INSURANCE PROMOTION

B.A. / B.Com., / BBA

Semester – I

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B.A. / B.Com., / BBA – I Semester

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FOREWORD

Since its establishment in 1976, Acharya Nagarjuna University has been forging ahead in the path of progress and dynamism, offering a variety of courses and research contributions. I am extremely happy that by gaining a B++ (80-85) grade from the NAAC in the year 2003, the Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels apart from research degrees to students from over 285 affiliated colleges spread over the three districts of Guntur, Krishna and Prakasam.

The University has also started the Centre for Distance Education with the aim to bring higher education within reach of all. 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 housewives desirous of pursuing higher studies. With the goal of brining education to the doorstep of all such people, 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 2003-2004 onwards.

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 facilitate the 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. P. Raja Sekhar
Vice-Chancellor
Acharya Nagarjuna University

B.A., / B.Com., / BBA

I SEMESTER

INSURANCE PROMOTION

Learning Outcomes:

By successful completion of the course, students will be able to;

1. *Understand the field level structure and functioning of insurance sector and it's role in protecting the risks*
2. *Comprehend pertaining skills and their application for promoting insurance coverage*
3. *Prepare better for the Insurance Agent examination conducted by IRDA*
4. *Plan 'promoting insurance coverage practice' as one of the career options.*

SYLLABUS:

Section I: 06 Hrs

Introduction of Insurance - Types of insurances. Growth of Insurance sector in India - Regulatory mechanism (IRDA) - Its functions

Section II: 10 Hrs

Life Insurance plans. Health insurance plans. Products and features. Contents of documents– Sales Promotion methods - Finding prospective customers –Counselling – Helping customers in filing - Extending post-insurance service to customers.

Section III : 10 Hrs

General Insurance - It's products (Motor, Marine, Machinery, Fire, Travel and Transportation) and features. Contents of documents. Dealing with customers – Explaining Products to Customers - Promoting Customer loyalty. Maintenance of Records.

Reference books:

1. Principles of Insurance, Himalaya publishing House
2. Principles and Practice of Insurance, Himalaya publishing House
3. Fundamentals of insurance, Himalaya publishing House
4. Life and General Insurance Management, Himalaya publishing House
5. Financial services, Tata McGraw hill
6. Insurance Principles and Practices, Sultan Chand &Sons
7. Websites on insurance promotion

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I SEMESTER

INSURANCE PROMOTION

Model Question Paper

Time: 2 Hrs.

Max. Marks: 50

SECTION -A [4×5=20]

Answer any FOUR from the following:

1. Define Insurance.
2. Concept of Insurance.
3. Explain Life Insurance.
4. Health Insurance.
5. Features of Health Insurance.
6. General Insurance.
7. Write about the Accidental Insurance.
8. Define Fire Insurance.

SECTION-B [3×10=30]

Answer any one from each unit

9. a) Explain about an Insurance and its objectives.

(OR)

b) What are the principles of insurance?

10. a) What are the categories of life insurance?

(OR)

b) Define objectives and importance of life insurance.

11 a) Write about the different types of general insurance.

(OR)

b) What are the principles of general insurance?

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I SEMESTER

INSURANCE PROMOTION

Model Question Paper

Time: 2 Hrs.

Max. Marks: 50

SECTION -A [4×5=20]

Answer any FOUR from the following:

1. Objectives of Insurance.
2. Define principles of Insurance.
3. Life Insurance.
4. Types of Insurance.
5. Fire Insurance.
6. Principles of General Insurance.
7. Fire Insurance and its types.
8. Marine Insurance and its advantages.

SECTION-B [3×10=30]

Answer any one from each unit

9. a) Explain about the insurance and its concepts and features.

(OR)

b) Different types of insurances in India.

10. a) Write about the Health Insurance and its objectives.

(OR)

b) Explain about the different types of Health Insurance Policies.

11 a) What are the documents required in Fire Insurance?

(OR)

b) Types of Marine Insurance and its objectives.

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1. Introduction to Insurance	1.1 – 1.19
2. Life Insurance & Health Insurance	2.1 – 2.21
3. General Insurance	3.1 – 3.14

UNIT-1

INTRODUCTION TO INSURANCE

OBJECTIVES:

After you have completed this lesson, you should be able to:

- To gain knowledge about the concept of insurance.
- To gain knowledge about the various insurance plans.
- To gain knowledge about the benefits of insurance policy.

Structure

1.1 The Introduction to Insurance

1.2 The principles of insurance

1.3 Types of Insurances

1.4 History and Growth of Insurance Sector in India

1.5 Functions of IRDAI

1.6 Other Institutions in Indian Insurance Market

1.1. THE INTRODUCTION TO INSURANCE:

A. Risks and perils:

Every day, we hear stories about accidents and other misfortunes that someone has suffered.

Some of these include:

I. All of a sudden, people fall seriously ill.

ii. Motor vehicles are stolen and people die or get injured in accidents involving motor vehicles.

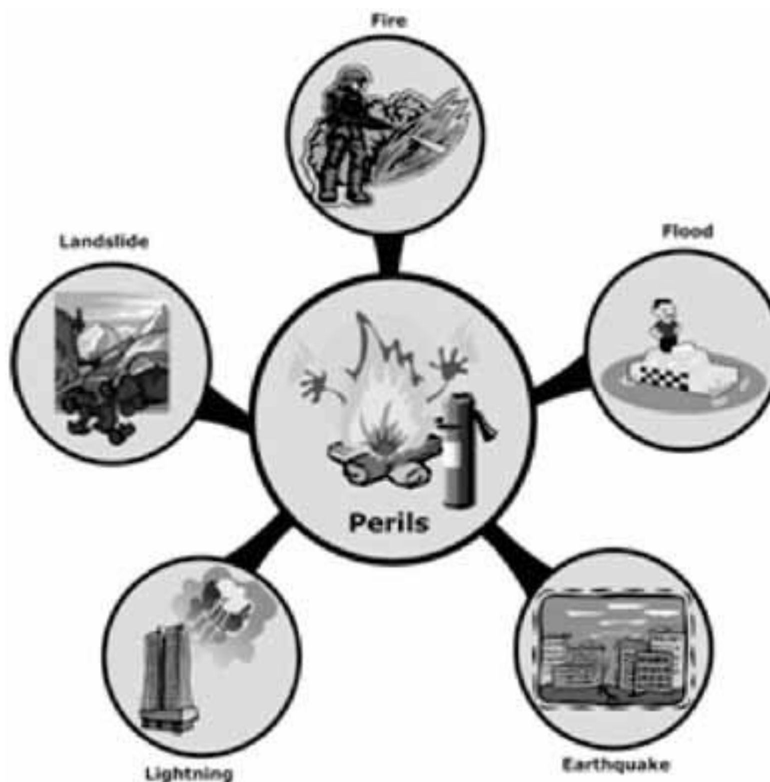
iii. House and belongings are destroyed by fire.

iv. Large scale loss of lives and destruction of property in cyclones and tsunamis.

Life is full of uncertainties and surprises. Protecting oneself, one's families and society from these uncertain events has been one of the biggest concerns of man for centuries.

Definition:

'Risk' is a term that we use to refer to the chance of suffering a loss as a result of uncertain events like the above. The events that give rise to such risks are known as perils.
Some examples of perils



We face many such risks in our day-to-day life including risks to our life, health, property and so on.

We don't know whether and when something unfortunate will happen to us or our family members or property. It may not always be possible for us to prevent such a happening. For instance, we cannot prevent a storm or somebody's death from occurring.

B. Savings and investment:

It is possible for us to take measures to reduce the financial consequences that arise due to the above mentioned risks and protect ourselves financially. One of the ways by which this is normally done is with the help of savings and investment.

Example1:

We would have seen or learnt from our parents or elders about the need to save for the future. By saving or investing money, the money so accumulated can be used to cope with the loss. However, such savings can only give back our own money plus some returns.

What would happen if a human life is lost or a person is disabled permanently or temporarily?

Example2:

A person dies suddenly. Where would the person's family get the money from to support itself? How would the person's family meet the various living expenses after his death?

A person suffers a paralytic stroke that leaves him permanently bed- ridden. Such an event would result in loss of income to the household and put the family in a lot of hardship.

The loss suffered is so large in all such situations that one's savings may not be sufficient to take care of the financial burden.

C. Insurance:

Luckily for us, there is something called 'Insurance'. It is founded on a simple idea. Even though an event like death or a fire can come as a terrible economic blow to someone, when we take the society as a whole, during any given year, only a few would suffer in such manner. If a small contribution is collected from everyone in the community and pooled to create a common fund, the amount so pooled can be used to pay money to the few unfortunate members who have been subject to the loss.

Definition:

Insurance is a mechanism of risk transfer and sharing by pooling of risks and funds among a group of individuals who are exposed to similar kinds of risks for the benefit of those who suffer loss on account of the risk.

Insurance is, thus, a financial tool specially created to reduce the financial impact of unforeseen events and to create financial security. Indeed, everyone who wants to protect himself against financial hardship should consider insurance.

Traditionally, “the joint family” has been an informal social security in India. In modern society, social security is available only to those who are employed in the organized sector. Insurance is considered one of the tools of social security for formal and informal sectors and is largely carried out in two ways.

i. The first way is known as Social Insurance. Here, the State or government takes care of those who are subjected to losses due to some risk event. Examples are, providing a pension when one grows old or providing free medical treatment, meeting the cost of hospitalization etc. The fund for this purpose comes from a pool made up from taxes or mandatory social security contributions required to be made by all those who work and earn an income. The Employees’ State Insurance scheme (ESI) that provides medical care and other benefits to employees and Employees’ Provident Fund Organization (EPFO) that provides pensions and survivors’ benefits in the event of an employee’s death are the popular schemes under this head.

ii. The second way is through voluntary Private Insurance. Here, individuals and groups can buy insurance from an insurance company by entering into a contract of insurance with the company. The insurance company enters into a contract (an insurance policy) whereby it (insurer) undertakes, in exchange for a small amount of money (premium), to provide financial protection by agreeing to pay the insuring person (insured) a fixed amount of money (sum assured) on the happening of a certain event (insured peril).

