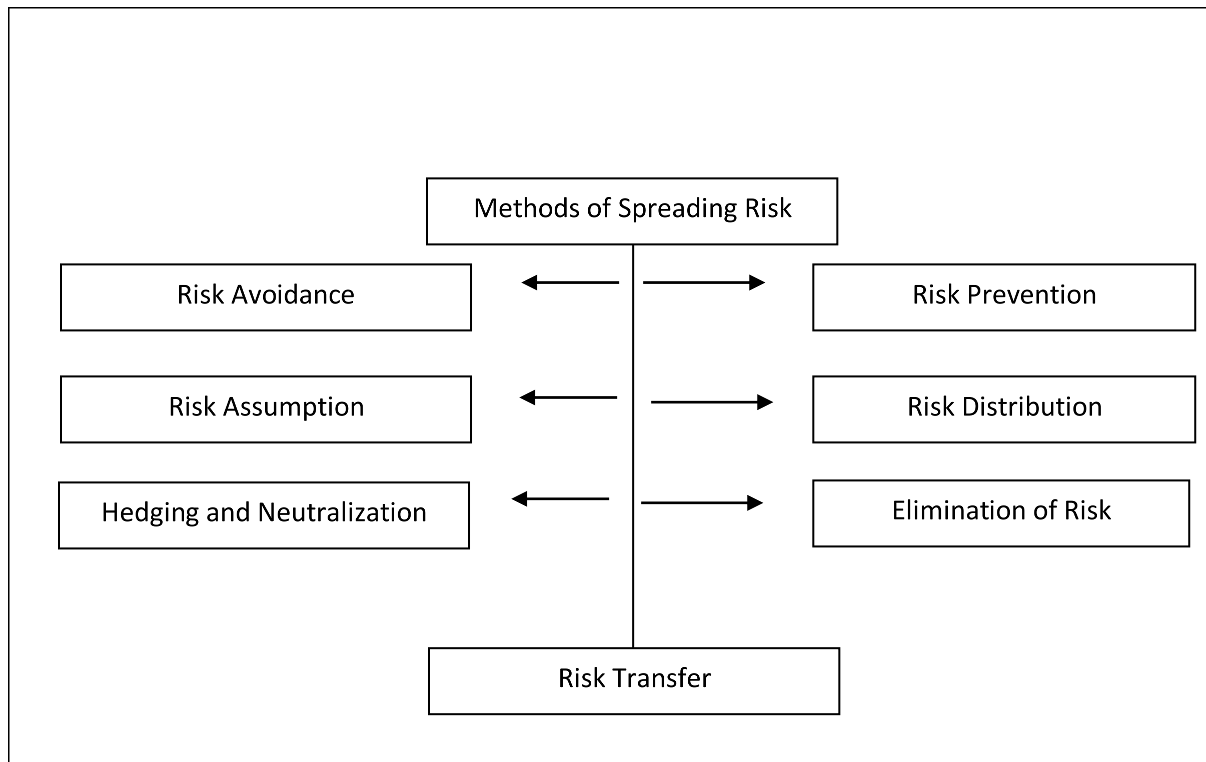
Risk spreading is a business strategy used by insurance companies. This involves selling insurance covering the same risk over a period of time or selling a large number of policies with different covers in many areas.

- This distribution of risk allows insurers to avoid paying claims that threaten to ruin their financial health, as might happen if all their risks were not diversified.
- Selling coverage for the same risk in a single area can cause financial problems if a local event results in a massive number of claims.
- Risk transfer is also called "risk spreading": because the large losses of a few are spread through an insurer to a large number of premium payers, each of whom pays a relatively small amount. The higher the number of premium payers, the more accurately insurers are able to estimate likely losses and thus calculate the amount of premium to be collected from each. Because claims incidence can change, insurers continually collect claims "experience" as a basis for periodic reviews of premium needs.
- For example, suppose a company sells flood insurance only to homeowners in a single, small area. If this area experiences flooding, the company could very well receive claims from every one of its customers at the same time. To avoid this, they must sell their flood insurance policies in different regions. This way, if a number of claims originate in one area following a flood, premiums collected from policyholders not affected by it can help offset the large payments the insurer must make.

Risk spreading is a different form of risk management. Imagine that a supertanker needs to be insured and the owner goes to only one insurer. If the tanker were to sink, the damage from the resulting oil spill would be catastrophic – both for the environment and for the insurance company, which would have to pay for the damages. In this case, the insurance company does not benefit from the law of large numbers: it does not insure thousands of tankers of this type and would therefore have difficulty balancing potential claims with annual insurance premiums. As a result, these insurers typically spread the potential cost among other insurers, known as risk spreading.

15.2.1 Methods of Spreading Risk :

Risk refers to the probable disadvantageous, undesirable, or unprofitable outcome of a chance event, an event that is not desired but nevertheless occurs. In professional or personal life, no one can avoid the risk and uncertainty that this can cause. It is therefore necessary to use one or more methods to guard against it. This helps lessen the impact of individual losses and guarantees that no one policyholder suffers the whole weight of a sizable loss. The process of risk spreading evaluates the potential loss exposures that an organization faces and chooses the most effective methods for addressing those exposures. Any event or circumstance in which a loss is possible, regardless of whether a loss actually occurs, is referred to as a loss exposure.



- **Risk Avoidance:** This involves the selection of those business activities only which involve the minimum amount of risks.

Examples ;
Buying a property or business in order to not take on the liability that comes with it.
Not flying in order to not take the risk that the airplane was to be hijacked.
Not to visit border areas at the time of war tensions.
Avoid manufacturing and marketing a product of which patent/copyright is doubtful.

- **Risk Prevention:** This can be done by eliminating the cause of the loss and protecting the loss of things or people exposed to damage or injury and minimizing the loss when it occurs.
- **Risk Assumption:** This refers to the fact that the individual or company itself assumes the risk and bears the resulting uncertainty. This is also known as self-insurance. It may be due to ignorance or choice, especially when the risk is so low that any action taken to minimize or eliminate it would be considered unprofitable.
- **Risk Distribution:** This involves spreading risk through group sharing, such as a partnership or some form of corporate business organization.
- **Hedging and Neutralization:** It is a matter of offsetting the loss resulting from the occurrence of a risk with a compensatory gain from another activity.
- **Elimination of Risk:** It is illogical to spread out risks that can be entirely eliminated, and the business world generally goes to great lengths to improve its equipment and working methods to avoid any element of unnecessary risk.
- However, improving the system requires additional expenditure and this will be justified as long as the potential loss is reduced by an amount greater than the potential cost.
- **Risk Transfer:** This is the fact that one person guarantees another against the risk of loss. Insurance is a form of risk transfer in itself.

Apart from the last point mentioned above relating to "risk transfer", it will be observed that the means of risk distribution envisaged so far involve sharing not only the risk but also the management and profits of the company. Insurance differs from this type of risk sharing in that it insulates the risk. It can be expressed in the form of a fund into which each insured member pays a contribution called a premium proportional to the risk they introduce. Insurers manage the fund, settle claims and, if possible, make a reasonable profit in exchange for their expertise.

The members of the fund are therefore only linked together by their desire to jointly protect themselves against a possible risk to which all are exposed. In no case did they combine their separate business activities. When isolating risk, we must always keep in mind that speculative risks go beyond the scope of insurance. In fact, pure risk control and management, which is an insurance technique, constitutes risk management from an insurance perspective, and this falls within the scope of insurance.

15.2.2 Regulations on Risk Spreading :

The principal act that governs the insurance sector in India is The Insurance Act, 1838. It empowers IRDAI to frame regulations that specify the legal framework for policing the sector's operational entities. Here are a few of the main laws that govern risk spreading-

- **Standards for Capital Adequacy:** The IRDAI establishes capital adequacy rules for insurance companies, ensuring that they possess enough capital to withstand unforeseen losses and carry on business without jeopardizing the interests of policyholders.
- **Risk Management Recommendations:** Insurance providers must have effective risk management strategies and procedures in place. The identification, assessment, and mitigation of numerous risks, including underwriting and operational risks, are required under these rules.
- **Requirements for Solvency Margin:** In India, insurance companies must maintain a minimum solvency margin to guarantee they have enough money to fulfill their responsibilities to policyholders. Based on a company's assets and obligations, the solvency margin is determined, and it must always be higher than the required minimum.
- **Measures to Protect Consumers:** There are laws and rules in place to safeguard policyholder interests. They set forth the terms and circumstances of insurance policies, forbid unfair business practices, and guarantee that policyholders receive fair treatment while making purchases, filing claims, and receiving customer support.
- **Approval of Premium Rates:** The IRDAI must approve all insurance rates that are invoiced to policyholders. With the help of this regulation, premium rates are made to be reasonable, actuarially sound, and risk-based.
- **Requirements for Mandatory Insurance:** Government regulations make some insurance coverage mandatory. As an example, the Motor Vehicles Act mandates that everyone who owns a vehicle carry auto insurance. This assures the spreading of risk for third-party liabilities resulting from mishaps.
- **Management of Catastrophe Risk:** The government may encourage or mandate insurers to have systems in place for managing catastrophe risks in areas vulnerable to such events, therefore spreading the risk involved.
- **Regulations for Investments:** The IRDAI controls the investments made by insurance companies. In order to reduce investment risk, these policies are meant to ensure good financial management and investment diversification.

- **Counter fraud Steps:** To lessen the danger of fraudulent insurance claims, which can affect the stability of insurance operations, regulations may require the deployment of anti-fraud measures.

15.3 PREMIUM RATING :

Premium is an amount paid periodically to the insurer by the insured for covering his risk. In an insurance contract, the risk is transferred from the insured to the insurer. To take this risk, the insurer charges an amount called premium. The premium is based on a number of variables like age, type of job, medical conditions, etc. Actuaries are responsible for verifying an insured's exact premium. The premium payment frequency may be different. It can be paid monthly, quarterly, semi-annually, annually or in a single premium.

An insurance premium is the amount an individual or business pays for an insurance policy. Insurance premiums are paid for insurance policies that cover healthcare, auto, home and life insurance. Once earned, the premium constitutes income for the insurance company. This also represents a liability because the insurer must provide coverage for claims made against the policy. Failure to pay the premium by the individual or company may result in termination of the policy.

An insurance premium is the money paid by any person, company or business to avail of an insurance policy. The amount of the insurance premium is influenced by several factors and varies from beneficiary to beneficiary.

The insurance company stipulates that an individual or company periodically pays them a specific amount as a premium for using and maintaining their insurance policy and coverage. Insurance companies take many factors into account when determining premiums, especially in the case of life insurance. These include the risk of claims by the policyholder, health problems, smoking and other lifestyle habits, area of residence, nature of employment, etc. Insurers use actuaries to assess the insured person's chances of claiming for serious illnesses or life-threatening illnesses like cancer or heart attacks in several age groups. The higher the risks associated with the individual, the higher the life insurance premium will be. Premiums can be paid in monthly, semi-annual or even annual installments. In some cases, customers can also pay the entire amount at once for the entire policy term before the coverage begins.

The insurance premium is what insurance companies use to ensure coverage for all policy-related liabilities. The premium can also be invested by the insurance company in securities to generate returns and cover part of the costs related to coverage.

15.3.1 Factors Affecting Insurance Premium Rate :

Insurance premiums depend on a variety of factors, including the type of cover purchased by the policyholder, the policyholder's age, the policyholder's place of residence, the policyholder's claims history. Insurance, as well as moral hazard and adverse selection. Insurance premiums may increase after the policy period ends or if the risk associated with offering a particular type of insurance increases. It can also change if the coverage amount changes. Although you can always look for a good insurance premium calculator to calculate the premiums, the calculation procedure also depends on several factors listed below:

- **Age:** This is one of the most important factors that affect the term insurance premium rate. With age, the premium rate of the term insurance plan also increases. This is because older people are more prone to health complications, which in turn pose a

higher risk to the insurer, while younger people are considered to be in good health. Thus, it is advisable to take out term insurance when one is young in order to obtain maximum coverage at a minimum premium rate.

- **Gender:** This factor is linked to mortality. Women, in general, have a longer lifespan than men. Therefore, many life insurance companies offer lower premium rates to female insurance buyers. In addition to this, women can also benefit from premium discounts.

- **Occupation:** Certain occupations like soldiers, pilots, gas industry workers, fishermen, etc. are considered risky by the insurance company. Therefore, a person working in any of these professions has to pay a higher premium than people working in a safe environment like shops, offices, schools, etc.

- **Medical ailments and history:** This is another major factor that affects the term insurance premium rate. Insurance companies ask for medical records before issuing the policy. In case a policy buyer has a history of health problems such as heart disease, diabetes, etc., the premium amount of the policy increases automatically. In some cases, the insurer may even reject the claim.

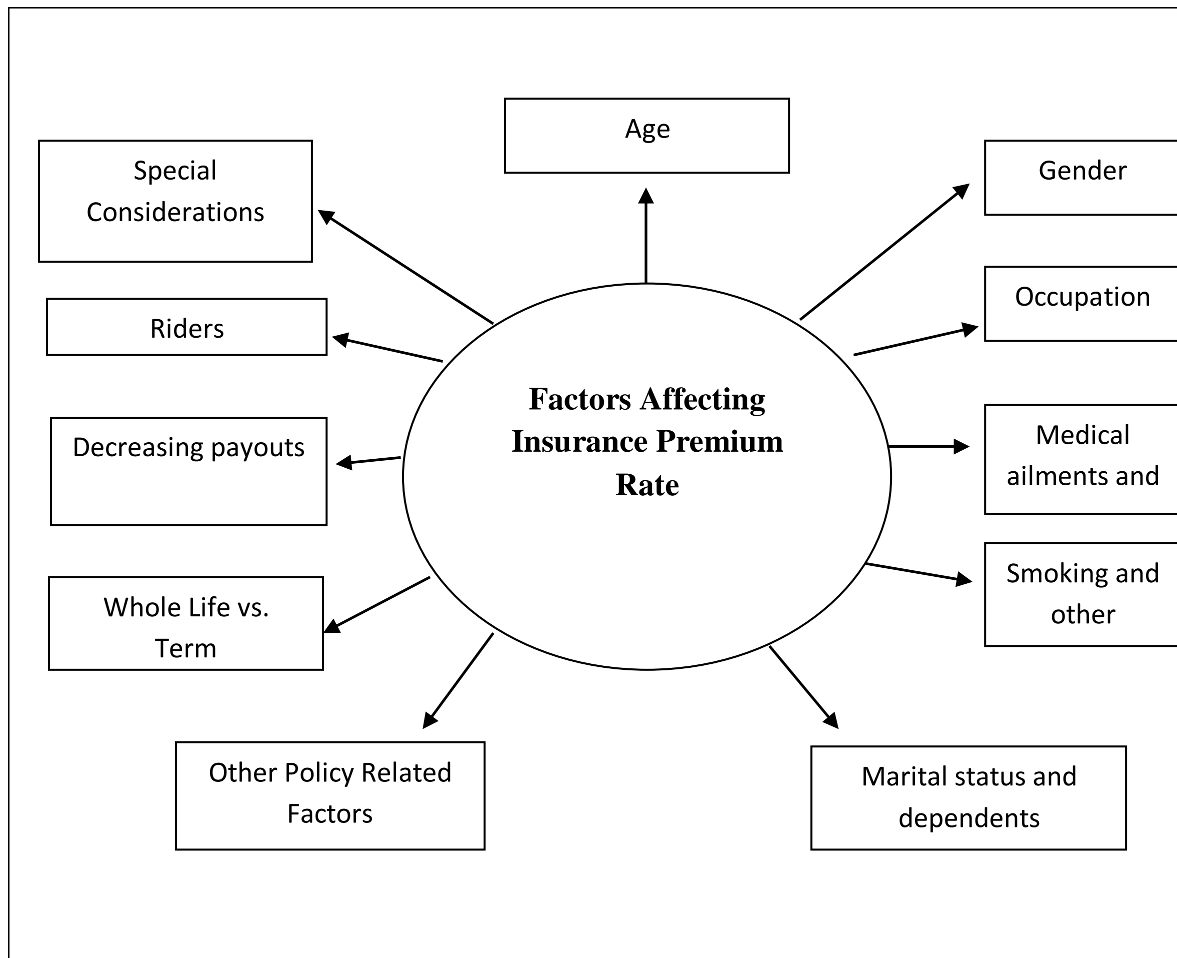
- **Smoking and other lifestyle habits:** Health risk from smoking includes lung diseases, cancer, etc. So, a person with a smoking habit tends to pose a risk to the insurance company. Therefore, the insurance company charges a high premium rate to buyers who smoke.

- **Marital status and dependents:** The marital status of an individual plays an important role while processing the insurance application and deciding the plan premium amount. If an individual chooses a joint term insurance plan, he or she will have to pay a higher premium than an individual term insurance policy.

- **Other Policy Related Factors:** Apart from these factors, there are certain factors related to policy that affect the premium rate of the term insurance policy. These are:

- **Whole Life Vs Term:** A whole life insurance policy provides coverage for life up to age 1010 or until the death of the insured person. Therefore, it usually involves higher premiums compared to the term insurance plan which provides coverage for a specific term.

- **Decreasing payouts:** How the term insurance premium is calculated also depends on whether you want to benefit from a fixed amount of cover for the entire duration of the contract or whether you want to opt for a decreasing payment option.



- **Riders:** In case an individual opts for a rider option while purchasing the term insurance policy, the premium of the policy increases simultaneously.
- **Special Considerations:** Most consumers consider shopping around to be the best way to find the cheapest insurance premiums. You may choose to shop around with individual insurance companies yourself. And if you're looking for quotes, it's pretty easy to do it yourself online.

For example, the Affordable Care Act (ACA) allows uninsured consumers to shop for health insurance policies in the marketplace. When logging in, the site requires some basic information such as your name, date of birth, address, and income, as well as the personal information of anyone else in your household. You can choose from several available options depending on your home state, each with different premiums, deductibles, and copayments. Policy coverage changes depending on how much you pay.