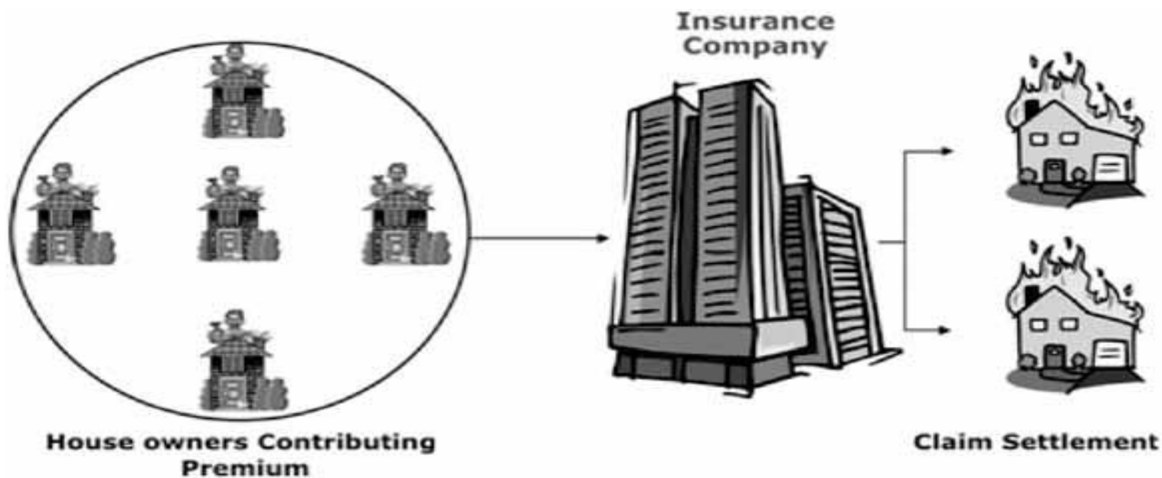
Insurance companies collect premiums to provide for this protection and losses are paid out of the premiums so collected from the insuring public. In other words, an insurance contract promises to make good to the insured a certain sum in consideration for the premium received from the insured.

Example:

The following two examples explain the concept of insurance.

In a village, there are 400 houses, each valued at Rs.20,000. Every year, on an average, 4houses get burnt, resulting into a total loss of Rs.80,000.

Number of houses	400
Houses that get burnt every year (average)	4
Value of each house	RS 20000
Total loss (4 houses X Rs. 20,000)	RS 80000
Contribution to be made by 400 house owners to compensate for loss of Rs. 80,000 = Rs. 80,000 / 400 :	RS 200

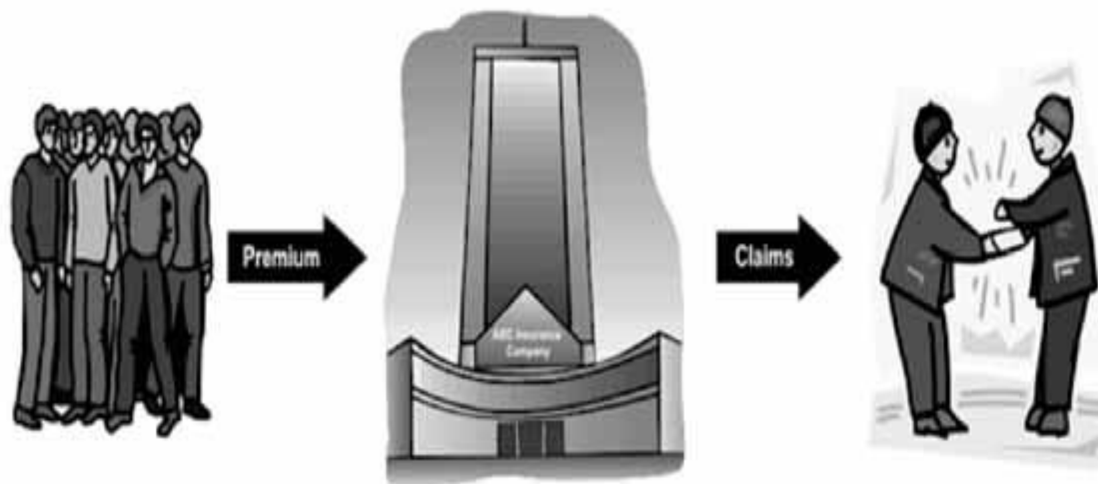


If all the 400 owners come together and contribute Rs.200 each, the common fund would be Rs.80,000. This is enough to pay Rs.20,000 to each of the 4 owners whose houses got burnt. Thus, the risk of 4 owners is spread over 400 houses/ house-owners of the village.

Example 2:

There are 1000 persons, who are all aged 50 and are healthy. It is expected that of these, 10 persons may probably die during the year. If the economic value of the loss suffered by the family of each dying person is taken to be Rs.20,000, the total loss would work out to Rs.2,00,000.

Number of Persons	1000
Economic value of each person	RS 20000
Persons that may die during the year (probable)	10
Total loss (10 persons X Rs. 20,000)	RS 200000
Contribution to be made by 1000 people to compensate for loss of Rs. 2,00,000 = Rs. 2,00,000 / 1000	RS 200



If each person of the group contributes Rs.200 a year, the common fund would be Rs.2,00,000. This would be enough to pay Rs.20,000 to the family of each of the ten persons who may die. Thus, 1000 persons share the risk of loss due to death suffered by 10 persons.

From the above, it can be seen that insurance is a very useful financial tool for pooling, sharing and transfer of the risk so that the financial loss caused to a person who suffers due to a peril is compensated.

1.3 The principles of insurance:

i. Law of large numbers
ii. Insurable interest
iii. Utmost good faith
iv. Indemnity
v. Subrogation and contribution
vi. Proximate cause

i. Law of large numbers:

Imagine that in a village there are 1000 persons who are all aged 50 and are healthy. Based on previous experience, it is expected that of these, 10 persons may die during the year. If the economic value of the loss suffered by the family of each dying person is taken to be Rs.20,000, the total loss would work out to Rs.2,00,000. If each member contributes Rs.200 a year, this would be enough to pay Rs.20, 000 to the family of each of the ten persons who dies. You would have wondered whether the prediction of number of actual deaths of ten is accurate.

What would be the impact if the insurance company's predictions about the risk turned out to be wrong or inaccurate and the number of deaths turns out to be 15 or 5? If the actual number of persons who die during a year were to be higher than ten, the amount collected would not be sufficient to compensate those who suffer the loss.

You need not worry too much about the accuracy of estimates. What saves the insurer is a wonderful principle of nature known as the law of large numbers. Simply put, it states that the

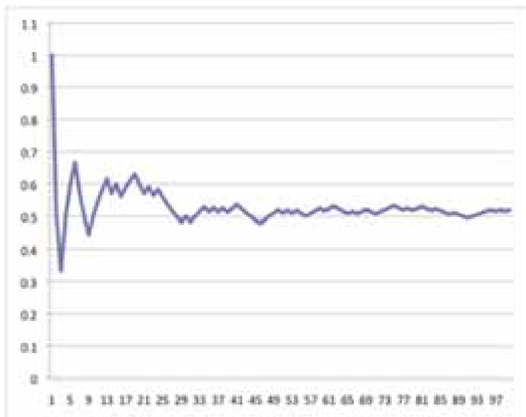
more the number of members who are insured, the more likely it is that the actual result would be closer to the expected.

Example:

Try this simple experiment. Toss one rupee coin. We all know that the theoretical probability that the outcome will be ‘heads’ is equal to ½. Does this mean that if you toss a coin four times you will always get two heads and two tails? When can you be hundred percent sure that you will get heads exactly half the time? The answer is, you would have to toss it a very large number of times. You would also notice that the more number of times you toss the coin, the more you would find that the result is coming closer to half.

Law of large numbers -Number of tosses of a coin

Insurance works on this law of large numbers. Insurance companies are able to make near accurate predictions about their risks because they typically spread that risk amongst thousands, even millions, of members who have signed contracts with them and who are their policy holders. This is the reason



why when you purchase an insurance policy, the insurance company is able to give you an assurance that your losses would be compensated if they occur due to the insured event.

ii. Insurable interest:

Another important principle is insurable interest. Let us understand it with the help o a few examples

Example 1:

Shri Manoj was staying with his wife and son. An insurance agent visited him offering health insurance. Manoj indicated that he wanted to take health insurance for all the members of his family. He also wanted to take a policy for his good neighbour. The insurer said that Manoj can take a policy for his family but cannot take a policy for his neighbour.

The reasons why the insurer refused to issue insurance policy to Manoj's neighbour was because Manoj did not have an insurable interest in his neighbour's health.

Insurable interest is the term we use to describe the relationship between the insured and the subject matter of insurance (in the above case it is the health of Manoj and his family on one hand and Manoj's neighbour). This relationship gives Manoj a particular type of interest in the health of himself, his wife and child, whereby he benefits from the good health and suffers a financial loss by way of hospital expenses if one of the members of his family falls ill. We buy insurance to ensure that the loss suffered is compensated for in some way. The position is not so in case of Manoj's neighbour as Manoj does not suffer any financial loss due to his neighbour falling ill.

iii.Utmost good faith:

While ordinary commercial contracts are good faith contracts, insurance contracts are contracts of utmost good faith. Let us distinguish between good faith and utmost good faith with the help of example.