The other option is to try going through an insurance agent or broker. They tend to work with a number of different companies and may try to get you the best quote. Many brokers can connect you with life, auto, home, and health insurance policies. It is important to remember, however, that some of these brokers may be driven by commissions.

15.3.2 Premiums calculations :

Insurance premiums may increase after the end of the insurance period. The insurer may increase the premium for claims made in the previous period if the risk associated with offering a particular type of insurance increases or if the cost of coverage increases.

Insurance companies typically employ actuaries to determine risk levels and premium prices for a given insurance policy. The emergence of sophisticated algorithms and artificial intelligence is fundamentally changing the way insurance is priced and sold. There is an active debate between those who argue that algorithms will replace human actuaries in the future and those who argue that the increasing use of algorithms will require greater participation of human actuaries and take the profession to a "next level".

Insurers use the premiums paid to them by their customers and policyholders to cover the liabilities associated with the policies they underwrite. They can also invest in premium to generate higher returns. This can offset some of the costs of providing insurance coverage and help an insurer keep its prices competitive.

Although insurance companies may invest in assets with varying levels of liquidity and yield, they are required to maintain a certain level of liquidity at all times. National insurance regulators set the number of liquid assets needed to ensure insurers can pay claims.

15.3.3 What Insurance Company does with premiums? :

Insurers use the premiums paid to them by their customers and policyholders to cover the liabilities associated with the policies they underwrite. Some insurers invest in the premium to generate higher returns. By doing so, companies can offset some of the costs of providing insurance coverage and help an insurer keep its prices competitive in the market.

15.3.4 What Is an Actuary? :

An actuary assesses and manages the risks of financial investments, insurance policies, and other potentially risky businesses. Actuaries assess financial risks in particular situations, primarily using probability, economic theory, and computer science. Most actuaries work in insurance companies, where their risk management abilities are particularly useful in determining risk levels and premium prices for a given insurance policy.

15.4 PREMIUM LOADING :

Premium increases are the amount by which a higher risk applicant's premium is increased above a company's standard premium rate. This increase reflects the higher risk that the claimant will make a claim in the future.

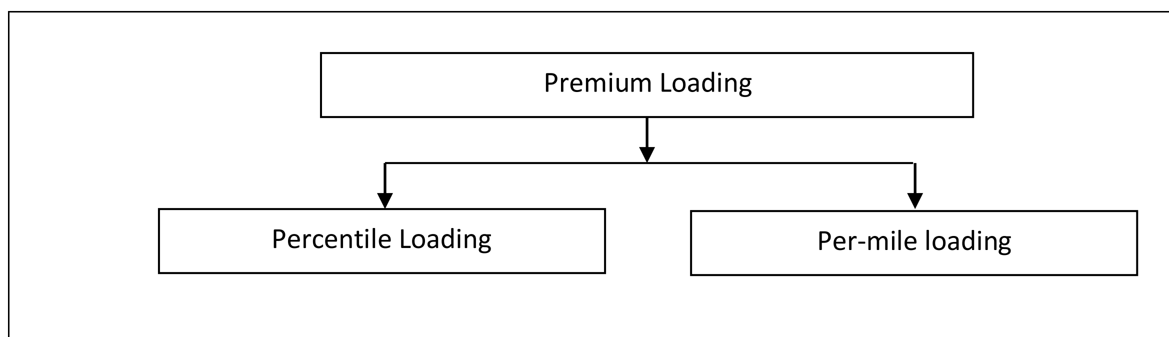
Premium loading means the additional premium in addition to the standard premium charged by the Company to the Policyholder based on the additional risk assessed for the Insured Person.

A premium charge refers to a fee or additional charge imposed on the regular premium paid by the policyholder. It is common in the insurance industry to apply premium loads to certain policies or coverage options. The purpose of a premium charge is to cover administrative costs and underwriting expenses, and to provide additional benefits or services to the policyholder. Understanding the amount of premiums is essential for people looking for insurance cover in India.

15.4.1 Types of Premium Loading :

There are two types of premium loadings; they are:

- Percentage loadings; and
- Per-mille loadings.



Percentage loadings: The most common type of premium markup is known as a "percentage markup." Between 50% and 400%, the loading percentage is calculated according to your additional risk. It is then applied in addition to the standard underlying premium rate for someone of your age, gender, smoking status and occupation.
A loading percentage is typically used for conditions that cannot be ruled out because they affect nearly every aspect of your overall health and well-being. This includes conditions such as diabetes, high blood pressure, or a strong family history of certain types of cancer.
Here's an example of how percentage loads work:
Standard premium rate for your demographic = Rs.100.Your premium loading offer = +50% of your adjusted premium rate = Rs. 150
In the example above, it has been estimated that you are 50% more likely to make a claim than others in your demographic, who do not have the same health risks as you.

Per-mille loadings: The second type of markup is called a "thousand markup." Per thousand means "for every thousand dollars" of your coverage. Here's an example of how loading per thousand might work:
Rs.100000 of coverage + a Rs. 10 per mile surcharge = an additional Rs.1,000 to pay each year, on top of the company's standard premium rate.
Because they are based on your coverage amount, not your demographics' premium rates, per-mill loadings result in the exact same additional premium for all customers, regardless of age, gender, occupation or smoking status. This is why per-mile loadings are used when the increased risk is the same for all customers exposed to it.
Loads per mile are generally used in two circumstances:

- When the risk of loss increases due to a dangerous occupation or pastime; Or
- When the client is recovering from certain types of cancer and the risk of cancer recurrence decreases with each year the client remains in remission.

In the second case, the per thousand charge would likely be applied for a set number of years, until the calculated risk of cancer recurrence becomes insignificant. For example, there could be a loading of Rs.5.00 per mile for 3 years. This would mean that in the third year of the policy the per mile increase would automatically cease and from that point on the total premium payable would no longer include the additional increase.

15.4.2 Importance of Premium Loading :

- **Covering Administrative and Underwriting Costs:** One of the main reasons for applying a premium charge is to cover administrative and underwriting costs incurred by the insurance company. These costs include expenses related to policy issuance, paperwork, processing, and overall management of the insurance policy. By imposing a premium charge, insurance companies can recoup these expenses and maintain operational efficiency.

- **Providing Additional Benefits or Services:** In some cases, a premium charge is applied to provide additional benefits or services to the policyholder. These additional features may include enhanced coverage, higher policy limits, or added policy endorsements that provide additional protection or customization options. By paying the premium charge, policyholders can access these additional benefits that go beyond the standard coverage.
- **Managing Risk and Profitability:** Insurance companies evaluate various factors when determining premium amounts. These factors include the risk associated with the insured person, the type of coverage and potential claims. By adjusting the level of premiums, insurers aim to balance the risks they take and ensure the overall profitability of their insurance business.

15.4.3 Calculation of Premium Loading :

A premium charge is an additional charge imposed on the regular premium paid by the policyholder in insurance. It covers administrative costs and subscription fees and may offer additional benefits or services. Insurance companies calculate the amount of premiums based on various risk factors and can apply it as a percentage or a fixed amount. Understanding the concept of premium loads helps individuals make informed decisions when buying insurance coverage in India.

- Evaluation of Risk Factors
- Percentage or Fixed Amounts
- Disclosure and Transparency

- **Evaluation of Risk Factors:** Calculating the premium charge involves evaluating the risk factors associated with the insured person or the coverage offered. These risk factors may include age, health, occupation, lifestyle choices and claims history. Insurance companies use actuarial techniques and statistical data to accurately assess potential risks.
- **Percentage or Fixed Amounts:** Premium charges can be calculated either as a percentage of the regular premium or as a fixed amount. The method of calculation depends on the policies of the insurance company and the specific coverage offered. For example, a policy may have a premium charge of 5% applied to the base premium, or it may have a fixed premium charge of Rs. 500 per annum.
- **Disclosure and Transparency:** Insurance companies are required to transparently disclose premium amounts to policyholders. This must be clearly mentioned in the contract documents and communicated to the policyholder during the subscription process. It is important for people looking for insurance coverage to carefully review and understand the premium amounts associated with their chosen insurance policy.

15.4.4 Reviewing or Removing of premium loadings :

Apart from the rare charges per thousand applied to Cancer, all other special conditions may be revised at any time. So if you think the risk from your pre-existing condition(s) or exposure to hazards has decreased, you might consider asking for a review.
Just note that your insurer will only agree to reduce or waive premium charges if they can identify a significant enough improvement in your health or risk exposure. So even if you request a review, there is no guarantee that your premium upload will be removed.

When it comes to removing percent or per-mile loadings specifically, there are a few key points to note.

15.4.5 Reviewing or removing percentage loadings :

Since percentage increases are applied due to a condition's impact on your overall health, an improvement in the original condition will not necessarily change your loss risk on its own.

Instead, there must be medical evidence of reduced claim risk based on your current overall health profile as of the date you requested the test. Taking into account your general health, your insurer will determine whether your risk of making a claim in the future has actually reduced. If the answer is yes, then the load will either be reduced or removed entirely.

15.4.6 Reviewing or removing per-mille loadings :

Per-mille loadings increases applied due to dangerous occupations or pastimes are considered in the same way. If you can provide your insurer with proof that you have left a risky job or given up a risky hobby, the per-mille increase will be waived, regardless of your current health profile.

15.4.7 Difference between premium rating and premium loading :

Sr. No.	Aspects	premium rating	premium loading
1	Meaning	It is the process of calculating an insurance policy's basic premium based on risk, coverage, and anticipated claims.	To adjust for unique risk variables or higher-than-average risk, an additional fee or premium increase is added to the base premium.
2	Application	Consistently applied to a class or group of policyholders with identical risk profiles.	Applied on a case-by-case basis to take into account risk variances among members of the same class of policyholders.
3	Aim	Fair and actuarially sound base premium is established that reflects anticipated claims and expenses related to a group of policyholders.	To modify the base premium for a certain policyholder in light of their particular risk profile or situation.
4	Individual vs. Group	It focuses on selecting the appropriate premiums for a class or group of policyholders as a whole.	It focuses on modifying the premiums for each policyholder individually in light of their unique risk profile.
5	Contains	Underwriting standards, policy type, coverage limitations, and the overall risk profile of a group of policyholders are all taken into account when determining premiums.	Individual risk variables like age, health, occupation, claims history, and lifestyle choices are included in premium loading factors.
6	Uniformity	All policyholders in the same	Various policyholders pay

		class pay the same base premium under premium rating, which seeks homogeneity within a group.	various premiums based on individual risk variables, which introduces heterogeneity within the same class.
7	Actuarial Analysis	The base premium is determined by actuaries using statistical and risk-analysis techniques.	To determine the proper loading for a specific insurance, actuarial analysis can also be utilized.

15.4 SELF ASSESSMENT QUESTIONS :

1. What do you mean by risk spreading? Explain its different methods.
2. How the premium loading is calculated?
3. Define premium rating.
4. What are the factors affecting premium rating?

15.5 SUGGESTED READINGS :

- George E. Rejda Michael J. McNamara,Principles of “Risk Management and Insurance” Pearson
- Insurance Institute of India-IC 11- Practice of General Insurance

LESSON - 16

CLAIM PROCEDURE AND TPAS (THIRD-PARTY ADMINISTRATORS)

AIMS AND OBJECTIVES :

This lesson aims to provide an understanding of the fundamental claim procedure and the role of Third-Party Administrators (TPAs) in facilitating the claims process.

1. To explain the step-by-step process of filing and processing insurance claims.
2. To introduce learners to the concept and functions of Third-Party Administrators (TPAs).
3. To highlight the importance of accurate and timely claim reporting.
4. To discuss the benefits and challenges associated with using TPAs in claims administration.

STRUCTURE :

16.1 Introduction

16.1.1 Third-Party Administrator (TPAs)

16.1.2 Benefits of TPAs (Third-Party Administrators):

16.1.3 Shortcomings Of TPAs

16.2 Concept Of Third-Party Administrators (TPAs)

16.2.1 Significance of TPAs

16.2.2 Adverse Consequences Due To Failure Of Reporting Claims

16.3 Role Of Third-Party Administrators (TPAs)

16.4 Summary

16.5 Technical Terms

16.6 Self-Assessment Questions

16.7 References

16.1 INTRODUCTION :

In the insurance industry, the process of settling claims is pivotal. It's the moment when policyholders seek compensation for covered losses, and insurers assess their obligations. Understanding the claim procedure and the role of Third-Party Administrators (TPAs) is crucial for policyholders, insurers, and professionals in the insurance sector. This lesson serves as an introduction to these vital aspects.

Why Claim Procedure Matters : Claim procedures are the structured steps that must be followed when policyholders experience a loss or event covered by their insurance policy. These procedures exist to ensure fairness, accuracy, and efficiency in the claims process. Accurate and timely claim reporting is crucial to enable insurers to respond promptly and policyholders to receive their entitled compensation. Understanding the role of TPAs is also

important, as they often manage the administrative aspects of the claims process on behalf of insurers, streamlining operations and improving efficiency.

The claim procedure for health insurance varies depending on the insurance company and the TPA. However, there are some general steps that are typically involved:

1. **The insured files a claim with the TPA.** This can be done online, over the phone, or by mail. The insured will need to provide the TPA with information about the medical services they received, the date of service, and the cost of the services.
2. **The TPA reviews the claim.** The TPA will review the claim to ensure that it is complete and that the insured is eligible for coverage. The TPA may also need to obtain additional information from the insured or the provider.
3. **The TPA approves or denies the claim.** If the claim is approved, the TPA will pay the provider directly. If the claim is denied, the TPA will provide the insured with an explanation of the denial.
4. **The insured can appeal the denial.** If the insured is not satisfied with the denial, they can appeal the decision. The appeal process will vary depending on the insurance company and the TPA.

16.1.1 THIRD-PARTY ADMINISTRATOR (TPA) :

In the healthcare insurance industry, a third-party administrator (TPA) is a company that processes and administers health insurance claims on behalf of insurance companies. TPAs work with both the insurance company and the insured to ensure that claims are processed quickly and accurately.

A **third-party administrator (TPA)** is a company that processes and administers health insurance claims on behalf of insurance companies. TPAs work with both the insurance company and the insured to ensure that claims are processed quickly and accurately.

TPAs play an important role in the claim procedure by helping to ensure that claims are processed quickly and accurately. TPAs also provide support to the insured throughout the claims process.

Here are some of the benefits of using a TPA to process health insurance claims:

- **Expertise:** TPAs have expertise in health insurance claims processing. This can help to ensure that claims are processed accurately and quickly.
- **Efficiency:** TPAs can process claims more efficiently than insurance companies can internally. This is because TPAs have the infrastructure and resources in place to handle a large volume of claims.
- **Customer service:** TPAs can provide customer support to the insured throughout the claims process. This can help to reduce the stress and hassle associated with filing a claim.

Overall, TPAs can play an important role in the health insurance claims process by helping to ensure that claims are processed quickly, accurately, and efficiently.

Here are some of the important third-party administrators (TPAs) in India:

- Medi Assist India TPA Pvt. Ltd.

- Paramount Health Services (P) Ltd.
- Family Health Plan (TPA) Ltd.
- Genins India TPA Ltd.
- Good Health Plan Limited
- Health India TPA Services PVT. LTD.
- Health Insurance TPA of INDIA LTD.
- Heritage Health TPA PVT. LTD.
- MDINDIA HEALTHCARE SERVICES (TPA) PVT. LTD.
- Alankit Health Care TPA Limited
- Anmol Medicre (TPA) Ltd.
- East West Assist TPA PVT. LTD.
- Ericson Health Insurance TPA

16.1.2 Benefits Of Tpas (Third-Party Administrators) :

1. **Expertise and Efficiency:** TPAs specialize in claims processing and have a deep understanding of insurance procedures. Their expertise leads to more efficient and accurate claims handling.
2. **Reduced Workload for Insurers:** TPAs handle administrative tasks related to claims, allowing insurance companies to focus on underwriting and risk assessment.
3. **Cost Savings:** Outsourcing claims administration to TPAs can be cost-effective for insurance companies, as they don't have to maintain large in-house claims departments.
4. **Technology and Innovation:** Many TPAs leverage technology and data analytics to streamline processes and improve customer service.
5. **Customer Service:** TPAs often provide dedicated customer service teams to assist policyholders throughout the claims process, enhancing the overall experience.

16.1.3 SHORTCOMINGS OF TPAS :

1. **Loss of Control:** Insurers may have less direct control over the claims process when outsourcing to TPAs, potentially impacting customer satisfaction.
2. **Quality Variability:** The quality of service provided by TPAs can vary, and some may prioritize cost-cutting over customer service.
3. **Conflicts of Interest:** TPAs may have relationships with repair shops, medical providers, or legal firms, which could lead to conflicts of interest.
4. **Limited Personalization:** TPAs may not provide the same level of personalization and tailored service that insurers can offer in-house.
5. **Data Security:** Sharing sensitive customer data with TPAs raises concerns about data security and privacy.
6. **Communication Challenges:** Miscommunication or delays between insurers, TPAs, and policyholders can occur, leading to dissatisfaction.

The step-by-step process of filing and processing insurance claims is a structured and crucial aspect of the insurance industry. It involves several stages from claim initiation to settlement. Here's an explanation of the process:

- **Incident Occurrence :** The process begins when an insured event or loss covered by the insurance policy occurs. This could be an accident, damage, theft, illness, or any event specified in the policy.
- **Immediate Response :** In the case of immediate health-related incidents or emergencies, the insured individual or policyholder should seek medical attention or take necessary steps to mitigate further loss or damage.
- **Contact the Insurer :** The insured individual or policyholder should promptly contact their insurance company or agent to report the incident. Most insurers have dedicated claims departments or hotlines for this purpose.
- **Claim Notification :** During the initial contact, the policyholder provides basic information about the incident, policy details, and contact information. This notification starts the formal claim process.
- **Claims Documentation :** The insurance company will provide the necessary claim forms and documentation requirements. The policyholder must complete these forms accurately and attach any supporting documents, such as photos, medical reports, or police reports, depending on the nature of the claim.
- **Claims Investigation :** Once the insurer receives the claim documentation, they initiate an investigation. This may involve contacting witnesses, visiting the scene of an accident, or reviewing medical records.
- **Evaluation of Claim :** After gathering information and documentation, the insurance company evaluates the claim's validity and coverage under the policy. They determine whether the loss or damage is covered and the extent of compensation.
- **Claim Decision :** Based on their evaluation, the insurer makes a claim decision. They may approve, partially approve, or deny the claim. If approved, they determine the amount of compensation.
- **Claim Payment :** If the claim is approved, the insurance company processes the payment to the policyholder or the service provider, such as a hospital or repair shop, as applicable.
- **Claim Closure :** After the payment is made, the claim is considered closed. The policyholder receives a settlement statement detailing the compensation and any deductible or co-payment.
- **Resolution of Disputes :** In cases where there are disputes over claim decisions or amounts, policyholders and insurers may engage in negotiations, mediation, or legal proceedings to resolve the matter.
- **Post-Claim Activities :** Following claim settlement, policyholders may need to take further actions, such as repairing damaged property, seeking medical treatment, or replacing lost items. Some insurance policies also require preventive measures to prevent further loss.

16.2 CONCEPT OF THIRD-PARTY ADMINISTRATORS (TPAS) :

Third-Party Administrators (TPAs) are independent entities or organizations that offer administrative and support services to various industries, including insurance, employee benefits, and healthcare. TPAs act as intermediaries between service providers, such as insurance companies or employers, and the individuals or organizations receiving those services. Their primary function is to streamline and manage administrative processes efficiently. Here's an explanation of the concept and functions of TPAs:

Functions of TPAs:

1. **Claims Processing:** TPAs are often involved in the processing of insurance claims. They receive, review, and process claims submitted by policyholders or beneficiaries. This includes verifying claim details, assessing coverage, and facilitating claim payments.
2. **Policy Administration:** TPAs assist insurance companies and employers in administering insurance policies and employee benefit plans. They manage policy enrollment, premium collection, and policyholder communication.
3. **Benefit Administration:** In the context of employee benefits, TPAs handle various aspects, including health insurance, retirement plans, and flexible spending accounts. They enroll employees in benefit programs, maintain records, and facilitate claims related to these benefits.
4. **Cost Containment:** TPAs play a role in cost containment strategies. They may negotiate rates with healthcare providers, review medical bills for accuracy, and implement cost-effective measures to manage expenses.
5. **Provider Network Management:** In healthcare, TPAs often manage provider networks. They establish contracts with healthcare providers and negotiate reimbursement rates. TPAs also ensure that policyholders have access to a network of healthcare providers.
6. **Customer Service:** TPAs provide customer support to policyholders, employees, or members of benefit plans. They handle inquiries, resolve issues, and offer assistance throughout the claims or benefit process.
7. **Data Management:** TPAs manage and analyze data related to claims, benefits, and costs. They use this data to identify trends, assess the performance of benefit plans, and make recommendations for improvements.
8. **Compliance and Regulatory Adherence:** TPAs stay updated on relevant regulations and ensure that their processes and services comply with legal requirements. This includes adherence to privacy laws, insurance regulations, and employee benefit laws.
9. **Reporting:** TPAs generate reports for insurance companies, employers, or plan administrators. These reports provide insights into claims activity, expenses, and utilization of benefits.
10. **Risk Management:** In insurance, TPAs assist in managing risks associated with claims. They may investigate fraudulent claims, assess liability, and recommend strategies for minimizing risks.
11. **Cost Transparency:** TPAs often provide cost transparency by disclosing the breakdown of expenses associated with services, benefits, or claims. This transparency helps policyholders and employers understand their costs.
12. **Technology Integration:** Many TPAs leverage technology to streamline processes, such as online claims submission, digital record-keeping, and data analytics for decision-making.

16.2.1 Significance Of Tpas :

Third-Party Administrators (TPAs) play a crucial role in various industries, particularly in healthcare and insurance. Their importance lies in their ability to streamline and manage essential administrative tasks and services on behalf of organizations, resulting in several key benefits:

1. **Efficiency and Cost Savings:** TPAs specialize in administrative functions such as claims processing, billing, and customer support. Outsourcing these tasks to TPAs can lead to cost savings for organizations, as TPAs often have the expertise and technology to process transactions efficiently.
2. **Expertise and Specialization:** TPAs are experts in their respective fields, such as healthcare or insurance. They stay up-to-date with industry regulations, trends, and best practices, ensuring that organizations receive accurate and compliant services.
3. **Focus on Core Activities:** By outsourcing administrative tasks to TPAs, organizations can free up internal resources and focus on their core competencies and strategic initiatives. This allows businesses to concentrate on growth and innovation.
4. **Reduced Administrative Burden:** TPAs handle time-consuming and complex administrative tasks, such as claims adjudication and compliance management. This reduces the administrative burden on organizations, enabling them to operate more efficiently.
5. **Scalability:** TPAs often have the capacity to scale their services according to an organization's needs. This flexibility is especially valuable during periods of growth or when managing variable workloads.
6. **Access to Technology:** Many TPAs invest in advanced technology and software solutions to streamline their processes. Organizations that partner with TPAs can leverage these technologies without the need for extensive in-house investments.
7. **Risk Management:** TPAs in the insurance industry often assist with risk management services, including underwriting, loss control, and claims management. Their expertise can help organizations reduce risk exposure and manage claims effectively.
8. **Compliance and Regulatory Support:** TPAs are well-versed in industry-specific regulations and compliance requirements. They can ensure that organizations adhere to legal and regulatory standards, reducing the risk of penalties or legal issues.
9. **Improved Customer Service:** TPAs typically provide customer service support to handle inquiries and resolve issues promptly. This enhances the overall customer experience, leading to higher satisfaction levels.
10. **Data Analytics and Reporting:** Many TPAs offer robust data analytics and reporting capabilities. They can provide organizations with valuable insights and data-driven recommendations for improving operations and decision-making.
11. **Cost Predictability:** Outsourcing administrative functions to TPAs often involves predictable costs, making budgeting and financial planning more manageable for organizations.
12. **Emergency Response:** In situations like natural disasters or public health emergencies, TPAs can quickly respond to increased service demands, ensuring continued support for policyholders or members.
13. **Flexibility in Service Models:** TPAs offer a range of service models, from fully outsourced solutions to more customized arrangements. This flexibility allows organizations to tailor TPA services to their specific needs

Accurate and timely claim reporting is of paramount importance in various industries, particularly in insurance and healthcare. Here are some key reasons why accurate and timely claim reporting is crucial:

1. **Faster Resolution:** Reporting claims promptly allows insurers or service providers to initiate the claims processing and resolution process quickly. This can lead to faster payouts or service delivery to policyholders or claimants.

2. **Minimized Financial Impact:** For organizations, timely claim reporting helps manage financial risk. Delayed reporting can result in increased costs, as the severity of a claim or the extent of damage may worsen over time. Timely reporting allows for prompt assessment and mitigation of financial impact.
3. **Compliance and Legal Requirements:** Many industries are subject to regulatory and legal requirements related to claims reporting. Failing to report claims accurately and on time can result in penalties, legal consequences, or regulatory issues.
4. **Customer Satisfaction:** In customer-centric industries like insurance and healthcare, timely and accurate claims processing enhances customer satisfaction. Claimants appreciate a smooth and efficient process that addresses their needs promptly.
5. **Prevention of Fraud:** Timely reporting allows organizations to investigate and verify claims promptly. This can help detect fraudulent claims and prevent financial losses due to fraudulent activities.
6. **Resource Allocation:** Accurate claim reporting enables organizations to allocate resources effectively. This includes assigning adjusters, allocating funds, and managing workflows efficiently based on the reported claims.
7. **Risk Management:** Accurate reporting provides organizations with valuable data that can be used for risk assessment and management. This data can inform decisions related to insurance coverage, safety measures, and risk prevention strategies.
8. **Data Analytics:** Claims data is a valuable source of information for organizations. Timely and accurate reporting ensures that data is available for analysis, enabling organizations to identify trends, patterns, and areas for improvement.
9. **Reputation Management:** The way an organization handles claims can significantly impact its reputation. Timely and accurate claims processing demonstrates professionalism and commitment to customers, enhancing the organization's reputation.
10. **Legal Protection:** In cases where legal action is involved, accurate and timely claim reporting can protect an organization's legal interests. It ensures that the organization complies with legal obligations and maintains documentation for potential litigation.
11. **Resource Efficiency:** Efficient claims processing requires the allocation of resources such as personnel, materials, and equipment. Timely reporting ensures that these resources are used efficiently and effectively.
12. **Improved Decision-Making:** Claims data can inform strategic decision-making. Accurate and timely reporting provides organizations with the information needed to make informed decisions related to risk management, pricing, and process improvements.

Here are some examples highlighting the importance of accurate and timely claim reporting in different industries:

1. **Insurance Industry:**
   - **Auto Insurance:** Imagine a scenario where an insured driver is involved in a car accident but fails to report the incident promptly. Delayed reporting may lead to challenges in assessing the extent of damage, determining liability, and coordinating repairs. Timely reporting allows the insurance company to initiate the claims process swiftly, arrange for vehicle inspections, and expedite repairs or settlements.
   - **Health Insurance:** In healthcare, accurate and timely claim reporting is critical. Patients who delay reporting medical expenses or procedures to their insurance providers may face complications in getting claims processed.

Health insurance claims often have deadlines for submission, and failing to meet these deadlines can result in claim denials or delayed reimbursements.

2. **Workers' Compensation:**
   - In the workers' compensation system, employees must promptly report work-related injuries or illnesses to their employers. Accurate reporting ensures that injured employees receive medical care and compensation benefits without unnecessary delays. Delayed reporting can lead to complications in the claims process and disputes over the cause of injuries.
3. **Property and Casualty Insurance:**
   - In the event of property damage due to events like fires, storms, or burglaries, policyholders need to report the incidents promptly to their insurance companies. Timely reporting enables insurers to assess the extent of damage, provide necessary support, and expedite claims payments to help policyholders recover and rebuild.
4. **Healthcare Providers:**
   - Healthcare providers must accurately and promptly submit claims to insurance companies for reimbursement of medical services provided to patients. Delayed or inaccurate claims submissions can lead to payment delays, disputes, and revenue loss for healthcare facilities.
5. **Product Liability Claims:**
   - Manufacturers or distributors of products may face claims related to product defects, injuries, or property damage caused by their products. Timely and accurate reporting of such claims allows companies to investigate the issues, take corrective actions, and potentially avoid costly lawsuits.
6. **Environmental Liability:**
   - Companies involved in environmental industries, such as waste management or hazardous materials handling, must report environmental incidents promptly. Delayed reporting of environmental accidents or spills can lead to increased cleanup costs, regulatory fines, and damage to a company's reputation.
7. **Professional Liability Insurance:**
   - Professionals such as doctors, lawyers, and architects rely on professional liability insurance to protect themselves from claims of professional negligence. Timely reporting of potential claims to insurers is essential to secure coverage and legal representation.
8. **General Liability Insurance:**
   - Businesses with general liability insurance must report accidents, injuries, or property damage that occur on their premises or as a result of their operations. Accurate and prompt reporting helps insurers assess liability and coverage, expediting claim resolution.

These examples illustrate how accurate and timely claim reporting is essential in various industries to ensure swift, fair, and efficient claims processing, mitigate risks, and uphold the principles of insurance and liability coverage.

16.2.2 Adverse Consequences Due To Failure Of Reporting Claims :

Failure to report incidents or claims in a timely and accurate manner can lead to significant losses in various scenarios. Here are some real-world cases where the failure of reporting had adverse consequences:

1. **Insurance Claim Denial:**
   - *Case:* A homeowner experienced water damage in their house due to a burst pipe. However, they failed to report the incident to their insurance company promptly. When they eventually filed a claim several weeks later, the insurance company denied it, citing the delay as a breach of the policy terms. The homeowner had to bear the full cost of repairs, resulting in a substantial financial loss.
2. **Workplace Injury:**
   - *Case:* An employee suffered a workplace injury but did not report it to their employer immediately. As a result, the injury worsened over time, requiring extensive medical treatment. The delayed reporting not only increased the worker's medical expenses but also led to complications in the workers' compensation claim process. The employee received reduced benefits due to the late reporting.
3. **Product Liability Lawsuit:**
   - *Case:* A manufacturing company received complaints from customers about a faulty product causing injuries. Instead of promptly investigating and addressing the issue, the company ignored the complaints for several months. When the injured customers initiated a product liability lawsuit, the company's failure to report and address the initial incidents resulted in costly legal battles and settlement payments.
4. **Health Insurance Denial:**
   - *Case:* A patient underwent a medical procedure but delayed submitting the insurance claim for reimbursement. By the time the claim was filed, it exceeded the policy's filing deadline. The insurance company denied the claim, leaving the patient responsible for the entire medical bill, causing financial strain.
5. **Auto Insurance Claim:**
   - *Case:* A driver was involved in a car accident but decided not to report the incident to their auto insurance company, fearing premium increases. Several months later, the other party involved in the accident filed a claim against the driver's insurance. The delayed reporting made it difficult to assess liability accurately, resulting in higher settlement costs for the insurance company and potential policy cancellation for the driver.
6. **Environmental Incident:**
   - *Case:* A chemical manufacturing plant experienced a chemical spill but chose not to report it to environmental regulatory authorities promptly. The spill eventually contaminated a nearby river, causing ecological damage and health concerns for the community. The company faced substantial fines and legal liabilities for its failure to report and address the incident promptly.

These cases highlight the adverse consequences that can arise from the failure to report incidents or claims in a timely and accurate manner. Whether in insurance, workplace safety, product liability, healthcare, or environmental compliance, prompt reporting is essential to mitigate risks, minimize losses, and ensure a fair and efficient resolution process

16.3 ROLE OF THIRD-PARTY ADMINISTRATORS (TPAS) :

Third-Party Administrators (TPAs) play a significant role in the claims administration process for various types of insurance and benefit programs. Here, we'll discuss the benefits and challenges associated with using TPAs:

Benefits of Using TPAs:

1. **Expertise and Specialization:** TPAs are specialized entities with expertise in claims administration. They understand the intricacies of claims processing, compliance, and regulatory requirements, ensuring efficient and accurate handling of claims.
2. **Cost Efficiency:** TPAs can often process claims more cost-effectively than in-house teams. They have the infrastructure, technology, and trained staff to manage claims efficiently, potentially reducing operational costs for insurance providers.
3. **Resource Offloading:** Outsourcing claims administration to TPAs allows insurance companies to focus on core functions such as underwriting and sales, while the TPAs handle the claims workload. This resource offloading can improve overall efficiency.
4. **Scalability:** TPAs can scale their operations to accommodate fluctuations in claims volume, making them a flexible option for insurance companies facing varying workloads.
5. **Access to Technology:** TPAs often invest in advanced claims processing technologies, which can lead to faster claims handling, reduced errors, and improved customer service.
6. **Compliance and Regulatory Knowledge:** TPAs stay updated on changing regulations and compliance requirements, helping insurance providers avoid legal issues and penalties.
7. **Claims Data Analytics:** TPAs can provide valuable data analytics and insights from claims data, enabling insurance companies to make informed decisions about risk management, pricing, and process improvements.

ILLUSTRATIONS :

Certainly, here are some examples illustrating the benefits associated with using Third-Party Administrators (TPAs) in claims administration:

Benefits of Using TPAs:

1. **Health Insurance Claims Processing:**
   - *Benefit:* Health insurance companies often use TPAs to efficiently process medical claims. TPAs have access to a network of healthcare providers and can quickly verify and settle claims, providing a seamless experience for policyholders.
2. **Auto Insurance Claims Handling:**
   - *Benefit:* Auto insurance providers leverage TPAs to expedite claims after accidents. TPAs can coordinate repair services, handle communication with involved parties, and ensure prompt settlements, enhancing customer satisfaction.
3. **Workers' Compensation Claims Management:**
   - *Benefit:* Employers often use TPAs to manage workers' compensation claims. TPAs help navigate complex regulations, ensure injured employees receive necessary care, and facilitate return-to-work programs, reducing the financial burden on employers.
4. **Property Insurance Claims Adjustment:**
   - *Benefit:* Property insurance companies employ TPAs to assess and adjust claims related to property damage. TPAs can quickly dispatch adjusters to assess the extent of damage, which is especially crucial in the event of natural disasters.

Challenges of Using TPAs:

1. **Loss of Control:** When outsourcing claims administration to TPAs, insurance providers relinquish some control over the claims process. This can be a concern for companies that want to maintain tight control over customer interactions.
2. **Quality Control:** Ensuring consistent quality in claims processing across different TPAs can be challenging. Insurance companies must closely monitor TPA performance and establish service level agreements (SLAs) to maintain quality standards.
3. **Communication and Coordination:** Effective communication and coordination between insurance providers and TPAs are crucial. Miscommunication or delays in information sharing can lead to errors and customer dissatisfaction.
4. **Privacy and Data Security:** TPAs handle sensitive customer information. Ensuring data privacy and security is a significant concern, and insurance companies must choose TPAs with robust data protection measures.
5. **Vendor Costs:** While TPAs can be cost-effective, their services are not free. Insurance companies must consider the fees charged by TPAs when assessing overall cost savings.
6. **Integration Challenges:** Integrating TPA systems with an insurance company's existing infrastructure can be complex and may require significant IT resources.
7. **Reputation and Customer Experience:** The performance and reputation of the TPA can directly impact the customer experience. Negative experiences with TPAs can harm an insurance provider's reputation

ILLUSTRATIONS :

1. **Loss of Control in Health Insurance:**
   - *Challenge:* Health insurance companies may lose some control over the claims process when working with TPAs. This can result in less direct communication with policyholders, potentially affecting the customer experience.
2. **Quality Control in Auto Insurance:**
   - *Challenge:* Auto insurance providers must ensure that TPAs consistently provide accurate assessments of accident damage. Inconsistent assessments can lead to disputes and dissatisfaction among policyholders.
3. **Coordination in Workers' Compensation:**
   - *Challenge:* When multiple TPAs are involved in managing workers' compensation claims, coordination can be challenging. Ensuring that injured employees receive appropriate care and benefits requires effective communication between all parties.
4. **Data Security in Property Insurance:**
   - *Challenge:* Property insurance companies must safeguard customer data during the claims process. Transmitting sensitive information to TPAs without adequate security measures can pose data breach risks.
5. **Vendor Costs Across All Sectors:**
   - *Challenge:* While TPAs can save costs, their fees can add to an insurance provider's expenses. Balancing the potential cost savings with the fees charged by TPAs requires careful financial management.
6. **Reputation in All Sectors:**

- *Challenge:* The reputation of a TPA can significantly impact an insurance provider's reputation. Negative experiences, such as delays in claims processing or disputes, can lead to policyholder dissatisfaction and harm an insurer's image.