Example:

You have accompanied your parents to a car showroom where they sell cars. Your father asks the salesman certain details about the car being considered. The salesman is bound to give correct answers to the questions. Similarly, the brochures about the particular car model cannot make a misrepresentation (tell a lie) about the model. This obligation to disclose only the truth applies when we speak of contracts of good faith. Is the car salesman obliged to disclose (tell) everything he may know about the

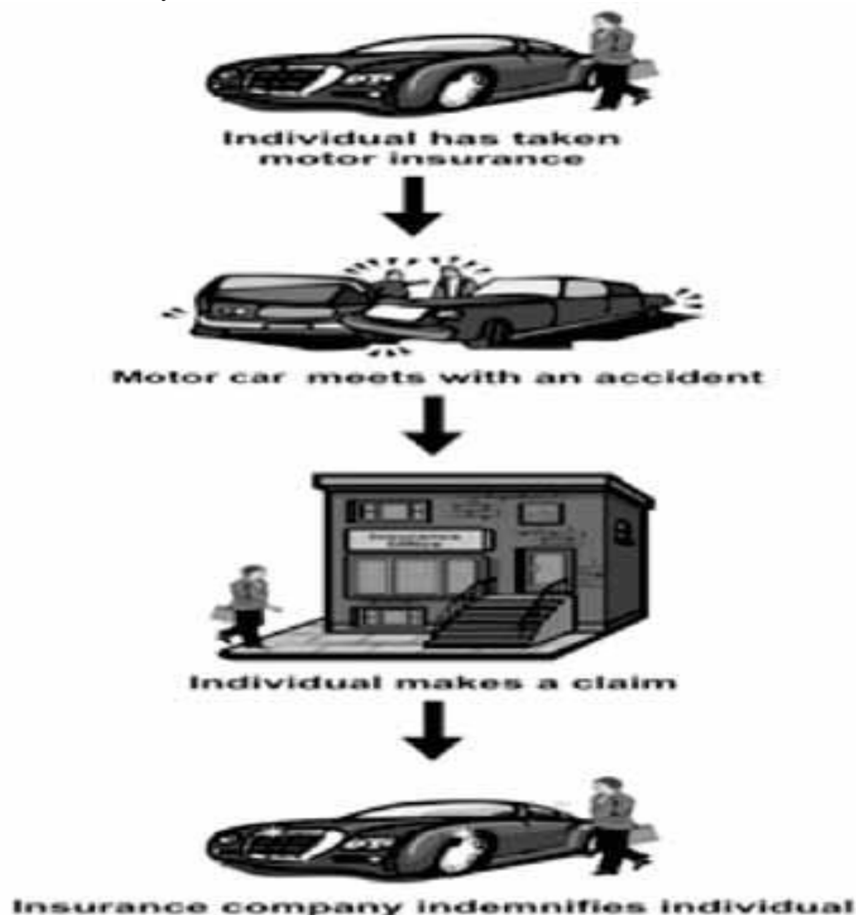
iv. Principle of indemnity:

Let us understand the principle of indemnity with the help of an example.

Example

Jayesh had a shop which caught fire and as a result, a part of the goods that were stored was destroyed. The shop was insured for its full value of Rs.5,00,000. Jayesh claimed Rs. 5,00,000 since he had insured his shop for Rs. 5,00,000. The insurance company's surveyor examined the damage and estimated that the loss was only Rs. 64,000. The insurance company paid Rs.64,000 as compensation, even though Jayesh had a policy of Rs. 5,00,000 and claimed for more. The insurer was applying a law known as the "Principle of Indemnity".

You get compensated for what you lose - no more, no less.



V.Subrogation and Contribution:

What are subrogation and contribution?

Both principles of subrogation and contribution arise from the principle of indemnity.

a) Subrogation

Consider this situation

On his transfer from Kolkata to Mumbai, Mr. Rajan sends his household goods worth Rs.1,00,000 through M/s. Jayant Transports. During the transit, part of the goods got damaged due to the truck driver's negligence.

The insurer assessed the loss and found that the value of the damage was Rs. 30,000 and paid this amount to Mr. Rajan as indemnity. However Mr. Rajan took up the matter against M/s Jayant Transports with the Court of Law and the Court ordered M/s. Jayant Transports to pay Rs.30,000 to Mr. Rajan. Having already received Rs.30,000 from the insurer, Mr. Rajan would be making a profit out of the loss if he gets Rs.30,000/- from the transporter also.

From this situation, one should observe the following:

i. The insurance company has to compensate Mr. Rajan as per the insurance contract at the earliest without making him wait for the Court's judgment.

ii. Mr. Rajan should not get two compensations and make a profit out of his loss.

In such situations, the insured's right to claim from anywhere else is taken over by the insurer when he pays a claim. Since the insurer has paid the amount of loss to the insured, the insurer would be the one who has borne the loss. Hence, the name of the insurer should be substituted.

b) Contribution

Consider this situation

Mr. Kishore had a car worth Rs.5,00,000 and he took full insurance for this car from two insurance companies. The car was totally damaged in an accident and total loss was Rs.5,00,000.

Mr. Kishore filed a claim with the 1st company and got paid Rs.5,00,000. He goes to the 2nd insurance company and makes a claim for Rs.5,00,000. The second company informed Mr. Kishore that he was not eligible for getting any more sum because he was already indemnified by the 1st Company. If the 2nd company had also paid him, he would have made a profit out of his loss, to the disadvantage of all the other members who had contributed premiums.

This situation is against the principle of indemnity in insurance as Mr. Kishore would be making a profit out of his loss.

The principle of contribution refers to the right of an insurer who has paid a loss under a policy to recover a proportionate amount from other insurers who are also liable for the loss.

VI.Principle of proximate cause:

Let us understand the principle of proximate cause with the help of an example.

Example

Mr. Paramesh had taken an accident insurance policy which covered death by accident. While walking on the road one day he was hit by a car. He was rushed to the hospital. Being a person with a weak heart, he could not stand the shock of the event and died after a few hours from heart failure. The insurance company disputed the claim saying it was the heart attack rather than the accident which had caused his death. The court ruled that even though the immediate cause of death may have been collapse of the heart, the proximate cause of death was the accident and ordered the company to pay the claim.

1.4 Types of Insurances:

A. Life insurance
B. Health insurance
C. Property insurance
D. Travel insurance
E. Pensions
F. Group insurance

1.4.1 Life insurance:

Human life is perhaps the most important and invaluable asset. This asset is subject to risks of death and disability due to natural and accidental causes. When human life is lost or a person is disabled permanently or temporarily, there is a loss of income to the household. Though human life cannot be valued, it is possible to estimate the loss of income that would be suffered in future years in the event of a risk like death or disability. Life insurers try to place a monetary value on such loss and provide insurance cover for such loss. Life insurance is a financial cover for a contingency linked with human life, like death, disability, accident and retirement. Life insurance products provide a definite amount of money in case the life insured dies during the term of the policy or becomes disabled on account of an accident.

Who needs life insurance:

i. Primarily, anyone who has a family to support and is an income earner needs life insurance.
ii. In view of the economic value of their contribution to the family, housewives too need risk cover.
iii. Even children can be considered for life insurance in view of their future income potential that is at risk.

Basic types of life insurance polcies

i. Term insurance: Under this plan, the sum assured is paid only on the death of the insured during the period specified. There is no maturity value in term insurance.

ii. Endowment assurance: Under this type of plans, the sum assured is paid at the end of the term as maturity or on the death of the insured during the term of the policy. This is available as With Profits (Bonus) or Without Profits type. Money-back plans are endowment policies with the provision for return of a part of the sum assured in periodic installments during the term and balance of sum assured at the end of the term.

iii. Whole life insurance: It offers to pay the sum assured when the life assured dies, no matter when the death occurs. There is no fixed term for cover of death. The premiums can be paid throughout one's life or for a specified limited period.

iv. Unit Linked Insurance Plans: These are essentially life insurance plans where the premiums are invested in the capital markets and the returns are therefore linked to the performance of the specific fund and the overall market. The fund choice is made by the customer and therefore the investment risk is borne by the customer. There is also specified life insurance risk cover available for which premium will be deducted before investment. There are also various charges applicable in this type of policies.

v: There are other varieties among life insurance policies such as Variable Insurance Policies, Joint Life Policies and children's policies

1.4.2 Health Insurance

Health insurance covers expenses towards treatment of diseases and / or injury. A health insurance policy could be either on an indemnity basis which involves reimbursement of expenses up to a specified limit or on a fixed benefit basis where the insurer pays a fixed amount of benefit irrespective of what the expenses are.

A health insurance policy (on indemnity basis) would normally cover expenses reasonably and necessarily incurred under the following heads in respect of insured person subject to overall ceiling of sum insured (for all claims during one policy period):

i. Room, boarding expenses
ii. Nursing expenses
iii. Fees of surgeon, anesthetist, physician, consultants, specialists,

Anesthesia, blood, oxygen, operation theatre charges, surgical appliances, medicines, drugs, diagnostic materials, X-ray, dialysis, chemotherapy, radio therapy, cost of pace maker, artificial limbs, cost of organs and similar expenses.

Normally, health insurance policies are not issued for less than one year period.

A Personal Accident cover is also available for protection. In the event of death or disability, permanent or temporary, of the insured, arising as a result of an accident, it provides for

compensation, which is either the whole or a percentage of the sum insured depending on the kind of loss.

1.4.3 Property insurance:

In respect of insurance relating to property, there are many products available.

a) Householder insurance is one of the most important insurance policies to buy as home is one of the largest financial investments made because of which it is very important to protect it.

b) Loss of or damage to property and assets may be covered against fire and perils of nature including flood, earthquake etc. Machinery of industries may be insured against breakdown. Goods in transit can be insured under a Marine Cargo insurance cover. Insurance coverage is available for loss or damage to ships and aircrafts as well. The indirect loss caused due to inability to use the property or assets as a result of peril, called consequential loss, can also be insured.

c) A Motor Insurance policy covers damage to the vehicle. Motor insurance covers your vehicle, be it a motorcycle, a car or a lorry, in case of accidents or theft. Further, while driving a vehicle, it is possible that the vehicle hits someone and causes death/ injury or damage to someone's property. As per the law, the owner of the vehicle is legally liable to pay compensation for any injury or damage to any person's life or property caused by the use of the vehicle in a public place. As insurance is a contract, where the insurer and the insured are the two parties involved, this liability can be to any other person, or in other words, to any 'third party' to the contract. Hence, such liabilities are generally called 'third-party liabilities'. Driving a motor vehicle without third-party insurance in a public place is a punishable offence in terms of the Motor Vehicles Act, 1988. A motor third party insurance policy is mandatory according to Motor Vehicles Act, 1988.

1.4.4 Travel Insurance:

Travel insurance is called by different names by insurance companies, but offers insurance protection while one travels. Travel insurance protects the insured person and his family from domestic and international travel related perils and losses like accidents, unexpected medical expenditure during travel, baggage loss, interruption or delays in flights etc.

The following covers are usually available under travel insurance though the combination may vary.

i. Medical expenses with or without cashless facility (most travel insurance products offer Cashless facility)
ii. Personal accident
iii. Loss of baggage
iv. Delay in baggage arrival
v. Loss of passport
vi. Travel delay
vii. Repatriation
viii. Transportation of dead body etc.