These examples showcase how TPAs can be valuable partners in various sectors of the insurance industry, but they also highlight the importance of addressing challenges such as quality control, data security, and coordination to ensure a positive customer experience and successful claims administration

16.4 SUMMARY :

This introductory section sets the stage for exploring the claim procedure and the pivotal role that TPAs play in claims management. Understanding these fundamentals is essential for anyone involved in the insurance industry or holding insurance policies. In the following sections,

In summary, TPAs offer several advantages in terms of expertise, efficiency, and cost savings. However, insurers should carefully consider the potential downsides, such as loss of control and conflicts of interest, when outsourcing claims administration. Effective oversight and clear communication are essential to ensure a positive experience for policyholders

TPAs play a critical role in enhancing efficiency, reducing costs, and improving the quality of administrative services across various industries. Their expertise, resources, and focus on specialization make them valuable partners for organizations looking to optimize their operations and customer service. accurate and timely claim reporting is essential for efficient operations, compliance with regulations, customer satisfaction, fraud prevention, and overall risk management. It is a critical component of responsible and effective business practices in industries where claims processing is a core function

TPAs offer several benefits in claims administration, including expertise, cost efficiency, and scalability. However, they also present challenges related to loss of control, quality control, data security, and coordination. Successful collaboration with TPAs requires clear communication, oversight, and a well-defined partnership to maximize the advantages while mitigating potential drawbacks.

16.5 TECHNICAL TERMS :

1. **Claim:** A formal request by a policyholder or beneficiary for payment or coverage under an insurance policy.
2. **Policyholder:** The individual or entity that holds an insurance policy.
3. **Beneficiary:** The person or entity designated to receive the benefits of an insurance policy in case of a covered event.
4. **Claims Adjuster:** A professional responsible for assessing the extent of damage or loss covered by an insurance policy and determining the appropriate compensation.
5. **Coverage:** The scope of protection provided by an insurance policy against specific risks or events.
6. **Premium:** The periodic payment made by the policyholder to the insurance company in exchange for coverage.
7. **Deductible:** The amount a policyholder must pay out of pocket before the insurance company starts covering the costs.

8. **Exclusion:** Specific conditions or situations not covered by an insurance policy.
9. **Subrogation:** The process by which an insurer can recover costs from a third party responsible for the loss or damage.
10. **Third-Party Administrator (TPA):** An independent entity responsible for managing various administrative tasks related to insurance claims on behalf of an insurance company.
11. **Claims Processing:** The procedure followed by TPAs to receive, review, and settle insurance claims efficiently.
12. **Claims Handling:** The broader process of managing insurance claims, which includes investigation, assessment, and resolution.
13. **Network Provider:** Healthcare professionals, hospitals, or service providers that have an agreement with the TPA to provide services to policyholders at negotiated rates.
14. **Service Level Agreement (SLA):** A contractual agreement that defines the service standards, expectations, and responsibilities between the TPA and the insurance company.
15. **Claim Form:** A standardized document used by policyholders to report a loss or request compensation.
16. **Loss Assessment:** The evaluation of the extent of damage or loss by claims adjusters to determine the appropriate payout.
17. **Settlement:** The final resolution of an insurance claim, which may involve payment to the policyholder or beneficiary.
18. **Claims Documentation:** The collection of essential documents, such as medical records or accident reports, required to process a claim.
19. **Loss Minimization:** Strategies and measures implemented to reduce the severity or frequency of losses, which can result in lower claims costs.
20. **Arbitration:** A method of dispute resolution where an impartial third party is involved to help the parties reach a resolution.
21. **Salvage:** The process of recovering value from damaged or stolen assets to offset insurance claim costs.

These terms are essential in understanding the insurance claims process and the role of TPAs in managing claims efficiently and effectively.

16.6 SELF ASSESSEMENT QUESTIONS :

1. What is the primary purpose of filing an insurance claim, and why is it important for policyholders?
2. Explain the key steps involved in the claims processing cycle, from claim submission to settlement.
3. What role does a claims adjuster play in the insurance claims process, and how do they determine claim payouts?
4. Describe the concept of a deductible and its significance in insurance claims.
5. Why is it crucial for policyholders to report claims accurately and in a timely manner?
6. What are the potential consequences of delayed reporting?
7. What is the primary function of a Third-Party Administrator (TPA) in the insurance industry, and how does it differ from the role of an insurance company?
8. Explain the benefits of outsourcing claims administration to TPAs for insurance companies.

9. Describe the services typically offered by TPAs in the healthcare sector, including their role in managing network providers.
10. What is a Service Level Agreement (SLA) in the context of TPAs, and why is it important for both TPAs and insurance companies?
11. Discuss the concept of subrogation and how it can benefit insurance companies when working with TPAs.

16.7 SUGGESTED READINGS :

1. "Insurance Claims and Disputes: Representation of Insurance Companies and Insureds" **by Barry Zalma**
2. Insurance Claims Adjuster: A Manual for Entering the Profession" **by Janice Abraham**
3. "Principles and Practice of Insurance" **by M.N. Mishra and M. Natarajan**
4. "Insurance Claims Adjuster: A Complete Resource for Skill Development" **by Mark S. Dikeman and Patsy M. Watson**
5. "Health Insurance: A Guide for Billing and Reimbursement" **by Marie A. Moisio**
6. Managed Care and the Evaluation and Adoption of Emerging Medical Technologies" **by Steven Garber**
7. Risk Management and Insurance: Perspectives in a Global Economy" **by Harold D. Skipper Jr. and David M. Smith**

LESSON - 17

CLAIM FORMS AND INVESTIGATION/ASSESSMENT

AIMS AND OBJECTIVES :

This lesson aims to delve into the significance of claim forms and the investigation/assessment phase in the claims settlement process.

1. To explain the purpose and types of claim forms used in the insurance industry.
2. To guide learners on how to properly complete claim forms.
3. To explore the investigative process involved in verifying the validity of claims and assessing damages.
4. To emphasize the essential claim documents that policyholders need to submit.
5. To discuss the role of investigation in detecting fraudulent claims.

STRUCTURE :

17.1 Introduction

17.1.1 Types Of Claim Forms

17.2 Significance Of Claim Forms

17.2.1 Consequences If Not Properly Done

17.3 Process of Investigation To Verify The Validity Of Claim

17.4 Essential Claim Documents

17.5 The Role Of Investigation In Detecting Fraudulent Claim

17.6 Summary

17.7 Technical Terms

17.8 Self Assessment Questions

17.9 Suggested Readings

17.1 INTRODUCTION :

Claim forms play a crucial role in the insurance industry as they serve as the official documentation for policyholders to request compensation for covered losses. These forms are used to initiate the claims processing procedure. Here's an explanation of their purpose and the types commonly used:

Purpose of Claim Forms: The primary purpose of claim forms in the insurance industry is to:

1. **Initiate the Claims Process:** Claim forms are the formal means by which policyholders report a loss or damage covered by their insurance policy. They serve as a formal request for compensation.
2. **Provide Information:** Claim forms collect essential information about the policyholder, the insured event, and the extent of the loss. This information is necessary for the insurer to assess the validity of the claim.

3. **Documentation:** Claim forms create a written record of the claim, which helps ensure transparency and consistency in the claims process. They provide a basis for tracking and managing the claim from initiation to resolution.
4. **Verification:** Claim forms help insurers verify the authenticity and accuracy of the claim. They may require supporting documents, such as photographs, estimates, or police reports, to substantiate the claim.
5. **Legal Requirement:** In many cases, filing a claim using the official claim form is a legal requirement stipulated in the insurance policy. It ensures that both the policyholder and insurer adhere to the terms and conditions of the policy.

17.1.1 Types Of Claim Forms :

There are several types of claim forms used in the insurance industry, depending on the type of insurance coverage and the nature of the loss:

1. **Property and Casualty Claim Forms:** These are used for claims related to damage or loss of property, including homeowners' insurance, auto insurance, and commercial property insurance. They typically include sections for details about the incident, estimated loss amount, and relevant documentation.
2. **Health Insurance Claim Forms:** These forms are specific to healthcare-related claims and are used by policyholders to seek reimbursement for medical expenses. They include information about medical treatments, diagnoses, and provider details.
3. **Life Insurance Claim Forms:** These forms are used when a policyholder passes away, and beneficiaries need to claim the death benefit. They require documentation such as the death certificate and beneficiary information.
4. **Workers' Compensation Claim Forms:** These forms are used by employees to report work-related injuries or illnesses to their employers. Employers then submit these claims to their workers' compensation insurance providers.
5. **Liability Claim Forms:** These are used in cases where a policyholder is being held liable for damages or injuries to a third party. They include information about the incident, details of the injured party, and any legal proceedings.
6. **Travel Insurance Claim Forms:** These forms are used by travelers to claim reimbursements for travel-related disruptions, such as trip cancellations, delays, or medical emergencies during a trip.
7. **Specialized Claim Forms:** Some insurance policies, such as marine insurance, aviation insurance, or pet insurance, may have specialized claim forms tailored to the unique aspects of those policies

17.2 SIGNIFICANCE OF CLAIM FORMS :

Claim forms hold significant importance in the insurance industry for several reasons:

1. **Documentation:** Claim forms serve as official documentation of a policyholder's request for compensation due to a covered loss or event. They provide a clear record of the claim's initiation and the information provided by the policyholder.
2. **Transparency:** Claim forms promote transparency in the claims process. They outline the necessary information that policyholders must provide, ensuring that both parties (policyholder and insurer) have a common understanding of the claim details.
3. **Verification:** Claim forms help insurers verify the authenticity and accuracy of the claim. They often require policyholders to provide supporting documents, such as

photographs, estimates, or medical records, which help substantiate the claim's validity.

4. **Consistency:** Standardized claim forms ensure consistency in the claims handling process. Insurers can use the same format and criteria when evaluating claims, reducing the risk of inconsistencies or errors.
5. **Legal Requirement:** Filing a claim using the official claim form is often a legal requirement outlined in the insurance policy. Complying with this requirement ensures that both the policyholder and the insurer adhere to the terms and conditions of the policy.
6. **Data Collection:** Claim forms collect essential data about the insured event, policyholder, and the extent of the loss. This data can be used for statistical analysis, risk assessment, and improving underwriting processes.
7. **Tracking and Management:** Claim forms create a structured process for tracking and managing claims. They help insurers organize and prioritize claims based on the order of submission and the urgency of the situation.
8. **Efficiency:** Using claim forms streamlines the claims process, making it more efficient for both policyholders and insurers. Standardized forms reduce the need for extensive back-and-forth communication to gather necessary information.
9. **Communication:** Claim forms facilitate communication between the policyholder and the insurer. They provide a clear channel for policyholders to convey the details of their loss, allowing insurers to respond promptly.
10. **Documentation of Losses:** For policyholders, claim forms serve as a record of their losses and the steps they've taken to recover their losses through insurance. This documentation can be important for financial planning and tax purposes.
11. **Fraud Prevention:** Claim forms help insurers detect potential fraud or misrepresentation. By requiring detailed information and supporting documents, insurers can identify discrepancies or inconsistencies that may warrant further investigation.

ILLUSTRATION :

Scenario: John is a homeowner who has a comprehensive homeowners' insurance policy. One evening, his house suffers significant damage due to a burst pipe, causing water to flood several rooms. Realizing that this is a covered event under his policy, John decides to file a claim to seek reimbursement for the repair costs.

SIGNIFICANCE OF THE CLAIM FORM :

1. **Official Documentation:** John contacts his insurance company and requests a claim form. This form serves as the official documentation of his claim. It includes sections for essential information, such as the date of the incident, the cause of damage (burst pipe), and a description of the losses.
2. **Transparency and Clarity:** The claim form provides clear instructions on what information John needs to provide. It ensures that both John and the insurance company have a common understanding of the details of the claim. This transparency helps prevent misunderstandings and disputes.
3. **Verification:** John fills out the claim form meticulously, attaching photographs of the damaged areas and repair estimates from contractors. These supporting documents verify the authenticity and accuracy of his claim. Without the form, it might be challenging for the insurance company to assess the extent of the damage accurately.

4. **Consistency:** The insurance company uses a standardized claim form for all homeowners' insurance claims. This consistency allows the claims department to handle claims efficiently and consistently, reducing the risk of errors or omissions.
5. **Legal Requirement:** John's insurance policy specifies that claims must be initiated using the official claim form provided by the insurer. Filling out the form correctly ensures that John is complying with the terms and conditions of his policy.
6. **Efficiency:** By using the claim form, John streamlines the claims process. The insurance company can promptly review the information he provides, assess the damage, and expedite the payment for repairs. This efficiency benefits both John and the insurer.
7. **Communication:** The completed claim form serves as a communication tool between John and the insurance company. It clearly conveys the details of the loss and John's request for compensation, allowing the insurer to respond promptly and appropriately.
8. **Documentation of Loss:** John retains a copy of the completed claim form for his records. This documentation is essential for his financial planning and for ensuring that he receives the correct compensation for his covered losses.

In this example, the claim form is essential for John to report his covered loss accurately and efficiently. It helps him navigate the claims process and ensures that the insurance company has the necessary information to assess and process his claim. Additionally, it helps prevent misunderstandings and disputes by providing clear and standardized documentation.

17.2.1 Consequences If Not Properly Done :

Filling out an insurance claim form incorrectly or incompletely can have several consequences, which can significantly impact the outcome of your claim. Here are some potential consequences if a claim form is not properly done:

1. **Claim Denial:** One of the most severe consequences is the denial of your insurance claim. If the insurance company cannot process your claim due to incomplete or inaccurate information, they may reject it outright, and you may receive no compensation for your losses.
2. **Delayed Processing:** Errors or omissions on your claim form can lead to delays in processing. Insurance companies may need to request additional information or clarification, which can prolong the time it takes to settle your claim.
3. **Reduced Payout:** Mistakes on the claim form may result in a reduced payout. If you fail to provide all necessary documentation or if inaccuracies are discovered later, the insurance company may only partially compensate you for your losses.
4. **Legal Issues:** Providing false or misleading information on an insurance claim form can have legal consequences. Insurance fraud, including submitting a fraudulent claim, is a criminal offense in many jurisdictions and can result in fines, penalties, or even imprisonment.
5. **Policy Cancellation:** In some cases, an insurance company may cancel your policy if they suspect fraudulent or misleading behavior. This can make it difficult to obtain insurance coverage in the future.
6. **Loss of Trust:** Filling out a claim form incorrectly can damage your relationship with the insurance company. Insurers may become more cautious when dealing with you in the future, which can lead to increased scrutiny and higher premiums.

7. **Financial Burden:** If your claim is denied or delayed due to errors on the claim form, you may be left with the financial burden of covering the losses on your own, defeating the purpose of having insurance.
8. **Emotional Stress:** Dealing with claim denials, delays, or disputes can be emotionally stressful. It can create frustration, anxiety, and uncertainty during an already challenging time.

To avoid these consequences, it's essential to take your time when completing an insurance claim form, follow the provided instructions carefully, and provide accurate and truthful information. If you are unsure about any aspect of the form or your policy, consider reaching out to your insurance company or agent for clarification and guidance. Properly documenting your losses with supporting evidence can also help ensure a smoother claims process.

EXAMPLE :

Certainly, here's an example to illustrate the consequences of not properly completing an insurance claim form:

Scenario: Homeowner's Insurance Claim for Property Damage

Properly Completed Claim Form:

- A homeowner experiences water damage to their property due to a burst pipe.
- They promptly contact their insurance company and receive a claim form.
- The homeowner carefully completes the form, providing all required details:
    - Accurate incident date and time.
    - Detailed description of the damage.
    - Photos of the damaged areas.
    - Estimated repair costs from a licensed contractor.
    - Contact information for the plumber who repaired the burst pipe.
- The homeowner signs and dates the form and submits it to the insurance company along with all supporting documents.

Consequences of Proper Completion:

- The insurance company quickly processes the claim.
- The homeowner receives a payout that covers the cost of repairs and restoration to their property.
- The claim is settled without delays or disputes.
- The homeowner's trust in their insurance provider remains intact.

Improperly Completed Claim Form:

- In a similar scenario, another homeowner experiences the same water damage.
- They receive a claim form from their insurance company but hastily fill it out with incomplete or inaccurate information:
    - Inaccurate incident date.
    - Vague description of the damage.
    - Lack of supporting photos or estimates.
    - Incorrect contact information for the plumber.

- The homeowner submits the form without reviewing it thoroughly.

Consequences of Improper Completion:

- The insurance company struggles to process the claim due to missing or inaccurate details.
- They request additional information and documentation from the homeowner, causing delays.
- The insurer denies the claim due to insufficient evidence.
- The homeowner is left with a significant financial burden to repair the property.
- The relationship between the homeowner and the insurance company is strained, leading to higher premiums in the future.

This example underscores the importance of properly completing an insurance claim form, as it can directly impact the outcome of the claim and the homeowner's ability to recover their losses.

17.3 PROCESS OF INVESTIGATION TO VERIFY THE VALIDITY OF CLAIM :

- The investigative process involved in verifying the validity of insurance claims and assessing damages is a critical aspect of the insurance industry. Insurance companies need to ensure that claims are legitimate and that the damages claimed are accurate before they approve payments. Here's an exploration of the investigative process:

- **Initial Claim Review :** When an insurance claim is submitted, it undergoes an initial review by claims adjusters or examiners. They examine the claim form and any supporting documentation to understand the nature and extent of the loss.
- **Contacting the Claimant :** The insurance company contacts the claimant to gather additional information about the claim. This may involve interviewing the policyholder, the injured party, or witnesses to the incident.
- **On-Site Inspection :** For property or vehicle damage claims, an insurance adjuster may conduct an on-site inspection. They assess the extent of the damage, take photographs, and collect evidence.
- **Reviewing Documentation :** Insurance companies carefully review all documents related to the claim, which may include:
  - Police reports (for accidents or thefts).
  - Medical records (for health or injury claims).
  - Repair estimates or invoices (for property damage).
  - Proof of ownership (for stolen items).
  - Any relevant contracts or agreements.
- **Expert Opinions :** In some cases, insurers may seek expert opinions to evaluate the claim. For example, an accident reconstruction expert might be consulted for a car accident claim, or a medical expert might assess the extent of injuries.
- **Assessment of Liability :** In liability claims (e.g., personal injury claims), insurers assess the degree of liability. This involves determining whether the policyholder or another party is at fault and to what extent.
- **Investigation into Fraud :** Insurance companies have anti-fraud units that investigate claims suspected of fraud. They may use surveillance, background checks, and forensic accounting to uncover fraudulent activities.

- **Damage Valuation :** For property damage claims, insurers assess the cost of repairs or replacement. They consider factors such as depreciation, deductibles, and policy limits.
- **Negotiation :** Once the investigation is complete, the insurer may negotiate with the claimant or their representative to reach a settlement. This negotiation can involve back-and-forth discussions until both parties agree on a fair resolution.
- **Claim Settlement:** - If an agreement is reached, the insurance company disburses the settlement amount to the claimant. This could be a lump sum or staged payments, depending on the nature of the claim.
- **Dispute Resolution:** - In cases where there is disagreement about the claim, alternative dispute resolution methods, such as mediation or arbitration, may be used to reach a resolution. Legal action is a last resort.
- **Documentation and Record-Keeping:** - Throughout the process, insurers maintain detailed records of the investigation, correspondence, and agreements. This documentation is essential for compliance and audit purposes.

The investigative process is designed to ensure that insurance claims are paid accurately and fairly, protecting both policyholders and the insurance company from fraudulent or exaggerated claims. It requires thoroughness, attention to detail, and adherence to regulatory guidelines.

Here's an example to illustrate the investigative process involved in verifying the validity of an insurance claim and assessing damages:

Scenario: Auto Insurance Claim for Accident Damage

- **Initial Claim Submission :** John, a policyholder, submits an insurance claim to his auto insurance company following a car accident. He reports that his car was severely damaged in a collision with another vehicle, and he seeks coverage for repair costs.
- **Initial Claim Review :** The insurance company assigns a claims adjuster, Sarah, to assess the claim. Sarah reviews John's claim form, which includes a description of the accident, photographs of the damaged vehicle, and a copy of the police report.
- **Contacting the Claimant :** Sarah contacts John to obtain more details about the accident. She interviews John to understand the circumstances, including the time, location, and how the accident occurred.
- **On-Site Inspection :** Sarah schedules an on-site inspection of John's damaged vehicle. She visits a local repair shop to assess the extent of the damage. During the inspection, Sarah takes detailed photographs and notes.
- **Reviewing Documentation :** Sarah reviews the police report, which confirms the accident details and includes statements from witnesses. She also examines repair estimates from the repair shop, which itemizes the necessary repairs and their costs.
- **Expert Opinions :** To assess the damage accurately, Sarah consults with an independent auto appraiser who specializes in collision damage. The appraiser provides an expert opinion on the cost of repairs.
- **Assessment of Liability :** Sarah determines that John was not at fault in the accident, based on the police report and witness statements. Liability is assigned to the other driver's insurance.
- **Damage Valuation :** Sarah calculates the cost of repairs based on the repair shop's estimate and the appraiser's assessment. She considers John's deductible and the coverage limits of his policy.

- **Negotiation :** Sarah contacts John with a proposed settlement amount. She explains how the settlement was calculated and provides a breakdown of costs. John and Sarah engage in negotiations until they reach an agreement.
- **Claim Settlement :** Once John accepts the settlement offer, the insurance company disburses the agreed-upon amount to John. John uses the funds to repair his car.
- **Documentation and Record-Keeping :** Throughout the process, Sarah maintains detailed records of her investigation, correspondence with John, repair estimates, and the final settlement agreement. These records are archived for future reference.

In this example, the insurance company followed a thorough investigative process to verify the validity of John's claim, assess the damage accurately, and reach a fair settlement. This process ensures that both the policyholder and the insurer are treated fairly in the claims settlement process

17.4 ESSENTIAL CLAIM DOCUMENTS :

Submitting the essential claim documents is crucial when policyholders file an insurance claim. These documents help insurance companies assess the validity of the claim and process it efficiently. Here are some essential claim documents that policyholders typically need to submit:

1. **Claim Form:** The claim form is the primary document used to report the details of the loss or incident. It provides essential information about the claimant, the policy, and the circumstances of the loss. Policyholders must complete this form accurately and truthfully.
2. **Incident Report:** Depending on the type of claim, an incident report may be necessary. For example, in auto insurance claims, a police report is often required for accidents. In property insurance claims, an incident report detailing the cause and extent of damage may be needed.
3. **Photographs:** Clear photographs of the damage or loss can be invaluable in substantiating a claim. Policyholders should take pictures from different angles and provide context to help assessors understand the situation better.
4. **Medical Records:** In health or injury-related claims, policyholders should submit relevant medical records, including doctor's diagnoses, treatment plans, and bills. These documents validate the need for medical expenses coverage.
5. **Repair Estimates:** For property damage claims (e.g., home insurance or auto insurance), obtaining repair estimates from reputable service providers is essential. These estimates outline the scope of repair work and associated costs.
6. **Proof of Ownership:** In cases involving stolen or damaged personal property, policyholders should provide proof of ownership. This can include receipts, invoices, photographs, or purchase records that demonstrate ownership and the value of the items.
7. **Witness Statements:** If there were witnesses to the incident, their statements can corroborate the policyholder's account of events. Witness contact information should be included in the documentation.
8. **Contracts and Agreements:** Any relevant contracts or agreements related to the claim should be submitted. This can include rental agreements, lease agreements, or contracts for services.

9. **Bills and Invoices:** Policyholders should retain all bills and invoices related to the claim, such as repair bills, medical bills, or invoices for temporary lodging (in cases of property damage).
10. **Policy Information:** Providing a copy of the insurance policy and the policyholder's identification (e.g., driver's license or identification card) helps verify coverage and identity.
11. **Claim Diary:** Some insurers recommend maintaining a claim diary where policyholders record details of conversations, emails, and other interactions related to the claim. This can help document the claims process and any disputes.
12. **Additional Documentation:** Depending on the specific circumstances of the claim, other documentation may be required. Policyholders should consult with their insurance company or claims adjuster for guidance.

Submitting these essential claim documents promptly and accurately can expedite the claims process and increase the likelihood of a successful outcome. It's important for policyholders to maintain open communication with their insurance company and follow any specific instructions provided during the claims process.

17.5 THE ROLE OF INVESTIGATION IN DETECTING FRAUDULENT CLAIM :

Investigation plays a critical role in detecting fraudulent insurance claims. Insurance fraud is a significant concern for insurers, as it results in financial losses and increased premiums for policyholders. Here's how investigation helps uncover fraudulent claims:

1. **Claims Validation:** Insurance investigators thoroughly examine the details provided in a claim to ensure its accuracy and consistency. They cross-reference the claimant's statements with the evidence and documentation submitted. Any inconsistencies or discrepancies may raise suspicion and trigger a deeper investigation.
2. **Background Checks:** Investigators may conduct background checks on the claimant to verify their identity and history. This can include checking criminal records, past insurance claims, and financial history. Discrepancies or false information can be red flags for fraud.
3. **Witness Statements:** Investigators interview witnesses, if any, to corroborate the claimant's version of events. Witness statements can provide valuable insights into the authenticity of the claim. In cases of staged accidents or fake injuries, witnesses may provide contradictory accounts.
4. **Surveillance:** In suspected fraud cases, investigators may employ surveillance techniques to monitor the claimant's activities. Surveillance can reveal inconsistencies between the claimant's reported injuries or property damage and their actual actions. For example, someone claiming a severe injury may be observed engaging in strenuous physical activities.
5. **Expert Opinions:** Insurers often consult with experts, such as medical professionals or accident reconstruction specialists, to evaluate the legitimacy of a claim. Medical experts can assess the extent of injuries, while accident reconstruction specialists can determine the likelihood of an accident occurring as described.
6. **Data Analysis:** Investigators use data analysis techniques to identify patterns or anomalies in claims data. This includes examining claim histories, geographic locations, and any unusual trends. Fraudulent claims often stand out as statistical outliers.

7. **In-Depth Interviews:** In some cases, investigators conduct in-depth interviews with the claimant to gather more information and assess their credibility. These interviews may uncover inconsistencies in the claimant's account.
8. **Cooperation with Law Enforcement:** When fraud is suspected, insurers may cooperate with law enforcement agencies to investigate further. This can lead to criminal charges against fraudulent claimants.
9. **Specialized Units:** Some insurance companies have specialized anti-fraud units dedicated to detecting and preventing fraud. These units work closely with investigators, legal teams, and data analysts to identify fraudulent activities.
10. **Claim Database Checks:** Insurers maintain databases of known fraudulent claims and claimants. Investigators check these databases to see if the claimant has a history of fraudulent activity.
11. **Red Flags:** Investigators are trained to recognize common red flags associated with insurance fraud. These red flags can include late reporting of claims, claims filed immediately after policy inception, multiple claims in a short period, and frequent changes in beneficiaries or policyholders.

By carefully and methodically conducting investigations, insurers can identify fraudulent claims and take appropriate action, which may include denying the claim, pursuing legal action, or reporting the fraud to authorities. Detecting and preventing fraud helps maintain the integrity of the insurance system and keeps premiums fair for all policyholders.

EXAMPLE :

Here's an example of how an insurance investigation can uncover a fraudulent claim:

Scenario: Suspicious Car Accident Claim :

John, a policyholder, submits an auto insurance claim after a reported car accident. He claims that another driver ran a red light, causing a collision that resulted in significant vehicle damage and injuries. John provides the necessary documentation, including a police report, medical bills, and repair estimates.

Investigation:

1. **Initial Review:** The insurance company's claims adjuster conducts an initial review of John's claim. While the claim appears legitimate, the adjuster notices some inconsistencies. John's injuries seem excessive given the reported accident severity, and the repair estimate appears unusually high.
2. **Background Check:** The insurer's investigator performs a background check on John and discovers that he has a history of past insurance claims, some of which were suspicious and involved staged accidents.
3. **Witness Interviews:** The investigator interviews the supposed witnesses to the accident, but their statements contradict John's version of events. They claim that John appeared unhurt immediately after the accident and seemed more concerned about the vehicle damage.
4. **Surveillance:** The insurer hires a private investigator to conduct surveillance on John. Over several days, the investigator observes John engaging in strenuous physical activities and working without any apparent discomfort, despite his claim of severe injuries.

5. **Medical Expert Evaluation:** A medical expert reviews John's medical records and bills. The expert concludes that the treatment received by John is excessive for the reported injuries, and some medical bills appear to be fraudulent.
6. **Accident Reconstruction:** An accident reconstruction specialist analyzes the accident scene and finds inconsistencies with John's description. The specialist believes the accident may have been staged.

17.6 SUMAMRY :

Claim investigations are crucial in the insurance industry to verify the accuracy of claims. Investigations help identify fraudulent claims and prevent losses for insurers and policyholders. Various techniques, such as background checks, surveillance, and expert evaluations, are used in investigations. Claim forms are essential documents in the insurance industry used to report losses or accidents. They serve as a formal record of the claimant's request for compensation. Accurate and timely completion of claim forms is critical for claims processing. Insurance investigations involve a step-by-step process to assess the validity of claims. This process includes validation, background checks, witness interviews, surveillance, expert evaluations, and data analysis. The goal is to gather evidence and ensure the claim aligns with the facts. TPAs are independent entities that handle claim processing on behalf of insurance companies. They assist with claim filing, documentation, and communication with policyholders. TPAs help streamline the claims process and improve efficiency. Accurate and timely claim reporting is crucial for efficient claims processing. It helps insurers assess risks and allocate resources effectively. Delayed or inaccurate reporting can lead to claim disputes and increased costs. TPAs offer benefits such as expertise, efficiency, and cost savings in claims administration. Challenges include the need for effective communication and coordination between insurers and TPAs. Collaboration with TPAs can improve claims management. Investigations play a vital role in detecting fraudulent insurance claims. Techniques like background checks, surveillance, and expert evaluations help uncover inconsistencies. Detecting fraud protects insurers and policyholders from financial losses. Policyholders need to submit essential documents when filing insurance claims.

These documents include claim forms, proof of loss, medical records, police reports, and repair estimates. Accurate documentation supports the validity of the claim. Mishandling claim forms or providing inaccurate information can lead to claim denials or delays. In some cases, it may result in legal consequences and loss of coverage. Properly handling claims is essential to ensure fair compensation. A practical example illustrated how an insurance investigation uncovered a fraudulent auto accident claim. The investigation involved background checks, witness interviews, surveillance, expert evaluations, and accident reconstruction. Detecting fraud led to claim denial and potential legal action against the claimant. Claim forms are a critical component of the insurance claims process, ensuring that claims are properly documented, verified, and processed efficiently. They serve the interests of both policyholders and insurers by promoting transparency, compliance with policy terms, and fair compensation for covered losses. Based on the investigation's findings, the insurance company concludes that John's claim is fraudulent. They deny his claim, cease coverage, and report the fraud to law enforcement authorities. John may face legal consequences for insurance fraud, including fines and imprisonment.

17.7 TECHNICAL TERMS :

1. **Claim Investigation:** The process of verifying the accuracy and legitimacy of insurance claims.
2. **Fraud Detection:** The act of identifying and preventing fraudulent activities in insurance claims.
3. **Evidence Gathering:** Collecting information and documentation to support or refute a claim.
4. **Claimant:** The individual or entity filing an insurance claim seeking compensation.
5. **Proof of Loss:** Documentation that supports the details of a claim and the amount being claimed.
6. **Claim Processing:** The procedures followed by insurers to assess and settle claims.
7. **Claims Adjuster:** A professional responsible for evaluating and settling insurance claims.
8. **Background Check:** An investigation into the claimant's history, including prior claims and activities.
9. **Surveillance:** The monitoring of a claimant's activities to verify their reported injuries or damages.
10. **Expert Evaluation:** The assessment of medical or technical aspects of a claim by specialists.
11. **Data Analysis:** The examination of data to identify patterns or inconsistencies in a claim.
12. **Claims Administration:** The handling of insurance claims, including documentation, communication, and settlement.
13. **Claims Efficiency:** The ability to process claims quickly and accurately to serve policyholders effectively.
14. **Claims Processing Efficiency:** The effectiveness and timeliness of processing claims.
15. **Claim Dispute:** A disagreement between a policyholder and an insurer regarding a claim.
16. **Claims Expertise:** The specialized knowledge and skills TPAs bring to claims management.
17. **Coordination:** Effective communication and collaboration between insurers and TPAs.
18. **Inconsistencies:** Discrepancies or contradictions in a claim that raise suspicions.
19. **Claim Validation Unit:** A specialized team within an insurance company responsible for investigating potentially fraudulent claims.
20. **Police Report:** A report filed by law enforcement detailing an incident, such as an accident.
21. **Repair Estimate:** A document outlining the cost of repairing or replacing damaged property.
22. **Legal Consequences:** Potential legal actions against policyholders who submit fraudulent claims.
23. **Loss of Coverage:** The termination of insurance coverage as a result of fraudulent activities.
24. **Accident Reconstruction:** The process of recreating an accident scene to determine its cause and validity.
25. **Claimant Background Check:** Investigating a claimant's history, including prior claims and fraud indicators.

26. **Surveillance Footage:** Video or photographic evidence obtained during surveillance activities

17.8 SELF-ASSESSMENT QUESTIONS :

1. What is the primary purpose of a claim investigation in the insurance industry?
2. How does fraud detection contribute to the accuracy of claim settlements?
3. Explain the importance of claim forms in the insurance claim process.
4. What is "proof of loss," and why is it essential in claim processing?
5. Describe the steps involved in the claim investigation process.
6. How does surveillance play a role in validating insurance claims?
7. What are the potential benefits of expert evaluation in claim investigations?
8. What functions do TPAs typically perform in the insurance claim process?
9. How can TPAs enhance claims processing efficiency for insurance companies?
10. Discuss the consequences of inaccurate or incomplete claim reporting?
11. Why is accurate claim reporting crucial for maintaining trust between insurers and policyholders?
12. Identify three benefits of utilizing TPAs in claims administration.
13. What are some common challenges insurers may face when working with TPAs?
14. Define a fraudulent claim and provide an example.
15. How can inconsistencies in a claim trigger suspicions of fraud?
16. What role does a Claims Validation Unit play in fraud detection?
17. List three essential claim documents and explain their significance.
18. How can the absence of key claim documents affect the claim settlement process?
19. Describe the potential consequences of submitting an improper or fraudulent claim.
20. What legal actions can insurers take against policyholders involved in fraudulent activities?
21. Explain how accident reconstruction can assist in determining the validity of a claim.
22. What types of information might a background check on a claimant reveal?
23. How can surveillance footage be used as evidence in fraud detection?