1.4.5 Pensions:

Consider this scenario Anil was working as Senior Manager in a private company and was earning comfortably. He was living a luxurious life. After retirement, he received only provident fund amount which he invested in fixed deposits presuming that the interest would be sufficient for his needs after retirement. However, Anil fell seriously ill immediately after retiring.

He was admitted to hospital and most of his deposits had to be closed for making payment to the hospital for treatment. The interest on remaining deposits was not sufficient to meet the expenses of Anil and his family. He had to depend on his children and relatives for his household expenses and health costs. Would it not be a good idea for Anil to create a mechanism by which his savings get accumulated when he was young so as to give a regular source of income to meet his old age expenses?

There are two types of annuities (pension plans):

a) Immediate Annuity:

In case of an immediate annuity, the annuity payment from the insurance company starts immediately. Purchase price (premium) for the immediate annuity is to be paid in lump sum in one installment only.

Example

Mira's grandfather retired from a private school at the age of 60 and received a sum of Rs. 15 lakhs as his provident fund. He invested Rs. 12 lakhs out of this for purchasing an immediate annuity from a life insurance company. Mira's grandfather would start getting his annuity payment every month from the next month itself.

b) Deferred Annuity:

Under deferred annuity policy, the person pays regular contributions to the insurance company till the vesting age/vesting date. He has the option to pay as single premium also. The insurance company will take care of the investment of funds. The fund will accumulate with interest and the total amount will be available on the vesting date. The policyholder has the option to purchase an annuity for the entire amount or encash up to say 1/3rd of this corpus fund on the vesting date and purchase an annuity for the balance amount. This partial encashment is called commutation and the amount so received is tax-free.

1.4.6 Group insurance:

Another kind of insurance is group insurance. In group insurance, schemes are offered by insurance companies to provide certain classes of individuals, the benefit of insurance coverage at moderate cost.

Example

Shri Kishore, an account holder of X Bank, has taken a credit card of the bank. He is exposed to the risk of loss of card and its fraudulent usage by another person. He has to approach an insurance company for this purpose. Similarly the bank has issued credit cards to thousands of other account holders. In this case, the risk to which all the card holders are exposed is similar. Issuing of individual policy for each card holder would be cumbersome and involving huge cost for the insurer. Similarly, the ability of Kishore to bargain with the insurer for a better rate for

insurance for his credit card would be much less than that of the bank negotiating for its thousands of card holders. The bank can secure a cheaper insurance cover from the insurer. The insurer would be willing to offer cheaper rate because of reduced cost of acquiring business and better administration of the policies through the bank.

Group insurance taken by a bank for its customers

1.5 History and Growth of Insurance Sector In India:

Insurance regulation in India—

i. The Government began to exercise some sort of control on insurance business by passing the Life Insurance Companies Act and the Provident Fund Act in the year 1912.

ii. Thereafter, based on the changing requirements of the industry, a comprehensive legislation, The Insurance Act, 1938, was passed followed by subordinate legislation including Insurance Rules, 1939.

iii. This Act was further extensively amended in 1950 and thereafter in 1999 when the IRDAI Act, 1999 was introduced.

iv. Some other existing legislations in the field are – the Life Insurance Corporation (LIC) Act, 1956, the Marine Insurance Act, 1963, General Insurance Business (Nationalisation) Act, 1973, Motor Vehicles Act, 1988, the Redressal of Public Grievances Rules, 1998 framed by Central Government with regard to Insurance Ombudsman etc. Provisions of the Indian Contract Act, 1872 are applicable to the contracts of insurance and some of the provisions of the Companies Act, 2013 (previously Companies Act, 1956), are applicable to the companies carrying on insurance business.

   Some of these Acts are under the process of revision as well.

v. Insurance Regulatory and Development Authority of India (IRDAI) On 6th January 2000, the President of India gave his assent to the Insurance Regulatory and Development Authority of India Bill, which enabled opening up of the insurance sector to private players. The Insurance Regulatory and Development Authority of India (IRDAI*) Act, 1999 facilitates the establishment of Insurance Regulatory and Development Authority of India as an autonomous regulatory body for the Indian insurance industry.

Accordingly, on 19th April, 2000, Insurance Regulatory and Development Authority of India (IRDAI*), was created under the IRDAI* Act, 1999 to regulate, promote and ensure orderly growth of the insurance industry and to protect the interests of policyholders

Composition of IRDAI: The Authority consists of a

i. A Chairperson

ii. Five whole-time members and

iii. Four part-time members

1.6 Functions of IRDAI:

IRDAI has been set up mainly
• To protect the interests of holders of insurance policies;
• To regulate, promote and ensure orderly growth of the insurance business and reinsurance business.

IRDAI issues certificate of registration to insurance companies and licenses to all intermediaries who are engaged in insurance related activities. IRDAI makes regulations for the various institutions/ entities operating in the insurance industry and supervises compliance with these regulations through returns and inspection. IRDAI also facilitates resolution of complaints against insurance companies.

As a part of its developmental role, IRDAI emphasizes on empowering public through policyholders' education, which helps to increase the insurance reach for the benefit of common man. It has adopted multipronged approach for educating consumers and organizes Insurance Awareness campaigns directly and through industry promoting insurance education across the country

Indian insurance market:

After opening up of the insurance sector in 2000, a number of private players entered Indian insurance market increasing the competition among Insurers for the benefit of consumers.

i. By 2014, the insurance industry of India consisted of 52 insurance companies of which 24 are in Life insurance business and 28 are Non-life insurers.
ii. Among Life insurers, Life Insurance Corporation of India (LIC) is the sole public sector company.
iii. Out of 28 Non-life insurance companies, there are six public sector insurers of which two are specialized insurers namely, Export Credit Guarantee Corporation of India for export credit insurance and Agriculture Insurance Company of India Ltd. for crop insurance. Four private sector insurers are registered to exclusively underwrite policies in Health, Personal Accident and Travel insurance segments.
iv. In addition to these, there is a sole national re-insurer, namely, General Insurance Corporation (GIC) of India.

1.7Other Institutions in Indian Insurance Market:

In addition to the insurers, there are other institutions which are operating in the Indian insurance market.

a) Distribution channels and other intermediaries

- Intermediaries involved in distribution of insurance products are agents (individual, corporate and micro-insurance), brokers, web aggregators, Common Service Centres.
- Intermediaries like surveyors and loss assessors are involved in claim assessment of general insurance.
- Specialized intermediaries for health services called Third Party Administrators (TPAs) operate in Health insurance for issuance of policy cards, for organizing cash less treatment facility through network of hospitals, handling and settlement of claims.
- Insurance Repositories are intermediaries introduced recently to electronically maintain data of insurance policies for ease in storage, retrieval and servicing of insurance policies.

b) Insurance Ombudsman

In case a grievance of a policyholder is not redressed by the insurer, alternate grievance redressal mechanism is provided for in the insurance sector through the institution of Insurance Ombudsman set up under the Redressal of Public Grievance Rules, 1998.

Subject matter of complaints that can be taken up before Insurance Ombudsmen are partial or complete repudiation of claims and delay in settlement, non-issuance of policy, dispute relating to premium and interpretation of clauses in relation to claim. There is no provision for appeal against the order of Ombudsman under the Redressal of Public Grievances Rules.

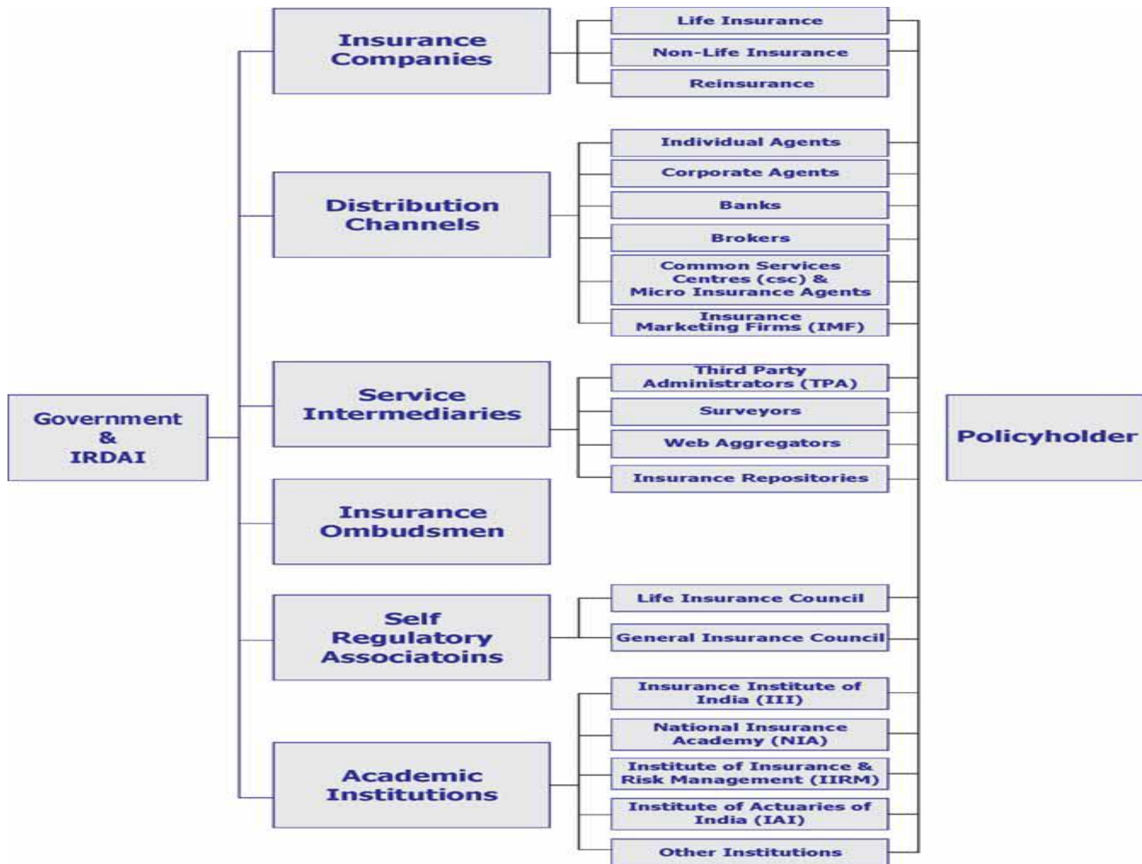
If not satisfied, the policyholder or claimant may ignore the award and go to the court, consumer forum etc., and if the customer consents, the insurer is has to implement the award unless it chooses to approach Court.

c) Self-Regulatory institutions

Self-regulation in insurance is through the Life insurance council and the General insurance council. These Councils include all registered life and general insurance companies as their members respectively and are statutory bodies constituted under the Insurance Act, 1938.

d) Training Institutions

As the various intermediaries in insurance sector have to fulfill specific requirements of eligibility like training and passing of examinations, training institutions form an important part of the Insurance Sector. Institutions like Insurance Institute of India, National Insurance Academy, Indian Institute of Insurance and Risk Management, Institute of Actuaries of India, Agent Training Institutes, etc. provide training, conduct examinations and provide professional.