17.9 SUGGESTED READINGS :

1. "Insurance Claims and Disputes: Representation of Insurance Companies and Insureds" **by Barry Zalma**
2. Insurance Claims Adjuster: A Manual for Entering the Profession" **by Janice Abraham**
3. "Principles and Practice of Insurance" **by M.N. Mishra and M. Natarajan**
4. "Insurance Claims Adjuster: A Complete Resource for Skill Development" **by Mark S. Dikeman and Patsy M. Watson**
5. "Health Insurance: A Guide for Billing and Reimbursement" **by Marie A. Moisio**
6. Managed Care and the Evaluation and Adoption of Emerging Medical Technologies" **by Steven Garber**
7. Risk Management and Insurance: Perspectives in a Global Economy" **by Harold D. Skipper Jr. and David M. Smith**

LESSON - 18

SETTLEMENT LIMITATION, ARBITRATION, AND LOSS MINIMIZATION

AIMS AND OBJECTIVES :

This lesson aims to provide insights into aspects related to claim settlement limitations, dispute resolution through arbitration, and strategies for loss minimization.

1. To discuss the limitations and exclusions in insurance policies that may affect claim payouts.
2. To introduce learners to the concept of arbitration as a dispute resolution method.
3. To explore proactive measures, including risk management and loss prevention, to minimize losses.
4. To guide learners on effective negotiation techniques during the claim settlement process.

STRUCTURE :

18.1 Introduction

18.1.1 Limitations and Exclusions in Insurance Policies

18.1.2 Exclusions

18.3 Proactive measures, including risk management and loss prevention, to minimize losses

18.4 Effective negotiation techniques during the claim settlement process.

18.5 Summary

18.6 Technical terms

18.7 Self-Assessment Questions

18.8 References

18.1 INTRODUCTION :

Let's delve into the details of various types of insurance policies :

1. Life Insurance:

- **Term Life Insurance:** Provides coverage for a specific term (e.g., 10, 110, or 30 years). If the policyholder dies during the term, a death benefit is paid to beneficiaries.
- **Whole Life Insurance:** Offers lifelong coverage and includes a savings component (cash value) that grows over time.
- **Universal Life Insurance:** Combines life insurance with an investment component, allowing flexibility in premium payments and potential cash value growth.
- **Variable Life Insurance:** Allows policyholders to invest in various investment options within the policy, potentially leading to higher cash value but with associated risks.

2. Health Insurance:

- **Health Maintenance Organization (HMO):** Requires policyholders to select a primary care physician (PCP) and obtain referrals to see specialists.
- **Preferred Provider Organization (PPO):** Offers more flexibility in choosing healthcare providers, including specialists, with varying levels of coverage.
- **Point of Service (POS):** Combines features of HMO and PPO plans, requiring a PCP but allowing out-of-network coverage.
- **High Deductible Health Plan (HDHP):** Typically paired with Health Savings Accounts (HSAs) and features higher deductibles and lower premiums.

3. Auto Insurance:

- **Liability Insurance:** Covers damages and injuries to others in accidents where the policyholder is at fault.
- **Collision Coverage:** Pays for damage to the policyholder's vehicle in case of an accident.
- **Comprehensive Coverage:** Protects against non-collision-related damage, such as theft, vandalism, or natural disasters.
- **Uninsured/Underinsured Motorist Coverage:** Provides coverage if the at-fault party has insufficient or no insurance.

4. Homeowners' Insurance:

- **Dwelling Coverage:** Protects the structure of the insured home, including damage from fire, storms, or theft.
- **Personal Property Coverage:** Covers personal belongings within the home.
- **Liability Coverage:** Offers protection if someone is injured on the insured property.
- **Additional Living Expenses (ALE) Coverage:** Pays for temporary living expenses if the insured home is uninhabitable.

5. Renters' Insurance:

- Similar to homeowners' insurance but covers personal belongings and liability for renters rather than homeowners.

6. Disability Insurance:

- **Short-Term Disability:** Provides income replacement for a limited duration (typically up to six months).
- **Long-Term Disability:** Offers income replacement for an extended period, potentially until retirement.

7. Travel Insurance:

- **Trip Cancellation/Interruption:** Covers trip costs if it's canceled or interrupted due to covered reasons.
- **Travel Medical Insurance:** Provides medical coverage while traveling abroad.
- **Baggage and Personal Effects:** Reimburses for lost, stolen, or damaged luggage and personal belongings.

8. Pet Insurance:

- Covers veterinary expenses for pets, including illness, injury, and preventive care.

10. Business Insurance:

- **Commercial Property Insurance:** Protects business property, including buildings, equipment, and inventory.
- **General Liability Insurance:** Covers injuries and property damage caused by the business.
- **Workers' Compensation:** Provides benefits to employees injured on the job.
- **Professional Liability (Errors and Omissions) Insurance:** Protects against claims of negligence or errors in professional services.

Each type of insurance serves a specific purpose and addresses particular risks or needs. Policyholders should carefully evaluate their circumstances and choose the insurance policies that best align with their financial security and protection requirements.

18.1.1 Limitations And Exclusions In Insurance Policies :

Insurance policies typically come with specific limitations and exclusions designed to manage risks for both the insurer and the policyholder. Understanding these limitations and exclusions is crucial for policyholders to make informed decisions and manage their expectations when filing claims. Here are some key points to consider:

1. **Types of Insurance Policies:**
   - Different insurance policies have varying limitations and exclusions. Common types include auto insurance, health insurance, homeowners' insurance, and life insurance.
2. **Common Limitations:**
   - **Deductibles:** Most policies require the policyholder to pay a deductible before the insurer covers any expenses. This amount varies depending on the policy and can affect claim payouts.
   - **Coverage Caps:** Some policies have maximum coverage limits, which can restrict the total amount paid out for a claim.
   - **Waiting Periods:** Certain policies, like health or disability insurance, may have waiting periods before coverage begins.
   - **Pre-Existing Conditions:** Health insurance policies often exclude coverage for pre-existing medical conditions, at least for a specified period.
   - **Excluded Events:** Insurance policies may exclude coverage for specific events, such as floods in homeowners' insurance or intentional acts in liability insurance.
3. **Common Exclusions:**
   - **Acts of God/Nature:** Many policies exclude coverage for natural disasters like earthquakes, floods, or hurricanes.
   - **Intentional Acts:** Insurance generally doesn't cover losses resulting from intentional, criminal, or fraudulent acts by the policyholder.
   - **War and Terrorism:** Some policies exclude coverage for damage or losses caused by acts of war or terrorism.

- o **Wear and Tear:** Insurance typically doesn't cover damage that occurs due to normal wear and tear.
- o **Uninsured Parties:** In auto insurance, if the at-fault party is uninsured, it may impact claim payouts.
- o **Neglect or Lack of Maintenance:** Homeowners' insurance may not cover damage resulting from neglect or a lack of proper maintenance.

4. **Reading the Policy:**
   - o Policyholders should thoroughly read and understand their insurance policies, including the fine print, limitations, and exclusions.
5. **Mitigating Limitations:**
   - o Policyholders can sometimes purchase additional coverage or endorsements to mitigate certain limitations or exclusions.
6. **Claims Process:**
   - o When filing a claim, it's essential to provide accurate and complete information to ensure that the claim falls within the policy's coverage.
7. **Appealing Denied Claims:**
   - o If a claim is denied due to an exclusion, policyholders can often appeal the decision or seek legal advice if necessary.

Understanding the limitations and exclusions in insurance policies is crucial for policyholders to have realistic expectations and make informed choices when purchasing coverage. It also helps insurers manage their risks effectively and ensure that legitimate claims are processed Promptly And Fairly.

18.1.2 Exclusions :

Insurance policies often contain exclusions, which are specific situations or circumstances where coverage is not provided. These exclusions are important for policyholders to understand, as they can significantly impact the extent of coverage. Here are some common types of exclusions in insurance policies:

- ❖ **Pre-Existing Conditions (Health Insurance):** In health insurance, pre-existing conditions may be excluded from coverage, at least for a certain waiting period. These are medical conditions that the insured had before the policy's effective date.
- ❖ **Acts of War:** Many insurance policies, such as property or travel insurance, exclude coverage for damages or losses caused by acts of war, terrorism, or civil unrest.
- ❖ **Intentional Acts:** Insurance policies typically do not cover losses or damages that result from intentional acts by the insured. For example, if someone deliberately damages their own property, it may not be covered.
- ❖ **Wear and Tear:** Insurance policies often exclude coverage for normal wear and tear, depreciation, and deterioration of property over time. Maintenance and upkeep are the responsibility of the policyholder.
- ❖ **Nuclear Accidents:** Nuclear accidents and related damages are commonly excluded from coverage in property and liability insurance policies.
- ❖ **Cosmetic Procedures (Health Insurance):** Health insurance policies may exclude coverage for elective or cosmetic procedures that are not considered medically necessary.
- ❖ **Floods (Homeowners' Insurance):** Standard homeowners' insurance policies typically do not cover damage caused by floods. Separate flood insurance is usually required for such coverage.

- **Earthquakes (Property Insurance):** Earthquake coverage is often excluded from standard property insurance policies. Policyholders can purchase earthquake insurance as a separate endorsement.
- **Fraud or Misrepresentation:** If a policyholder provides false information or engages in fraudulent activities related to a claim, coverage can be denied.
- **Criminal Activities:** Losses or damages resulting from illegal activities, such as drug trafficking or other criminal acts, may not be covered.
- **Business Exclusions (Homeowners' Insurance):** Homeowners' insurance policies often exclude coverage for business-related activities conducted in the home.
- **Racing or Hazardous Activities:** Some policies exclude coverage for injuries or accidents that occur during high-risk activities, such as professional racing or extreme sports.

It's crucial for policyholders to carefully review their insurance policies, including the exclusions, to understand the scope of coverage. In some cases, additional coverage options or endorsements may be available to address specific exclusions, so it's advisable to discuss individual insurance needs with an insurance agent or broker.

18.2 CONCEPT OF ARBITRATION :

Concept of Arbitration as a dispute resolution method Arbitration is a method of dispute resolution that offers an alternative to traditional litigation in resolving conflicts. It is a consensual process in which parties involved in a dispute agree to have an impartial third party, known as an arbitrator, make a binding decision on their behalf. Arbitration is commonly used in a variety of contexts, including commercial disputes, labor conflicts, international trade disputes, and more. In this introductory overview, we will explore the key aspects of arbitration, its advantages, and the general process involved.

Key Concepts in Arbitration:

1. **Consensual Process:** Arbitration is based on the voluntary agreement of the parties involved. Unlike litigation, where court proceedings are initiated, arbitration only occurs when the disputing parties mutually opt for this method.
2. **Impartial Third Party:** The arbitrator is a neutral and impartial individual chosen by the parties or appointed through an arbitration institution. Their role is to hear both sides of the dispute, evaluate evidence, and render a decision.
3. **Binding Decision:** One of the defining features of arbitration is that the decision reached by the arbitrator is typically binding and enforceable, similar to a court judgment. This means that the parties are legally obligated to abide by the arbitrator's ruling.
4. **Private and Confidential:** Arbitration proceedings are generally private and confidential. Unlike court trials, which are often public, arbitration hearings are held in private, and the details of the dispute may remain confidential.
5. **Flexibility:** Arbitration offers flexibility in terms of scheduling, location, and procedures. Parties can tailor the arbitration process to meet their specific needs, which can lead to faster resolution compared to court litigation.
6. **Limited Grounds for Appeal:** Arbitration awards are subject to limited grounds for appeal. Courts typically defer to the arbitrator's decision, except in cases of fraud, misconduct, or other exceptional circumstances.

Advantages of Arbitration :

- **Efficiency:** Arbitration can often resolve disputes more quickly than litigation due to its flexible nature and streamlined procedures.
- **Expertise:** Parties can select arbitrators with expertise in the subject matter of the dispute, ensuring a more informed decision.
- **Cost-Effective:** Arbitration can be cost-effective compared to lengthy court trials, especially when dealing with complex disputes.
- **Confidentiality:** Arbitration offers greater confidentiality, which can be crucial for sensitive matters.
- **Enforceability:** Arbitration awards are enforceable in most countries through international conventions and treaties.

The Arbitration Process :

The arbitration process typically involves the following steps:

1. **Agreement to Arbitrate:** The parties agree to resolve their dispute through arbitration, either through a pre-existing arbitration clause in a contract or through a separate arbitration agreement.
2. **Selection of Arbitrator:** The parties select an arbitrator or a panel of arbitrators. Alternatively, they may use an arbitration institution to appoint an arbitrator.
3. **Preliminary Hearing:** The arbitrator holds a preliminary hearing to establish ground rules, set timelines, and clarify procedural matters.
4. **Exchange of Information:** Parties exchange relevant documents and information during a discovery phase.
5. **Arbitration Hearing:** The formal hearing takes place, where both parties present their arguments and evidence.
6. **Arbitrator's Decision:** The arbitrator evaluates the evidence and arguments and renders a binding decision.
7. **Enforcement:** The arbitration award is enforced, and parties are legally bound to comply.

In summary, arbitration is a dispute resolution method that provides parties with a more flexible, efficient, and private alternative to litigation. It is widely used in various fields and offers advantages in terms of expertise, cost-effectiveness, and enforceability. Understanding the fundamentals of arbitration is essential for individuals and businesses seeking effective ways to resolve disputes.

Example of Arbitration in a Commercial Dispute :

Suppose Company A and Company B have entered into a complex international contract for the supply of specialized machinery. The contract includes a clause that mandates arbitration as the method for resolving any disputes that may arise during the contract's execution. Here's how the arbitration process might unfold:

1. **Dispute Arises:** A dispute arises when Company A alleges that the machinery supplied by Company B does not meet the agreed-upon specifications, leading to production delays and financial losses.

2. **Agreement to Arbitrate:** As per the contract, both companies agree to resolve this dispute through arbitration rather than pursuing litigation. They informally select an experienced arbitrator with expertise in machinery contracts or engage a respected arbitration institution to appoint one.
3. **Preliminary Hearing:** The selected arbitrator schedules a preliminary hearing to discuss the procedural framework, including timelines, document exchange, and hearing dates. Both parties agree to keep the proceedings confidential.
4. **Exchange of Information:** During the discovery phase, Company A and Company B exchange relevant documents, such as the original contract, correspondence, and technical specifications related to the machinery.
5. **Arbitration Hearing:** The formal arbitration hearing takes place in a private setting, with both companies presenting their arguments, witnesses, and evidence. Experts in machinery engineering are called upon to provide their insights.
6. **Arbitrator's Decision:** After careful consideration of all the evidence and arguments presented, the arbitrator issues a detailed arbitration award. In this case, the arbitrator may find in favor of either Company A or Company B, determining whether there were contract violations and assessing damages.
7. **Enforcement:** The arbitration award is legally binding, and both parties are obligated to adhere to the arbitrator's decision. If one party fails to comply, the other may seek enforcement through the relevant legal mechanisms.

This example illustrates how arbitration can efficiently and confidentially resolve complex commercial disputes, allowing the parties to select an arbitrator with specialized knowledge in the subject matter and providing a legally binding resolution

18.3 EXPLORE PROACTIVE MEASURES, INCLUDING RISK MANAGEMENT AND LOSS PREVENTION, TO MINIMIZE LOSSES :

Proactive measures in risk management and loss prevention are essential for individuals and businesses to minimize potential losses. Here are some proactive strategies and examples:

1. **Risk Assessment and Identification:**
   - Conduct regular risk assessments to identify potential hazards and vulnerabilities.
   - Example: A manufacturing company conducts a comprehensive risk assessment to identify safety hazards in its production processes, leading to the implementation of safety protocols and equipment upgrades.
2. **Insurance Coverage:**
   - Ensure you have appropriate insurance coverage to mitigate financial losses in the event of unforeseen events.
   - Example: A homeowner purchases flood insurance to protect against damage from potential flooding in a high-risk area.
3. **Safety Protocols and Training:**
   - Establish and enforce safety protocols and provide training to employees and stakeholders.
   - Example: A construction company mandates safety training for all workers, reducing the risk of workplace accidents.
4. **Emergency Response Plans:**
   - Develop and regularly update emergency response plans to minimize damage during crises.

  - Example: A hospital has a well-defined emergency response plan to efficiently manage patient care during natural disasters or other emergencies.
5. **Diversification of Investments:**
  - Diversify your investment portfolio to spread risk across different asset classes.
  - Example: An investor diversifies their portfolio by holding a mix of stocks, bonds, and real estate, reducing the impact of a downturn in any one sector.
6. **Cyber security Measures:**
  - Implement robust cyber security measures to protect sensitive data and systems from cyber attacks.
  - Example: A financial institution invests in advanced firewall systems and employee cyber security training to prevent data breaches.
7. **Supply Chain Management:**
  - Monitor and optimize supply chains to reduce disruptions and delays.
  - Example: An electronics manufacturer maintains multiple suppliers for critical components to mitigate supply chain risks.
8. **Regular Maintenance and Inspections:**
  - Conduct routine inspections and maintenance of equipment and infrastructure to prevent breakdowns and accidents.
  - Example: An airline adheres to strict maintenance schedules for its aircraft to ensure safe operations.
9. **Contractual Risk Mitigation:**
  - Include risk mitigation clauses in contracts to allocate responsibilities and liabilities.
  - Example: A construction contract includes provisions that specify how additional costs due to unforeseen issues will be shared between the contractor and client.
10. **Continuous Monitoring:**
  - Continuously monitor changes in the external environment and adapt strategies accordingly.
  - Example: A retail business closely tracks consumer trends and adjusts its product offerings to meet evolving demands.
11. **Employee Training and Awareness:**
  - Educate employees about risk management practices and encourage them to report potential issues.
  - Example: An accounting firm conducts regular training sessions on data security and encourages employees to report any suspicious activities.

Proactive risk management and loss prevention efforts not only reduce the likelihood of adverse events but also enhance an organization's resilience and ability to recover swiftly when faced with challenges.