1.8 self Assessment questions:

UNIT -2

LIFE & HEALTH INSURANCE

2.0 Objectives.

- **To understand about the life insurance.**
- **To gain knowledge about the life insurance.**

2.1 Structure.

2.2 What Is Life Insurance?

2.3 Features of Life Insurance.

2.4 Who Should Buy Life Insurance?

2.5 Benefits Life Insurance Works.

2.6 Types of Life Insurance Policies.

2.6.1. Term Life Insurance.

2.6.2. Unit Linked Plans (ULIPs).

2.6.3. Endowment Plans.

2.6.4. Money Back Life Insurance.

2.6.5. Whole Life Insurance.

2.6.6. Child Plan.

2.6.7 Retirement Plan.

2.7 Introduction of Health Insurance

2.8. Cover under Health Insurance

2.9. Features of Health Insurance

2.10 Types of Health Insurance Policies

2.11 Documents required for buying insurance plans in India

2.12 Sales promotion methods or techniques or trade promotion:

2.13 Service provide to customer in insurance industry

2.2 What is Life Insurance?

Life insurance is a contract between an insurer and a policyholder in which the insurer guarantees payment of a death benefit to named beneficiaries when the insured dies. The insurance company promises a death benefit in exchange for premiums paid by the policyholder.

2.3 Features of Life Insurance:

- Life insurance is a legally binding contract.
- For the contract to be enforceable, the life insurance application must accurately disclose the insured's past and current health conditions and high-risk activities.
- For a life insurance policy to remain in force, the policyholder must pay a single premium up front or pay regular premiums over time.
- When the insured dies, the policy's named beneficiaries will receive the policy's face value, or death benefit.
- Term life insurance policies expire after a certain number of years. Permanent life insurance policies remain active until the insured dies, stops paying premiums, or surrenders the policy.
- A life insurance policy is only as good as the financial strength of the company that issues it. State guaranty funds may pay claims if the issuer can't.

2.4 Who Should Buy Life Insurance?

Life insurance provides financial support to surviving dependents or other beneficiaries after the death of an insured. Here are some examples of people who may need life insurance:

- **Parents with minor children:**
  If a parent dies, the loss of their income or care giving skills could create a financial hardship. Life insurance can make sure the kids will have the financial resources they need until they can support themselves.

- **Parents with special-needs adult children:**
  For children who require lifelong care and will never be self-sufficient, life insurance can make sure their needs will be met after their parents pass away. The death benefit can be used to fund a special needs trust that a fiduciary will manage for the adult child's benefit.

- **Adults who own property together**
  Married or not, if the death of one adult would mean that the other could no longer afford loan payments, upkeep, and taxes on the property, life insurance may be a good idea. An example would be an engaged couple who took out a joint mortgage to buy their first house.

- **Elderly parents who want to leave money to adult children who provide their care:**
  Many adult children sacrifice by taking time off work to care for an elderly parent who needs help. This help may also include direct financial support. Life insurance can help reimburse the adult child's costs when the parent passes away.

- **Young adults whose parents incurred private student loan debt or cosigned a loan for them:**
  Young adults without dependents rarely need life insurance, but if a parent will be on the hook for a child's debt after their death, the child may want to carry enough life insurance to pay off that debt.

- **Young adults who want to lock in low rates:**
  The younger and healthier you are, the lower your insurance premiums. A 20-something adult might buy a policy even without having dependents if there is an expectation to have them in the future.

- **Wealthy families who expect to owe estate taxes:**
  Life insurance can provide funds to cover the taxes and keep the full value of the estate intact.

- **Families who can't afford burial and funeral expenses:**
  A small life insurance policy can provide funds to honor a loved one's passing.

- **Businesses with key employees:**
  If the death of a key employee, such as a CEO, would create a severe financial hardship for a firm, that firm may have an insurable interest that will allow it to purchase a life insurance policy on that employee.

- **Married pensioners:**
  Instead of choosing between a pension payout that offers a spousal benefit and one that doesn't, pensioners can choose to accept their full pension and use some of the money to buy life insurance to benefit their spouse. This strategy is called pension maximization.

2.5 Benefits Life Insurance Works:

A life insurance policy can has two main components - a death benefit and a premium. Term life insurance has these two components, but permanent or whole life insurance policies also have a cash value component.

1. **Death Benefit:**

   The death benefit or face value is the amount of money the insurance company guarantees to the beneficiaries identified in the policy when the insured dies. The insured might be a parent, and the beneficiaries might be their children, for example. The insured will choose the desired death benefit amount based on the beneficiaries' estimated future needs.

   The insurance company will determine whether there is an insurable interest and if the proposed insured qualifies for the coverage based on the company's underwriting requirements related to age, health, and any hazardous activities in which the proposed insured participates.

2. **Premium:**

   Premiums are the money the policy holder pays for insurance. The insurer must pay the death benefit when the insured dies if the policyholder pays the premiums as required, and premiums are determined in part by how likely it is that the insurer will have to pay the policy's death benefit based on the insured's life expectancy. Factors that influence life expectancy include the insured's age, gender, medical history, occupational hazards, and high-risk hobbies. Part of the premium also goes toward the insurance company's operating expenses. Premiums are higher on policies with larger death benefits, individuals who are higher risk, and permanent policies that accumulate cash value.

3. **Cash Value:**

   The cash value of permanent life insurance serves two purposes. It is a savings account that the policyholder can use during the life of the insured; the cash accumulates on a tax-deferred basis. Some policies may have restrictions on withdrawals depending on how the money is to be used. For example, the policyholder might take out a loan against the policy's cash value and have to pay interest on the loan principal. The policyholder can also use the cash value to pay premiums or purchase additional insurance. The cash value is a living benefit that remains with the insurance company when the insured dies. Any outstanding loans against the cash value will reduce the policy's death benefit.

   The policyholder and the insured are usually the same person, but sometimes they may be different. For example, a business might buy key person insurance on a crucial employee such as a CEO, or an insured might sell their own policy to a third party for cash in a life settlement.

2.6 Types of Life Insurance Policies:

Here's a brief guide to different types of life insurance policies. Know the various life insurance plans to select the right one at the right time.

Broadly speaking, life insurance can be further categorized as a pure risk coverage plan – purely insurance and the other, which is a combination of insurance and investment component. But, maybe you are not sure which plan to opt for. Or maybe you need to know the different types of life insurance policies available in the market to make a wise choice.

Different Types of Life Insurance Policies in India:-

1. Term Plan – pure risk cover
2. Unit linked insurance plan (ULIP) – Insurance + Investment opportunity
3. Endowment Plan – Insurance + Savings
4. Money Back – Periodic returns with insurance cover
5. Whole Life Insurance – Life coverage to the life assured for whole life
6. Child's Plan – For fulfilling your child's life goals like education, marriage, etc.
7. Retirement Plan - Plan your retirement and retire gracefully

Let's divided into know each plan in detail:

2.6.1. Term Life Insurance:

Term insurance is the simplest form of life insurance plan. Easy to understand and affordable to buy.

A term insurance provides death risk cover for a specified period. In case the life assured passes away during the policy period, the life insurance company pays the death benefit to the nominee. It is a pure risk cover plan that offers high coverage at low premiums.

There's an option to add riders to widen up the coverage.

The death benefit is payable as lump sum, monthly payouts, or a combination of both.

There's no payout if the life assured outlives the policy term. However, these days there are companies offering Term Plans with Return of Premiums (TROPS), where insurance companies payback all the paid premium amount in case the life assured outlives the term period. But, such plans are costlier than the vanilla term insurance plan.

Example:

An individual non-smoker male who is looking for a term life plan of Rs.1 crore cover, will cost him approximately Rs.6, 800 to Rs.10, 500 per year.

AGE	TERM	SUM ASSURED	ANNUAL PREMIUM RANGE
25 years	40 years	Rs.1 Crore	Rs.6,800 – Rs.10,500

Best known for: High sum assured (coverage) at a low premium.

Benefit of Term Plan: In case of an untimely death of the breadwinner, family is supported with an enormous amount of money – sum assured, which helps them to replace the loss of the income caused due to the breadwinner's death. Moreover, the money could be utilized to pay off loan, monthly household expenses, child's education, child's marriage, etc.

2.6.2. Linked Plans (ULIPs):

A unit linked plan is a comprehensive combination of insurance and investment. The premium paid towards ULIP is partly used as a risk cover (insurance) and partly is invested in funds. One can invest in different funds offered by the insurance company depending on his risk appetite. The insurance company then invests the accumulated amount in the capital market i.e. in bonds, equities, debts, market funds, or a hybrid funds...

Example:

TERM	SUM ASSURED	ANNUAL PREMIUM	FUND VALUE
20 years	Rs.2 lakh	Rs.20,000	Depending on the fund value at the time of maturity.

Best known for: Long-term investment option with much more flexibility to invest.

Benefit of ULIP: Invest money as per your risk appetite. You have the option to invest either in equity, debt or in hybrid funds through the life insurance company with complete transparency.

Related Article: Term Plan Vs ULIP: What makes more sense

2.6.3. Endowment Plans:

Endowment plan is another type of life insurance plan, which is a combination of insurance and saving.

A certain amount is kept for life cover – insurance, while the rest is invested by the life insurance company. In an endowment plan, if the life assured outlives the policy term, the insurance company offers him the maturity benefit. Moreover, Endowment Plans may offer bonuses periodically, which are paid either on maturity or to the nominee under death claim. On death, the death benefit is payable to the nominee.

Endowment plans are also commonly known as traditional life insurance, although, there is an investment component but the risk is lower than the other investment products and so are the returns.

Example:

TERM	SUM ASSURED	ANNUAL PREMIUM RANGE	BONUS
30 years	Rs.10 lakh	Rs.20,000 – Rs.25,000	Depending on the Bonus at the time of maturity.

Best known for: Long-term saving option for people with much lower risk appetite for investment.

Benefit of Endowment Plan: Long-term financial planning and an opportunity to earn returns on maturity.

2.6.4. Money Back Life Insurance:

Money back plan is a unique type of life insurance policy, wherein a percentage of the sum assured is paid back to the insured on periodic intervals as survival benefit.

Money back plans are also eligible to receive the bonuses declared by the company from time to time. This way, policyholder can meet short-term financial goals.

Example:

TERM	SUM ASSURED	ANNUAL PREMIUM RANGE	PERIODIC RETURNS	MATURITY BENEFIT
20 years	Rs.5 lakh	Rs.20,000 – Rs.25,000	A percentage of Sum Assured paid on regular intervals	Accrued bonuses/Guaranteed Money Back + Coverage

Best known for: Short-term investment product to meet short-term financial goals.

Benefit of Money Back Plan: Short-term financial planning and an opportunity to earn returns on maturity.

2.6.5. Whole Life Insurance:

A whole life insurance policy covers the life assured for whole life, or in some cases, up to the age of 100 years. Unlike, term plans, which are for a specified term.

The sum assured or the coverage is decided at the time of policy purchase and is paid to the nominee at the time of death claim of the life assured along with bonuses if any.

However, if the life assured outlives the age of 100 years, the insurance company pays the matured endowment coverage to the life insured.

The premiums are higher as compared to term plans. Whole life insurance plans also offer partial withdrawals after completion of premium payment term.

PREMIUM PAYING TERM	SUM ASSURED (WITH GUARANTEED MATURITY SUM ASSURED)	ANNUAL PREMIUM RANGE	MATURITY BENEFIT
20 years	Rs.3 lakh	Rs.10,000-Rs.15,000	Guaranteed Sum Assured + non-guaranteed bonus (if any) + non-guaranteed terminal bonus (if any)

Best known for: Life coverage for whole life.

Benefit of Whole Life Plan: Lifelong protection to the insured and an opportunity to leave behind a legacy for heirs.

2.6.6. Child Plan:

Child plan helps to build corpus for child's future growth. Child plans help to build funds for child's education and marriage. Most of the Child Plan provides annual installments or one time payout after the age of 18 years.

In case of an unfortunate event, the insured parent passes away during the policy term - immediate payment is payable by the insurance company. Some child plans waive off the future premiums on death of the life insured and the policy continues till maturity.

TERM	SUM ASSURED	ANNUAL PREMIUM RANGE	PERIODIC RETURNS	MATURITY BENEFIT
20 years	Rs.18 lakh	Rs.1 lakh	Lump sum payouts on regular interval	Maturity benefit + guaranteed returns + non-guaranteed accumulated bonus (if any)

Best known for: Building funds for your child's future.

Benefit of Child Plan: Helps in fulfilling your child's dream.

2.6.7 Retirement Plan:

Retirement plan helps to build corpus for your retirement. Helping you to live independently financially and without worries. Most of the child plans provide annual installments or one time payout after the age of 60 years.

In case of an unfortunate event, life assured passes away during the policy term - immediate payment is payable to the nominee by the insurance company. Death benefit will be higher of coverage or fund value or 105% of premiums paid. Vesting Benefit will be payable if the life assured survives the maturity age. In which case, payout will be fund value which has to be utilized for buying an annuity. Best known for: Long-term savings and retirement planning.

2.7 Introduction of Health Insurance:

Health Insurance is an insurance against the risk of covering medical expenses among individuals. With Medical costs on the rise and increased awareness about health related issues, a large number of people opt for health insurance covers. Health insurance has become one of the most important insurance policies that people opt for. A health insurance cover helps in reducing the burden of medical bills and expenditure.

The concept of Health Insurance was proposed in the year 1694 by Hugh, the elder Chamberlen, from Peter Chamberlen family. In 19th Century "Accident Assurance" began to be available which operated much like modern disability insurance. This payment model continued until the start of 20th century.

During the middle to late 20th century traditional disability insurance evolved into modern health insurance programmes. Today, most comprehensive health insurance programmes cover the cost of routine, preventive and emergency health care procedures and also most prescription drugs.19

Liberalization of India in 1991 was a major milestone in the Health Insurance sector followed by the passing of The Insurance Regulatory and Development Authority (IRDA) legislation in 1999. This opened the sector to private insurance companies. In 1986 the Medi-claim policy was introduced by the Government owned Insurance Companies. Medi-claim was introduced to cover hospitalization claims.

Health Insurance is governed by IRDA regulations and is covered under Insurance Act 1938 and the IRDA Act 1999. These Regulations are called Insurance Regulatory and Development Authority (Health Insurance) Regulations, 2013.

IRDA regulations define Health Insurance Business as: “Health insurance business” or “health cover” means the effecting of insurance contracts which provide for sickness benefits or medical, surgical or hospital expense benefits, including assured benefits and long- term care, travel insurance and personal accident cover.

Thus the term ‘Health Insurance’ relates to a type of insurance that essentially covers one’s medical expenses.

Accordingly a health insurance policy is a contract between insurers and an individual/group in which the insurer agrees to provide specified health insurance cover for a particular “premium” subject to terms and conditions specified in the policy.

In case of medical emergencies or medical illnesses (as covered and specified by the policy) the insurer agrees to pay for the expenses incurred (as per the specified amount) thereon. Health insurance is important in times of hospitalization as one gets cover from the Insurer and saves the insured from excess expenditure. For a consideration known as premium, which the assured needs to pay the insurer, the insurer agrees to cover certain medical expenses as specified in the policy.

2.8. Cover Under Health Insurance:

A Health Insurance Policy would normally cover expenses reasonably and necessarily incurred under the following heads in respect of each insured person subject to overall ceiling of sum insured (for all claims during one policy period).

Thus, all expenses incurred as part of treatment or hospitalization will be covered if:

-It is within the policy period

-Expenses covered are limited to the amount insured in a health insurance policy the following may be covered:

-Room, boarding expenses

- Nursing expenses

-Fees of surgeon, anesthetist, physician, consultants, specialists

Anesthesia, blood, oxygen, operation theatre charges, surgical appliances, medicines, drugs, diagnostic materials, X-ray, Dialysis, chemotherapy, Radio therapy, cost ofpace maker, Artificial limbs, cost of organs and other similar expenses.

Health policies may also contain a provision for reimbursement of cost of health check up.

Sum Insured

The sum assured is decided by the kind of policy the insured is buying. The Sum Insured offered may be on an individual basis or on floater basis for the family as a whole.

2.9.Features of Health Insurance:

Health insurance policies generally contain certain with respect to coverage and claims, these are listed below briefly:

a. Minimum period of stay in Hospital:-

In order to become eligible to make a claim under the policy, minimum stay in the Hospital is necessary for a certain number of hours. Usually the stipulated duration is 24 hours. This time limit may not apply for treatment of accidental injuries and for certain specified treatments.

b. Pre and post hospitalization expenses:-

Expenses incurred during a certain number of days prior to hospitalization and post-hospitalization expenses for a specified period from the date of discharge may be considered as part of the claim provided the expenses relate to the disease / sickness.

c. Cashless Facility:-

Insurance companies have tie-up arrangements with a network of hospitals in the country. If the policyholder takes treatment in any of the network hospitals, there is no need for the insured person to pay hospital bills. The Insurance Company, through its Third Party Administrator (TPA) will arrange for direct payment to the Hospital. This is known as cashless facility.

IRDA regulations define “Cashless Facility” as a facility extended by the insurer tothe insured where the payments, of the costs of treatment undergone by the insured in accordance with the policy terms and conditions, are directly made to the network provider by the insurer to the extent pre-authorization approved.

d. Cumulative Bonus (CB):-

Health Insurance policies may offer “Cumulative Bonus” wherein for every claim free year (i.e. a year in which no claim is made); the Sum Insured is increased by a certain percentage at the time of renewal subject to a maximum percentage (generally 50%).

This means that if in a particular year the insured makes no claims then he/she gets an advantage wherein the company offering the insurance increases the “Insured Amount” or amount agreed to be paid against a claim by a certain percentage.

In case of a claim, Cumulative bonus will be reduced by 10% at the next renewal.

e. Additional Benefits and other stand alone policies:-

Insurance companies offer various other benefits as “Add-ons” or riders. There are also stand alone policies that are designed to give benefits like “Hospital Cash”, “Critical Illness Benefits”, “Surgical Expense Benefits” etc. These policies can either be taken separately or in addition to the hospitalization policy.

A few companies have come out with products in the nature of Top Up policies to meet the actual expenses over and above the limit available in the basic health policy.

f. Exclusions:-

The following are generally excluded under health policies:

i. All pre-existing diseases (the pre-existing disease exclusion is uniformly defined by all nonlife and health insurance companies).

ii. Under first year policy, any claim during the first 30 days from date of cover, for sickness / disease. This is not applicable for accidental injury claims.

iii. During first year of cover – cataract, Benign prostatic hypertrophy, Hysterectomy for Menorrhagia or Fibromyoma, Hernia, Hydrocele, Congenital Internal diseases, Fistula in anus, piles, sinusitis and related Disorders.

iv. Circumcision unless for treatment of a disease

v. Cost of specs, contact lenses, hearing aids

vi. Dental treatment / surgery unless requiring hospitalization Convalescence, general debility, congenital external defects, V.D., intentional self-injury, use of intoxicating drugs / alcohol, AIDS, Expenses for Diagnosis, X-ray or lab tests not consistent with the disease requiring hospitalization.

vii. Treatment relating to pregnancy or child birth including cesarean section

viii. Naturopathy treatment (any other treatments which propose the healing Through nature.) The actual exclusions may vary from product to product and company to company. In group policies, it may be possible to waive / delete the exclusions on payment of extra premium.

g. No short period policies:-

Health insurance policies are not issued for less than one year period.