18.4 EFFECTIVE NEGOTIATION TECHNIQUES DURING THE CLAIM SETTLEMENT PROCESS :

Negotiation is a process of communication and interaction between two or more parties with the goal of reaching an agreement or resolving a dispute. It involves discussions, compromise, and sometimes even conflict resolution to find mutually acceptable terms, solutions, or outcomes.

Importance of Negotiation:

1. **Conflict Resolution:** Negotiation is often used to settle conflicts and disputes, whether in personal relationships, business transactions, or international diplomacy. It provides a peaceful means of finding common ground and avoiding escalation.
2. **Agreement and Contracts:** In business and legal contexts, negotiation is crucial for drafting and finalizing contracts, agreements, and deals. It ensures that all parties involved understand and accept the terms and conditions.
3. **Problem Solving:** Negotiation is a problem-solving tool. It allows parties to identify issues, explore various options, and find creative solutions to complex problems.
4. **Mutual Benefit:** Negotiation seeks to achieve outcomes that benefit all parties involved. It's not a zero-sum game where one party's gain is another's loss; instead, it aims for win-win solutions.
5. **Preservation of Relationships:** In many cases, negotiations involve ongoing relationships, such as between employers and employees, business partners, or family members. Effective negotiation helps maintain and strengthen these relationships.
6. **Resource Allocation:** Negotiation plays a role in allocating resources, whether it's dividing responsibilities within a team, sharing resources in a company, or distributing limited resources in a society.
7. **Decision-Making:** Negotiation is often an integral part of decision-making processes. It allows decision-makers to gather input, address concerns, and gain support for their decisions.
8. **Economic Efficiency:** Negotiation can lead to cost savings and efficiency improvements. For example, in procurement, negotiating better terms with suppliers can reduce costs.
9. **Cultural Understanding:** Negotiating with individuals from different cultural backgrounds can lead to better cultural understanding and respect.
10. **Personal Development:** Learning effective negotiation skills can be personally empowering. It helps individuals become more assertive, improve communication, and build confidence.

Effective negotiation techniques are crucial during the claim settlement process to ensure a fair and satisfactory resolution for all parties involved. Here are some key negotiation strategies:

1. **Preparation:**
    - Gather all relevant information and documentation related to the claim. This includes policy details, evidence of the loss, estimates for repairs or replacements, and any correspondence. Understanding your position thoroughly is essential.
2. **Clearly Define Your Goals:**
    - Establish clear objectives for the negotiation. Know what you want to achieve and set realistic expectations for the outcome.
3. **Active Listening:**
    - Listen carefully to the other party's perspective and concerns. Show empathy and acknowledge their point of view. This can help build rapport and trust.
4. **Maintain Professionalism:**
    - Stay calm, respectful, and professional throughout the negotiation process. Avoid personal attacks or emotional responses.
5. **Use Effective Communication:**

   - Clearly and concisely communicate your position, needs, and reasons behind your claims. Use persuasive language and provide supporting evidence.
6. **Seek Common Ground:**
   - Identify areas where both parties can agree or find common ground. This can serve as a foundation for compromise.
7. **Be Patient:**
   - Negotiations may take time. Avoid rushing the process and be patient, allowing both sides to thoroughly discuss their positions.
8. **Offer Creative Solutions:**
   - Explore alternative solutions or compromises that may be acceptable to both parties. Sometimes, a creative solution can break an impasse.
9. **Use Silence Effectively:**
   - Don't be afraid of silence. Sometimes, allowing a brief pause after a proposal can prompt the other party to respond or make a counteroffer.
10. **Document Agreements:**
    - Ensure that any agreements reached during negotiations are documented in writing. This can prevent misunderstandings later on.
11. **Know When to Walk Away:**
    - If negotiations reach an impasse, be prepared to walk away from the table temporarily. This can give both parties time to reconsider and potentially come back with a more flexible approach.
12. **Involve Mediation or Arbitration:**
    - If negotiations stall or become highly contentious, consider involving a neutral third party, such as a mediator or arbitrator, to facilitate the process.
13. **Legal Counsel:**
    - If the claim is complex or involves legal issues, consult with legal counsel who specializes in insurance or claims to provide guidance.
14. **Focus on Win-Win:**
    - Strive for a win-win outcome where both parties feel they have achieved a fair resolution. This can lead to better long-term relationships.
15. **Follow Up:**
    - After reaching an agreement, follow up promptly to ensure that all agreed-upon terms are fulfilled.

Effective negotiation during the claim settlement process can lead to a satisfactory outcome that meets the needs of all parties while minimizing conflicts and disputes.

EXAMPLES :

Certainly, here are some examples illustrating effective negotiation techniques during the claim settlement process:

Example 1: Home Insurance Claim

Imagine you've filed a home insurance claim for damage caused by a burst water pipe. The insurance adjuster has offered a settlement amount that you believe is insufficient to cover the repairs. Here's how effective negotiation could unfold:

- You: "I appreciate your assessment, but I've received multiple repair quotes that indicate the damage is more extensive than initially estimated. Let me provide you with these quotes for your review."

- Insurance Adjuster: "I'll certainly take a look at those quotes. Can you also provide any photographic evidence of the damage and any receipts for temporary repairs you've made?"
- You: "Certainly, I have photos and receipts. Additionally, I'd like to request an on-site inspection with a contractor to assess the full scope of the damage together."
- Insurance Adjuster: "That sounds reasonable. We can arrange for an on-site inspection next week. In the meantime, please send over the quotes and any additional documentation you have."

This negotiation involves providing evidence, requesting an on-site inspection, and maintaining a respectful and cooperative tone to work towards a fair settlement.

Example 2: Auto Insurance Claim

Suppose you've had a car accident, and the other driver's insurance company is offering a settlement amount that doesn't cover the full cost of repairing your vehicle. Here's how negotiation might proceed:

- You: "I've received estimates for the repairs, and the cost is significantly higher than the amount offered. I'd like to discuss this discrepancy."
- Insurance Adjuster: "I understand your concern. Can you provide me with copies of those repair estimates so we can review them?"
- You: "Certainly, I'll send over the estimates. I'd also like to mention that I have documentation of the accident scene and witness statements that support my claim for a higher settlement."
- Insurance Adjuster: "Thank you for sharing that information. Once we receive the estimates and review the additional documentation, we'll get back to you with our revised offer."

In this scenario, effective negotiation involves sharing evidence and maintaining open communication to reach a more satisfactory resolution.

These examples demonstrate the importance of clear communication, evidence presentation, and a willingness to cooperate in achieving a fair settlement during the claims process.

18.5 SUMMARY :

This topic delves into the various limitations and exclusions present in insurance policies that can impact the pay out of claims. It highlights the importance of policyholders understanding the terms and conditions of their coverage to avoid unexpected gaps in protection. Learners are introduced to arbitration as an alternative method for resolving disputes in the context of insurance claims. Arbitration offers a structured and impartial process for settling is agreements outside of the court system. The discussion focuses on proactive measures like risk management and loss prevention aimed at minimizing potential losses. It emphasizes the significance of identifying and mitigating risks to reduce the frequency and severity of insurance claims. This part of the course provides guidance on effective negotiation techniques during the claim settlement process. It equips learners with skills to navigate claim negotiations successfully, fostering fair and mutually beneficial outcomes.

18.6 TECHNICAL TERMS :

1. **Exclusion Clause:** Specific provisions in an insurance policy that list situations or conditions not covered by the policy.
2. **Policy Limit:** The maximum amount an insurer will pay for a covered loss or claim.
3. **Deductible:** The amount the policyholder must pay out of pocket before the insurance coverage kicks in.
4. **Endorsement:** An amendment or addition to an insurance policy that alters its terms or coverage.
5. **Underwriting:** The process insurers use to assess risks and determine the terms and premiums of a policy.
6. **Arbitrator:** A neutral third party chosen to resolve disputes in an arbitration proceeding.
7. **Arbitration Agreement:** A contractual clause that requires parties to resolve disputes through arbitration rather than litigation.
8. **Award:** The decision or judgment rendered by an arbitrator or arbitration panel.
9. **Binding Arbitration:** A type of arbitration in which the parties agree to abide by the arbitrator's decision, with limited recourse to the courts.
10. **Risk Assessment:** The process of evaluating potential risks and their potential impact on an organization or individual.
11. **Risk Mitigation:** Strategies and actions taken to reduce the likelihood or severity of identified risks.
12. **Loss Control:** Methods and measures aimed at preventing or minimizing losses, such as safety protocols and security systems.
13. **Risk Transfer:** Shifting the financial burden of a risk to another party, often through insurance.
14. **Crisis Management:** Planning and actions taken to respond effectively to unexpected events or crises.
15. **BATNA (Best Alternative to a Negotiated Agreement):** The course of action an individual or party will pursue if negotiations fail to reach a satisfactory agreement.
16. **ZOPA (Zone of Possible Agreement):** The range within which a mutually acceptable agreement can be reached in negotiations.
17. **Win-Win Negotiation:** An approach in which both parties aim to achieve favorable outcomes without one party benefiting at the expense of the other.
18. **Positional Bargaining:** A negotiation approach based on each party taking a fixed position and attempting to persuade the other to accept it.
19. **Negotiation Tactics:** Specific strategies and techniques used to influence the negotiation process and outcome.
20. **Negotiation:** The process of reaching a mutually agreeable outcome through communication and compromise between parties with conflicting interests or objectives.
21. **Interest-Based Negotiation:** A negotiation approach that focuses on the underlying interests, needs, and concerns of the parties rather than fixed positions.
22. **Concession:** A voluntary adjustment or compromise made by one party during negotiations to move closer to an agreement.
23. **Negotiation Tactics:** Specific techniques and methods used to influence the negotiation process and outcome.
24. **Counteroffer:** A response to an initial offer or proposal made by one party, often with modifications or conditions.
25. **Reservation Point:** The least favorable outcome a party is willing to accept in a negotiation.

26. **Walk Away Point:** The point at which a party is prepared to end negotiations and pursue their BATNA.
27. **Power in Negotiation:** The ability of a party to influence the negotiation process and outcome, often influenced by factors like resources, expertise, and leverage.
28. **Mediation:** A process in which a neutral third party (mediator) helps facilitate negotiations between disputing parties.
29. **Arbitration:** A formal dispute resolution process in which a neutral third party (arbitrator) makes a binding decision on the dispute.
30. **Impasse:** A situation in negotiations where parties are unable to make further progress or reach an agreement.
31. **Collaborative Negotiation:** A negotiation style that emphasizes cooperation and joint problem-solving.
32. **Competitive Negotiation:** A negotiation style that focuses on gaining an advantage over the other party.
33. **Distributive Negotiation:** A negotiation approach where the parties compete to divide a fixed set of resources.
34. **Integrative Negotiation:** A negotiation approach where the parties seek to create value and expand the available resources through cooperation.
35. **Emotional Intelligence in Negotiation:** The ability to recognize and manage emotions, both one's own and those of others, during negotiations.

18.7 SELF ASSESSMENT QUESTIONS :

1. What are the key steps involved in filing an insurance claim?
2. How do Third-Party Administrators (TPAs) assist in the claims process?
3. Why is accurate and timely claim reporting important?
4. What is the purpose of claim forms in insurance claims?
5. What are the consequences of not properly completing claim forms?
6. How does the investigation process help in assessing the validity of claims?
7. What are the limitations and exclusions in insurance policies that may affect claim payouts?
8. Explain the concept of arbitration in resolving insurance disputes.
9. What are some proactive measures for minimizing losses in insurance claims?
10. How can effective negotiation techniques be applied during the claim settlement process?
11. What is the importance of negotiation in the insurance claims settlement process?
12. What are some common negotiation tactics used in claims settlement?
13. Provide examples of win-win negotiation outcomes in insurance claims.
14. How can risk management strategies help in minimizing losses in insurance claims?
15. Provide examples of loss prevention measures that policyholders can implement.
16. Explain the significance of aligning financial constraints with strategic goals in claims management.

18.8 SUGGESTED READINGS :

1. "Insurance Claims and Disputes: Representation of Insurance Companies and Insureds" by Barry Zalma
2. Insurance Claims Adjuster: A Manual for Entering the Profession" by Janice Abraham
3. "Principles and Practice of Insurance" by M.N. Mishra and M. Natarajan
4. "Insurance Claims Adjuster: A Complete Resource for Skill Development" by Mark S. Dikeman and Patsy M. Watson
5. "Health Insurance: A Guide for Billing and Reimbursement" by Marie A. Moisio
6. Managed Care and the Evaluation and Adoption of Emerging Medical Technologies" by Steven Garber
7. Risk Management and Insurance: Perspectives in a Global Economy" by Harold D. Skipper Jr. and David M. Smith

LESSON - 19

SALVAGE AND LOSS RECOVERY

AIMS AND OBJECTIVES :

The final lesson aims to focus on the crucial topics of salvage and loss recovery, which play a vital role in post-claim settlement activities.

- To define salvage and explain how insurance companies handle salvaged property, including salvage auctions.
- To introduce the concept of subrogation and the recovery process.
- To discuss strategies to prevent future losses and enhance risk management practices after claim settlement.
- To provide an understanding of the implications of post-claim activities on overall loss recovery.

STRUCTURE :

19.1 Introduction

19.1.1 Importance of salvage

19.2 Concept Of Subrogation

19.3 Strategies to prevent future losses and enhance risk management

19.4 Implications of post-claim activities on overall loss recovery

19.5 Summary

19.6 Technical Terms

19.7 Self Assessment Questions

19.8 References

19.1 INTRODUCTION :

In the context of insurance and claims, "salvage" refers to the process of recovering some value from damaged or lost property, goods, or assets. When an insurance claim is paid out for property that has been damaged or destroyed, the insurance company may take possession of the damaged property. The insurer can then attempt to salvage any remaining value from the property by selling it or using it for other purposes.

For example, if a shipping company's cargo is damaged in a storm and they file an insurance claim, the insurance company may pay out for the value of the damaged cargo. The insurance company can then take possession of the damaged cargo and attempt to sell any salvageable goods or materials to recoup some of the claim payout.

Salvage is a way for insurance companies to reduce their losses and recover some of the funds they've paid out in claims. It can also help mitigate overall insurance costs for policyholders.

19.1.1 Importance Of Salvage :

The importance of salvage in the context of insurance claims and risk management lies in several key factors:

1. **Cost Recovery:** Salvage allows insurance companies to recover some of the funds they have paid out in claims. By selling or repurposing damaged or lost property, insurers can offset a portion of their financial losses. This can help stabilize insurance premiums for policyholders.
2. **Loss Mitigation:** Salvage minimizes the overall financial impact of claims on insurance companies, which in turn can help keep insurance costs manageable for policyholders. This is especially important in situations where large-scale losses occur, such as natural disasters.
3. **Resource Conservation:** Salvaging and reusing materials or assets from damaged property aligns with sustainability goals. It reduces waste and promotes the responsible use of resources, which is increasingly important in environmentally conscious societies.
4. **Risk Reduction:** Salvage can be a component of risk management. Insurance companies may provide guidance or incentives for policyholders to implement measures that reduce the risk of damage or loss in the first place, thus decreasing the likelihood of needing to file claims.
5. **Claims Process Efficiency:** Efficiently managing salvage can streamline the claims settlement process. By quickly assessing and recovering salvageable items, insurers can expedite claim resolution, benefiting both the policyholder and the insurer.
6. **Policyholder Savings:** When insurance companies recover value through salvage, it can indirectly benefit policyholders by helping to maintain stable or lower insurance premiums over time.

The features of salvage in the context of insurance claims and risk management include :

1. **Recovery of Value:** Salvage allows insurance companies to recover a portion of the funds they have paid out for damaged or lost property. This recovery helps offset the financial impact of claims.
2. **Assessment and Valuation:** Insurers assess the damaged or lost property to determine its salvage value. This involves estimating the remaining value of the property or its components that can be salvaged.
3. **Salvage Operations:** Insurance companies may engage in salvage operations, which involve the collection, handling, and disposition of damaged property. These operations can include selling salvageable items, recycling materials, or repurposing assets.
4. **Reduction of Overall Losses:** Salvage is a key component of loss mitigation. By salvaging value from damaged or lost property, insurers reduce their overall losses, which helps stabilize insurance premiums for policyholders.
5. **Environmental Responsibility:** Salvaging and recycling materials align with environmental sustainability goals. It reduces waste and promotes responsible resource management, contributing to eco-friendly practices.
6. **Risk Mitigation:** Insurance companies may incentivize policyholders to implement risk reduction measures to prevent damage or loss. This proactive approach can decrease the likelihood of claims, reducing the need for salvage.

7. **Claims Process Efficiency:** Efficiently managing salvage can expedite the claims settlement process. Insurers aim to quickly assess and recover salvageable items to facilitate timely claim resolution.
8. **Cost-Effective Approach:** Salvage provides a cost-effective way for insurers to recoup some of their expenses, thereby minimizing the financial impact of claims on their operations.
9. **Policyholder Benefits:** Policyholders indirectly benefit from salvage operations, as they can help insurers maintain stable or lower insurance premiums over time.
10. **Adaptation to Changing Conditions:** Salvage strategies may evolve based on changing conditions, such as market demand for salvageable materials or emerging environmental regulations.

Certainly, here's an example illustrating the concept of salvage in the context of insurance claims:

Imagine a small business owner who runs a bakery. The bakery is insured under a commercial property insurance policy. Unfortunately, a fire breaks out in the bakery, causing significant damage to the building, equipment, and inventory. After the fire is extinguished and the safety of the premises is confirmed, the business owner contacts their insurance company to report the damage and initiate a claim. The insurance company promptly sends an adjuster to assess the extent of the loss and determine the value of the damage.

During the assessment, the adjuster identifies that some of the bakery's commercial ovens, though damaged, can be salvaged and refurbished. Additionally, a portion of the inventory that was stored in a separate, less affected area of the bakery can still be sold. The adjuster estimates the salvage value of the ovens and the remaining inventory.