2.10Types of Health Insurance Policies:

The commonest form of health insurance policies in India cover the expenses incurred on Hospitalization, though a variety of products are now available which offer a range of health covers, depending on the need and choice of the insured. The health insurer usually provides either direct payment to hospital (cashless facility) or reimburses the expenses associated with illnesses and injuries or disburses a fixed benefit on occurrence of an illness. The type and amount of health care costs that will be covered by the health plan are specified in advance.

Health insurance policies are available from a sum insured of Rs 5,000 in micro-insurance policies to even a sum insured of Rs 50 Lakhs or more in certain critical illness plans. Most

insurers offer policies between 1 lakh to 5 lakh sum insured. As the room rents and other expenses payable by insurers are increasingly being linked to the sum insured opted for, it is advisable to take adequate cover from an early age, particularly because it may not be easy to increase the sum insured after a claim occurs. Also, while most non-life insurance companies offer health insurance policies for a duration of one year, there are policies that are issued for two, three, four and five years duration also.

Life insurance companies have plans which could extend even longer in the duration.

A Hospitalization policy covers, fully or partly, the actual cost of the treatment for hospital admissions during the policy period. A Critical Illness benefit policy provides a fixed lump sum amount to the insured in case of diagnosis of a specified illness or on undergoing a specified procedure.

There are also other types of products, which cater to the needs of specified target audience like senior citizens.

Thus there are many types of policies issued by the Insurance Companies. The variation is based on the coverage i.e. What all the policy will insure the insured for, age group and number of people insured.

Some of the main policy types are listed below:

2.10.1 Personal Accident Policy:

This policy is basically designed to offer compensation to the insured person who suffers bodily injury solely as a result of an accident which is external, violent and visible. Hence death or injury due to any illness or disease is not covered by the policy.

This policy offers compensation in case of death or bodily injury to the insured person, directly and solely as a result of an accident, by external, visible and violent means. The policy operates worldwide and is a 24 hours cover.

Different coverage's are available ranging from a restricted cover of Death only; to a comprehensive cover covering death, permanent disablements and temporary total disablements.

Family Package cover is available to Individuals under Personal Accident Policy whereby the proposer, spouse and dependent children can be covered under a single policy with a 10% discount in premium.

Group personal accident policies are also available for specified groups with a discount in premium depending upon the size of the group.

There are many other variations of this policy; for example the New India Assurance Company Limited offers the following:

- Individual Personal Accident policy.
- Group Personal Accident policy.

- Passenger Flight Coupon - Covering personal accident risk whilst traveling as a passenger on a scheduled flight.
- Gramin Personal Accident Policy - for persons residing in rural areas where benefits are covered for a capital sum insured of Rs. 10,000/-.
- Janata Personal Accident policy - where benefits are covered for a maximum sum insured of Rs.1,00,000/-. Long Term Policies can also be issued up to 5yrs.
- Student Safety Insurance - for schools and colleges, covering students against Personal Accident benefits for a capital sum insured of Rs. 10,000/-
- Raj Rajeshwari Mahila Kalyan Yojna - for women in the age group of 10 to 75 years. Where benefits are covered for a capital sum insured for Rs. 25,000/-. In case of death of an unmarried woman due to an accident, Rs. 25,000/- is payable to the nominee or legal heir. In case of a married woman, if the husband dies due to an accident, Rs. 25,000/- is payable to the wife but if the wife or insured dies no compensation is payable.
- Bhagyashree Child Welfare Policy - for girl child in the age group of 0 to 18 years. Whose parent's age does not exceed 60 yrs. In case of death of either or both parents due to an accident, a sum of Rs. 25,000/- is deposited in the name of the girl child with a financial institution named in the policy which will disburse amounts as specified for the benefit of the girl child to the living parent or to the nominated guardian. Group policies can also be issued.

2.10.2Mediclaim Policy

This Policy is designed to give the insured, protection against unforeseen Hospitalization expenses. This insurance is available to persons between the age of 18 years and 65 years. Children between the age of 3 months and 25 years can be covered provided they are financially dependent on the parents and one or both parents are covered simultaneously. The upper age limit will not apply to a mentally challenged child and an unmarried daughter.

This Policy does NOT cover ALL cases of Hospitalization. Any Hospitalization expense relating to a Pre Existing Disease is not payable. Similarly, a Hospitalization expense for pregnancy is not covered under the Policy. There are other such instances, where the claim is not payable. These exclusions and other details are listed in the policy document.

For Mediclaim Policies, each Insured Person has a separate Sum Insured. The insurer will pay Hospitalization expenses up to a limit, known as Sum Insured. In cases where the Insured Person is hospitalized more than once, the total of all amounts paid

- for all cases of Hospitalization,
- expenses paid for medical expenses prior to Hospitalization,
- expenses paid for medical expenses after discharge from hospital, and
- Any other payment made under the Policy shall not exceed the Sum Insured.

2.10.3Floater Health Insurance Policy:

Family Floater is one single policy that takes care of the hospitalization expenses of the entire family. The policy has one single sum insured, which can be utilized by any/all insured persons in any proportion or amount subject to maximum of overall limit of the policy sum insured. Quite often Family floater plans are better than buying separate individual policies. A family Floater plan takes care of all the medical expenses during sudden illness, surgeries and accidents. This insurance is available to persons between the ages of 18 years to 60 years.

FLOATER BENEFIT means the Sum Insured as specified for the proposer under the policy, is available for any or all the members of his /her family for one or more claims during the tenure of the policy.

The Family Floater Mediclaim Policy can be issued to the persons up to 60 years of age covering the following family members:

- Self
- Spouse
- Dependent children - Maximum two

Parents/Parents-in law/ brothers and sisters are not covered under Family Floater Policy even if they are residing with the proposer.

The other features of Floater Health Insurance Policy are:

- Sum Insured: Minimum Sum Insured is Rs. 2 lakhs and Maximum Sum Insured is Rs 5 lakhs.
- Premium: Premium is as per Individual Mediclaim Policy (2007). The basic premium will be as per highest age of the family member. For example, a family consists of self, spouse and two children purchases health insurance of Rs 1.00 lakh.

Under the floater policy, any family member can avail the medical claim of Rs 1.00 lakh. The premium will be applicable to the highest aged member of the family.

2.10.4 Critical Illness Insurance Policy:

Critical illness insurance or critical illness cover is an insurance product, where the insurer is contracted to typically make a lump sum cash payment if the policyholder is diagnosed with one of the critical illnesses listed in the insurance policy. Critical Illness insurance covers hospitalization expenses and also gives a lump sum compensation that can help one meet day to day expenses.

The policy may also be structured to pay out regular income and the payment may also be on the policyholder undergoing a surgical procedure, for example, having a heart bypass operation.

The contract terms contain specific rules that define when a diagnosis of a critical illness is considered valid. It may state that the diagnosis need be made by a physician who specializes in that illness or condition, or it may name specific tests, e.g. EKG changes of a myocardial infarction, that confirm the diagnosis.

2.10.5Group Health Insurance Policy:

The Group Health Insurance Policy is available to any Group / Association /Institution / Corporate body of more provided it has a central administration point and subject to a minimum number of persons to be covered. The group policy is issued in the name of the Group / Association / Institution / Corporate Body (called insured) with a schedule of names of the members including his/her eligible family members (called insured persons) forming part of the policy. The insured person is required to furnish a complete list of Insured Persons in the prescribed format according to sum insured along with his/her details. Any additions and deletions during the currency of the policy should be intimated to the company in the same format.

However, such additions and deletions will be incorporated in the policy from the first day of the following month subject to pro-rata premium adjustment. No change of sum insured for any insured person will be permitted during the currency of the policy. No refund of premium is allowed for deletion of insured person if he or she has recovered a claim under the policy.

2.10.6Overseas Medical Policy:

Medical expenses incurred by the insured persons, outside India as a direct result of bodily injuries caused or sickness or disease contracted are covered by this policy. Policy is to be taken prior to departure from India. Premium payable in Rupees and Claims settled abroad in foreign Currency. Policy is available for frequent corporate travellers.

This policy was originally introduced in 1984 to provide for payment of medical expenses in respect of illness suffered or accident sustained by Indian residents during their overseas trips for official or holiday purpose.

The insurance scheme, since 1984 has been modified from time to time to provide for additional benefits such as in flight personal accident, loss of passport etc. In 1991, Employment and Study Policy was introduced. This policy is meant for Indian citizens temporarily working or studying abroad.

Eligibility: Indian Residents undertaking bona fide trips abroad for:

- Business and official purposes.
- Holiday purpose
- Accompanying spouse and children of the person who is going abroad will be treated as going under holiday travel.
- Foreign Nationals working in India for Indian employers of Multi-National

Organization getting their salary in Indian Rupees, covering their official visits abroad provided they are undertaken on behalf of their employers.

- Age Limit:
- For adults up to 70 years
- Cover beyond 70 years is permissible at extra premium.
- Children between the ages of 6 months to 5 years are covered by excluding certain specific children diseases.

These policies may also give ADDITIONAL Add-on benefits like:-

- Personal Accident in the foreign country
- Loss of checked in Baggage

- Delay of checked in Baggage
- Loss of passport
- Personal Liability arising out of any accident.
- Premium depends on the Age-band, Trip-band and Country of visits. Initially cover up to 180 days is provided under Business & Holiday Plan .Extension is allowed on original policy for further period of 180 days subject to declaration of good health.

2.10.7 Senior Citizen Mediclaim Policy

This insurance policy is for senior citizens. Any senior citizen resident in India and aged between 60 and 80 can buy this policy. If renewed without a break, the cover can be continued up to age 90. The Proposers must undergo a prescribed pre-acceptance health check at their own cost to identify pre- existing diseases. The health check may be waived if the proposer is already having Mediclaim insurance in continuity with the insurance company.

This policy covers:

- Hospitalization expenses incurred for the treatment of illness/injury.
- Pre- and post-hospitalization expenses up to 30 and 60 days respectively.
- Ambulance Charges.
- Limited cover for hospitalizations in government and /or registered Ayurvedic /Homeopathic and Unani hospitals.
- Pre-existing diseases are covered only after 18 months of continuous insurance with the insurance Company. Pre-existing conditions like Hypertension, Diabetes mellitus and its complications are covered after 18 months of continuous insurance but only on payment of additional premium.