The insurance company decides to initiate a salvage operation. They arrange for the damaged ovens to be repaired and refurbished, and they sell them to a company that specializes in used restaurant equipment. The remaining inventory is also sold to a salvage buyer who can resell the salvageable items.

By salvaging the ovens and a portion of the inventory, the insurance company is able to recover some of the funds they paid out for the claim. This salvage value helps offset the financial impact of the loss on the insurer. Additionally, the bakery owner benefits indirectly, as the insurance company's ability to recover some of the costs may help keep their insurance premiums stable in the future.

This example demonstrates how salvage operations can play a crucial role in insurance claims by recovering value from damaged property, benefiting both the insurer and the policyholder.

19.2 CONCEPT OF SUBROGATION :

Subrogation is a legal principle commonly used in insurance that allows an insurer to step into the shoes of the policyholder after settling a claim and pursue recovery from third parties who may have caused or contributed to the loss. It essentially enables the insurance company to seek reimbursement for the payments it made to the policyholder due to a covered loss.

Recovery Process in Subrogation :

The subrogation recovery process typically involves the following steps:

1. **Settlement of the Policyholder's Claim:** The initial step is the settlement of the policyholder's claim by the insurance company. This involves assessing the claim, determining the coverage, and disbursing payment to the policyholder for their loss.
2. **Subrogation Assessment:** After settling the claim, the insurer evaluates whether there are third parties who may be liable for the loss. This could include individuals, businesses, or entities whose actions or negligence led to the insured event.
3. **Notification to the At-Fault Party:** If the insurer identifies a potentially responsible third party, they will notify that party of their intention to subrogate the claim. This notification informs the at-fault party that the insurer is seeking reimbursement for the claim payments made to the policyholder.
4. **Investigation and Evidence Gathering:** The insurer conducts an investigation to gather evidence supporting its subrogation claim. This may involve obtaining witness statements, police reports, photos, medical records, or any other relevant documentation.
5. **Subrogation Demand:** Once the insurer has compiled sufficient evidence, they send a subrogation demand letter to the at-fault party or their insurer. This letter outlines the details of the claim, the basis for subrogation, and the amount being sought for reimbursement.
6. **Negotiation or Legal Action:** Depending on the response from the at-fault party, the insurer may enter into negotiations to reach a settlement. If a settlement cannot be reached, the insurer may pursue legal action, such as filing a lawsuit, to recover the funds.
7. **Recovery and Reimbursement:** If successful, the insurer recovers the amount it paid to the policyholder from the at-fault party or their insurer. This reimbursement may include the claim amount, legal costs, and other expenses incurred during the subrogation process.
8. **Distribution to the Policyholder:** After recovering the funds, the insurer reimburses itself for the claim payment made to the policyholder and any associated costs. Any remaining funds are then returned to the policyholder.

The concept of subrogation holds significant importance in the insurance industry for several reasons:

1. **Cost Recovery:** One of the primary reasons for subrogation is to recover the costs incurred by the insurer when they settle a claim on behalf of their policyholder. By pursuing subrogation, insurers can minimize their financial losses, which, in turn, helps keep insurance premiums more affordable for policyholders.
2. **Fair Allocation of Liability:** Subrogation ensures that the responsible party bears the financial responsibility for their actions. In cases where another party is at fault for causing the insured loss, it's only fair that their insurance company covers the costs rather than the policyholder's insurer.
3. **Maintaining the Principle of Indemnity:** Insurance is based on the principle of indemnity, which means policyholders should be restored to the same financial position they were in before the loss occurred. Subrogation helps uphold this principle by ensuring that policyholders are not financially disadvantaged due to someone else's actions.

4. **Preventing Moral Hazard:** Without the prospect of subrogation, policyholders might be less cautious in pursuing claims if they know their insurance company will pay without attempting to recover from responsible parties. Subrogation acts as a deterrent against moral hazard, encouraging responsible behavior.
5. **Reducing Insurance Fraud:** Subrogation can help uncover fraudulent claims. If an insurer suspects that a claim is fraudulent or that the policyholder is not at fault, they may investigate and potentially subrogate the claim to recover funds paid out under false pretenses.
6. **Lowering Premiums:** Successful subrogation efforts can result in lower claim payouts for insurers, ultimately leading to reduced claim-related expenses. This can contribute to stabilizing or even reducing insurance premiums for policyholders.
7. **Efficiency in Resource Allocation:** Subrogation allows insurers to allocate their resources efficiently. Instead of paying for claims that should be the responsibility of another party, insurers can focus their resources on legitimate claims and improving customer service.

In summary, subrogation plays a vital role in maintaining the fairness, integrity, and financial stability of the insurance industry. It helps insurers recover costs, allocate liability appropriately, and discourage fraudulent claims while ultimately benefiting policyholders through lower premiums and adherence to the principle of indemnity.

Let's consider an example of subrogation in the context of auto insurance:

Scenario :

Alice is driving her car when she's suddenly rear-ended by Bob, who was texting while driving. Alice's car sustains significant damage, and she incurs medical expenses due to minor injuries. Both Alice and Bob have auto insurance coverage.

Subrogation Process:

1. **Reporting the Claim:** Alice contacts her insurance company to report the accident. Bob also contacts his insurance company to report the same accident.
2. **Insurance Investigations:** Alice's insurance company, let's call it "Alpha Insurance," conducts an investigation into the accident. They determine that Alice was not at fault, and Bob's negligence caused the accident.
3. **Settlement of Alice's Claim:** Alpha Insurance pays for Alice's car repairs and covers her medical expenses as per her policy. This process ensures that Alice is quickly compensated and her car is repaired.
4. **Subrogation by Alpha Insurance:** After settling Alice's claim, Alpha Insurance initiates the subrogation process. They contact Bob's insurance company, "Beta Insurance," and provide all the evidence and documentation proving Bob's liability.
5. **Settlement with Beta Insurance:** Beta Insurance reviews the provided evidence and acknowledges Bob's liability. They agree to reimburse Alpha Insurance for the amount paid to Alice for car repairs and medical expenses.
6. **Resolution:** Beta Insurance reimburses Alpha Insurance for the claim amount, and the subrogation process is successfully completed.

Outcome :

In this example, subrogation allowed Alice's insurance company, Alpha Insurance, to recover the expenses they initially paid on her behalf from Bob's insurance company, Beta Insurance. As a result, Alice's financial burden was lifted, and the responsible party, Bob, and his insurer, Beta Insurance, were held accountable for the damages caused by his negligence. Subrogation ensures that the at-fault party's insurance company bears the financial responsibility for their policyholder's actions, aligning with the principles of fairness and indemnity in insurance.

19.3 STRATEGIES TO PREVENT FUTURE LOSSES AND ENHANCE RISK MANAGEMENT

some strategies to achieve these objectives:

1. Risk Assessment and Mitigation:

- Conduct a comprehensive risk assessment to identify potential hazards and vulnerabilities.
- Implement risk mitigation measures, such as improved safety protocols, security systems, and preventive maintenance.

2. Loss Prevention Programs:

- Develop and implement loss prevention programs tailored to specific risks or industries.
- Provide policyholders with guidance on risk reduction measures and best practices.

3. Employee Training:

- Train employees and policyholders on risk awareness and safety procedures.
- Regularly update training programs to stay current with industry standards and emerging risks.

4. Data Analytics:

- Utilize data analytics to identify patterns and trends in claims data.
- Proactively address emerging risks based on data-driven insights.

5. Continuous Monitoring:

- Establish mechanisms for continuous risk monitoring and reporting.
- Implement regular safety audits and inspections.

6. Technology Integration:

- Embrace technological advancements, such as IoT sensors and predictive analytics, to monitor and manage risks in real-time.
- Leverage data from connected devices to detect potential issues before they lead to claims.

7. Policy Review and Updates:

- Regularly review insurance policies to ensure they align with changing risks and regulations.
- Update policies to incorporate new coverage options or exclusions as needed.

8. Risk Transfer:

- Evaluate opportunities for risk transfer through contractual agreements, such as indemnification clauses or additional insured endorsements.

10. Claims Analysis:

- Analyze past claims to identify recurring issues or trends.
- Implement corrective actions based on these findings.

10. Collaboration:

- Collaborate with policyholders to develop customized risk management solutions.
- Encourage open communication between insurers, policyholders, and risk management experts.

-11. Industry Benchmarking:

- Benchmark risk management practices against industry standards and competitors.
- Adopt best practices from leaders in the field.

12. Regulatory Compliance:

- Stay updated on regulatory changes and compliance requirements.
- Ensure that risk management practices align with legal obligations.

By implementing these strategies, insurers and policyholders can work together to reduce future losses, enhance safety, and create a more resilient and cost-effective risk management

19.4 IMPLICATIONS OF POST-CLAIM ACTIVITIES ON OVERALL LOSS RECOVERY :

Certainly, preventing future losses and enhancing risk management practices are crucial steps for insurers and policyholders after claim settlement. Here are some strategies to achieve these objectives:

1. Risk Assessment and Mitigation:

- Conduct a comprehensive risk assessment to identify potential hazards and vulnerabilities.
- Implement risk mitigation measures, such as improved safety protocols, security systems, and preventive maintenance.

2. Loss Prevention Programs:

- Develop and implement loss prevention programs tailored to specific risks or industries.
- Provide policyholders with guidance on risk reduction measures and best practices.

3. Employee Training:

- Train employees and policyholders on risk awareness and safety procedures.
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- Adopt best practices from leaders in the field.

12. Regulatory Compliance:

- Stay updated on regulatory changes and compliance requirements.
- Ensure that risk management practices align with legal obligations.

By implementing these strategies, insurers and policyholders can work together to reduce future losses, enhance safety, and create a more resilient and cost-effective risk management framework.

19.5 SUMMARY :

Salvage plays a crucial role in the insurance industry by helping insurers recover some of their expenses, minimizing losses, promoting resource conservation, and contributing to efficient claims management. It ultimately contributes to the sustainability and affordability of insurance for policyholder. In summary, salvage in insurance involves the recovery and utilization of value from damaged or lost property. It is a multifaceted process that contributes to financial recovery for insurers, efficient claims management, and responsible resource management while indirectly benefiting policyholders. The subrogation process is essential for insurers to minimize their losses and maintain the principle of indemnity in insurance contracts. It allows insurance companies to avoid shouldering the financial burden caused by the negligence or wrongful actions of third parties when their policyholders suffer a covered loss. After claim settlement, preventing future losses and enhancing risk management practices become essential for insurers and policyholders. This involves conducting comprehensive risk assessments, implementing loss prevention programs, providing employee training, utilizing data analytics, continuous monitoring, embracing technology, updating policies, considering risk transfer, analyzing past claims, fostering collaboration, benchmarking against industry standards, and ensuring regulatory compliance .After claim settlement, preventing future losses and enhancing risk management

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19.6 TECHNICAL TERMS :

1. **Salvage Value:** The estimated value of damaged or lost property that can be recovered or repurposed after an insurance claim.
2. **Salvage Operation:** The process of collecting, handling, and disposing of salvageable items, often carried out by insurance companies or specialized salvage companies.
3. **Loss Mitigation:** Actions taken to reduce the extent of damage or loss, including salvage efforts.
4. **Salvage Buyer:** An individual or entity that purchases salvageable items from insurance companies or policyholders.
5. **Salvageable Assets:** Items or components of damaged property that still hold value and can be recovered.
6. **Loss Recovery:** The process of recovering funds through salvage, reducing the overall financial impact of an insurance claim.
7. **Claim Settlement:** The final resolution of an insurance claim, which may include the determination and handling of salvage.
8. **Salvage Reimbursement:** The reimbursement provided to policyholders or salvage buyers for the value of salvageable items.
9. **Salvage Assessment:** The evaluation of damaged property to determine its salvage value.
10. **Environmental Compliance:** Adherence to environmental regulations and responsible disposal practices during salvage operations.
11. **Subrogation:** The process by which an insurance company seeks reimbursement from the at-fault party or their insurer for the payments made to the insured.
12. **Salvage:** Damaged or recovered property that an insurer takes possession of after settling a claim. It may be sold to recoup some of the claim costs.
13. **Arbitration:** A dispute resolution method where both parties present their cases to a neutral arbitrator, who makes a binding decision.
14. **Exclusions:** Specific conditions or situations listed in an insurance policy that are not covered by the policy.
15. **Claim Form:** A formal document used to report an insurance claim, providing details about the incident and the insured's losses.
16. **Risk Assessment:** The process of evaluating potential risks and vulnerabilities.
17. **Loss Prevention Programs:** Strategies and measures designed to reduce the likelihood of future losses.
18. **Data Analytics:** The use of data analysis techniques to gain insights and make informed decisions.
19. **IoT (Internet of Things):** A network of interconnected devices that collect and exchange data.
20. **Predictive Analytics:** Using historical data and statistical algorithms to predict future events.
21. **Risk Transfer:** Shifting the financial burden of a risk to another party through contracts or insurance.
22. **Indemnification Clause:** A contractual provision that obligates one party to compensate another for specified losses.

23. **Continuous Monitoring:** Ongoing surveillance and assessment of risks and safety measures.
24. **Best Practices:** Industry-recognized methods and approaches that lead to optimal outcomes.
25. **Regulatory Compliance:** Adhering to laws and regulations relevant to risk management and insurance.
26. **Risk Assessment:** The process of evaluating potential risks and vulnerabilities.
27. **Loss Prevention Programs:** Strategies and measures designed to reduce the likelihood of future losses.
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33. **Continuous Monitoring:** Ongoing surveillance and assessment of risks and safety measures.
34. **Best Practices:** Industry-recognized methods and approaches that lead to optimal outcomes.
35. **Regulatory Compliance:** Adhering to laws and regulations relevant to risk management and insurance.

19.7 SELF ASSESSMENT QUESTIONS :

1. What is salvage value in the context of insurance claims, and why is it important for insurers?
2. Describe the typical steps involved in a salvage operation carried out by an insurance company.
3. How does salvage contribute to loss mitigation in the insurance industry, and what are its benefits?
4. Explain how the concept of loss recovery through salvage can help stabilize insurance premiums for policyholders.
5. What environmental considerations should be taken into account during salvage operations, and why are they significant?
6. Provide an example of a situation where the salvage value of damaged property significantly reduced the overall cost of an insurance claim.
7. What role do salvage buyers play in the salvage process, and how do they benefit from purchasing salvageable items?
8. Discuss the importance of timely and efficient salvage assessment in the claims settlement process.
9. How can proactive risk management and loss prevention measures reduce the need for salvage in insurance claims?
10. In what ways can policyholders indirectly benefit from an insurer's effective salvage operations
11. What is the purpose of subrogation in the insurance industry, and how does it benefit both insurers and policyholders?

12. Explain the significance of exclusions in insurance policies and provide examples of common exclusions.
13. Describe the steps involved in the arbitration process for resolving insurance disputes.
14. How can proactive risk management and loss prevention measures help insurers minimize losses and reduce the need for claims?
15. What are the key negotiation techniques that can be employed during the claim settlement process, and why are they important for successful outcomes?
16. What are some key strategies for preventing future losses after claim settlement?
17. How can data analytics be leveraged to enhance risk management practices?
18. Why is it important to update insurance policies regularly?
19. What is the role of continuous monitoring in risk management?
20. Give an example of risk transfer in a business context.
21. How can collaboration between insurers and policyholders improve risk management?
22. What are the benefits of benchmarking risk management practices against industry standards?
23. Why is regulatory compliance crucial in risk management?
24. Explain the concept of loss prevention programs and their significance.
25. How does the Internet of Things (IoT) contribute to real-time risk monitoring?
26. What are some key strategies for preventing future losses after claim settlement?
27. How can data analytics be leveraged to enhance risk management practices?
28. Why is it important to update insurance policies regularly?
29. What is the role of continuous monitoring in risk management?
30. Give an example of risk transfer in a business context.
31. How can collaboration between insurers and policyholders improve risk management?
32. What are the benefits of benchmarking risk management practices against industry standards?
33. Why is regulatory compliance crucial in risk management?
34. Explain the concept of loss prevention programs and their significance.
35. How does the Internet of Things (IoT) contribute to real-time risk monitoring?

19.8 SUGGESTED READINGS :

1. "Insurance Claims and Disputes: Representation of Insurance Companies and Insureds" by Barry Zalma
2. Insurance Claims Adjuster: A Manual for Entering the Profession" by Janice Abraham
3. "Principles and Practice of Insurance" by M.N. Mishra and M. Natarajan
4. "Insurance Claims Adjuster: A Complete Resource for Skill Development" by Mark S. Dikeman and Patsy M. Watson
5. "Health Insurance: A Guide for Billing and Reimbursement" by Marie A. Moisio
6. Managed Care and the Evaluation and Adoption of Emerging Medical Technologies" by Steven Garber
7. Risk Management and Insurance: Perspectives in a Global Economy" by Harold D. Skipper Jr. and David M. Smith

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Model Question Paper
M.Com. (Banking)
Semester-IV
Paper– VI - General Insurance Products and Management

Time : Three hours **Maximum : 70 marks**

SECTION A — (4 × 5 = 20 marks)
Answer any FOUR of the following

1. a. Health Insurance
   b. Utmost good faith
   c. Doctrine of Subrogation
   d. Exemptions/ Exclusions to the policy
   e. Contract of Indemnity
   f. Claim form
   g. Pradhan Mantri Jan Arogya Yojana
   h. Physical Hazards

SECTION B — (5 × 10 = 50 marks)
Answer All of the following.

1.a. What are the coverages under personal accident insurances?

(or)

i. What are the key features of non – life insurances.

2. a. Define health insurance and write its features.?

(or)

b. What are the benefits of health insurance policies..

3. a. What is liability insurance? What are the its features.?

(or)

b. What are the types of liability insurance in India.?

4. a. Define renter's insurance, what is its coverage. ?

(or)

b. What are various types of commercial insurances?

5. a. What is cover note? How it is different from proposal form?

(or)

b. What is moral hazards? What is the effect of moral hazards.