There are many new products and policies introduced by various insurance companies which offer additional “benefits”. These types of products, offer lump sum payments like on undergoing a specified surgery (Surgical Cash Benefit), or the Hospital Cash Supplementary policy which gives a lump sum or a daily allowance which can be used for medical and non-medical expenses you incur during hospitalization

2.11 Documents required for buying insurance plans in India:

Buying insurance plans has become quite simple due to the availability of the online platform which allows you to buy a policy from your home or office. Whenever you buy insurance whether online or through insurance agents, you are required to submit a set of documents to the insurance company. An insurance policy is a legal contract and thus, to establish the legality of the contract, insurance documents are needed. After the insurance company verifies the submitted documents, the insurance policy is issued. Moreover, at the time of an insurance claim, a specific set of documents would have to be submitted for claim settlement.

Since documents are important for buying insurance and also for making a claim, let’s have a look at the types of documents needed for insurance. These documents are required to buy different types of insurance plans. So, let’s analyse the documents required to buy different types of insurance plans separately-

a. Life insurance

To buy a life insurance policy, the following documents would be required-

i. Life insurance proposal form, duly filled and signed by the proposer and/or the life insured

ii. Photograph of the proposer
iii. Photograph of the life insured (if different from the proposer)
iv. Age proof of the proposer and/or the life insured
v. Identity proof of the proposer and/or the life insured
vi. Address proof of the proposer
vii. Medical examination report of the life insured if required by the policy because of the age and/or the sum assured chosen
viii. Income proof of the proposer if the sum assured and/or the premium of the policy is high
ix. PAN card of the proposer

b. Health insurance

For a health insurance plan, the following set of documents would be needed to be submitted –

i. Health insurance proposal form, duly filled and signed by the proposer
ii. Identity proof of the proposer and the insured members
iii. Age proof of the insured members
iv. Address proof of the proposer and insured members
v. Medical examination report if pre-entrance medical check-ups are specified by the insurance company due to the age and/or the sum insured chosen
vi. Income proof of the proposer for very high sum insured levels

c. Motor insurance

To buy a car or a bike insurance plan, the following insurance documents would be required –

i. Proposal form for car or bike insurance, duly filled and signed by the vehicle owner
ii. Invoice of the vehicle if a new insurance policy is being bought
iii. RC book of the vehicle
iv. Identity proof of the proposer
v. Address proof of the proposer

In case of a claim in your insurance policy, the requirement of insurance documents would depend on the type of insurance policy that you have bought and the type of claim suffered. So, here is a look into the claim-related documents which would be needed in different types of insurance claims:

d. Life insurance claims

Life insurance claims can be maturity claims, money back claims or death claims. The documents needed for maturity and money-back claims are the same while for death claims, the documents are different. Let’s understand how –

i. **Documents needed for maturity or survival claims**

1. Discharge voucher sent by the insurance company, duly filled and signed by the policyholder
2. Life insurance policy bond

3. Identity proof of the policyholder, legal heirs or assignee as the case may be
4. Bank account details of the policyholder, legal heirs or assignee as the case may be
5. Age proof of the insured member if it was not submitted at the time of buying the policy

ii. Documents needed for death claims

1. The death claim form, duly filled and signed by the nominee
2. Life insurance policy bond
3. Death certificate of the life insured
4. Identity proof of the nominee, legal heirs or assignee as the case may be
5. Bank account details of the nominee, legal heirs or assignee as the case may be
6. Police FIR if death happened due to an accident
7. Post-mortem report, coroner's report, police inquest report, panchnama and other relevant records if death happened in an accident
8. Any other document as needed by the insurance company to settle the claim

e. Health insurance claims

In the case of health insurance claims, the documents required for insurance claim are as follows –

Pre-authorization claim form for cashless hospitalisation. This form should be filled and submitted within 24 hours of emergency hospitalisation. In case of planned hospitalisation, the form should be submitted at least 3-4 days before hospitalisation

i. Health card issued by the insurance company
ii. Identity proof of the insured member
iii. The claim form, duly filled and signed by the policyholder
iv. Discharge summary or certificate of the patient
v. All medical bills and reports in original
vi. Hospital records and investigative reports
vii. Medical prescriptions and cash invoice in original
viii. Police FIR or a Medico-Legal Certificate in case of accidental hospitalisation
ix. Doctor's prescription advising hospitalisation
x. Reports of all attending medical practitioners
xi. Bank details of the policyholder in case of reimbursement claims
xii. Any other document as needed by the insurance company depending on the claim

f. Motor insurance claims

In case of a car or bike insurance claim, the documents required for insurance claim are as follows –

i. The claim form, duly filled and signed by the policyholder
ii. Identity proof of the policyholder
iii. Driving license of the driver using the vehicle at the time of the accident
iv. Copy of the policy bond
v. RC book of the insured vehicle
vi. Tax receipt of the vehicle
vii. Police FIR in case of third party claims or theft of the vehicle
viii. Non-traceable certificate issued by the police authority in case of theft of the vehicle
ix. Invoice of the vehicle in case of theft or total loss or if required by the insurance company
x. Surveyor's report
xi. Bills of repair works issued by the garage and the payment receipts
xii. Bank details of the policyholder in case of reimbursement claims
xiii. Any other document as needed by the insurance company for processing and settling the claim

These documents are necessary to buy an insurance policy or make a claim in it. You should, therefore, keep the documents handy in both these instances so that you can buy an insurance policy easily and also get the settlement of your insurance claims without any hassles.

2.12sales promotion methods or techniques or trade promotion:

Sales promotion is needed to attract new customers, to hold present customers, to counteract competition, and to take advantage of opportunities that are revealed by market research. Methods used in sales promotion include coupons, samples, premiums, point-of-purchase (POP) displays, contests, rebates, and sweepstakes.

1.Free Sampling – Consumer gets one sample free, after their trial and then could decide whether to buy or not, this helps in boosting sales.

2.Offer of Price discounts/price deals – A temporary or seasonal reduction in the price, such as flat 50% off, is a good technique of attracting customers.

3. Money back and Rebates – Consumers are offered money back if the receipt and barcode are mailed to the producer.

4. Loyal customers Reward Points – Consumers collect points, miles, or credits for purchases, and redeem them for rewards, gifts or money.

5. Price-pack/Bonus packs offers – The packaging offers a consumer a certain percentage more of the product for the same price for instance, '25 percent extra', '10% extra', is seen mostly on goods. In yet another type of deal a customer is offered two products for the price of one.

In this scenario, bonus pack is disguised as a gain because buyers believe that they are obtaining a free product, though bonus pack is often wasted and is viewed as a "loss" for the consumer as the customer may not want the free product that came along with the purchase.

6. Gift Coupons or cash back coupons – coupons have become a standard mechanism for sales promotions. Many times the discount coupon issued can be redeemed on the next purchase only.

7. Mobile couponing – Coupons are available on a mobile phone. Consumers show the offer on a mobile phone to a salesperson for redemption.

8. Loss leader policy – the price of a popular product is temporarily reduced below cost in order to stimulate other profitable sales.

9. Free-standing insert (FSI) – A coupon booklet is inserted into the local newspaper for delivery, though it may not give the real benefit as mostly customers do not carefully see the pamphlets or stickers in the newspaper.

10. Attaching a small sample in the leading newspapers – especially on weekends or holidays, many companies stick their free samples such as a shampoo pouch as a sales promotion gimmick. In fact this gets noticed and the consumer feels happy on receiving a small gift like this.

2.13 Service provide to customer in insurance industry:

One of the keys to staying active and profitable in the insurance industry is investing in the customer experience. Providing your customers with a comprehensive, personalized experience will help them to boost their familiarity with their insurance policies and reduce the frequency of claims, and satisfied customers are more likely to continue to make use of your business, even as coverage needs change.

But what are today's clients looking for from their insurance agents? Here are several different techniques that help better reach and serve customers.

1. Simplify the Experience:

Create a website that could better understand and serve customers. When customers are not able to easily find what they are looking for on a website, they are likely to seek help elsewhere. Simplify things to provide a customer-first efficient experience. Your service should allow for personalized experiences to drive business and satisfy customers. How you care and empathizes with customers can make all the difference. Consider your target audience and use technology to make their lives and their families' lives easier.

2. Connect with Your Clients:

No one likes filling out repetitive insurance forms. Make it easy and even enjoyable to get insurance coverage by designing a communication platform for customers. You may consider implementing a chat on your site that asks conversational questions. Understanding what is important to customers and what their plans are for the future, can build lasting relationships.

Customer experience isn't just about a single interaction with the brand. Create a cohesive experience so that customers are pleased no matter how they connect with the company. Customer service is a team effort, and every point of contact should be equipped with the tools to help customers. A cohesive experience means that no matter how the customer is in contact with your company, they are always provided with the same, high-quality experience.

3. Be Available:

It is becoming increasingly important to customers to get their questions asked from the comfort of their own home. Insurers should be available and accommodating to that.

Offering a text communication line can be beneficial. Certain programs can even answer general insurance questions, as well as specific questions about a customer's account and help customers with everything from knowing when their next payment is due to checking balances and fetching documents. Customers want to be able to access their information 24/7 from anywhere in the world. After all, claims don't always strike when it's convenient!

4.Provide the Right Tools:

Customers want to keep their insurance premiums as low as possible while still having the protection they need. Create programs that track customers' patterns and use that information to develop incentives for lower premiums. Show your dedication by giving your customers the tools for self-efficiency.

Surveys can reveal a lot, and listening to what your customers want can make a tremendous difference. Instead of just creating something you think may work for an issue, practice active listening to find an even better solution.

5.Allow Customization:

Not every customer needs insurance all the time. Offer policies that allow customers to only pay for insurance as they need it. It's a popular solution for many individuals. If a service can always be easily updated, that show that specialization and finding unique solutions for certain groups of customers is a priority.

UNIT -3

GENERAL INSURANCE

3.0 Objectives:

- **To gain knowledge about the general insurance.**
- **To gain knowledge about structure of general insurance**

3.1 Lesson Structure:

3.2 Introduction of General Insurance.

3.3 The Types of Insurance.

3.4 General Insurance.

3.5 Importance of General Insurance.

3.6 types of General Insurance.

3.7 Evolution and History of General Insurance in India.

3.8 Present Structure of General Insurance in India.

3.8.1 Liberalization of Insurance Sector in India.
3.8.2 Structure of General Insurance.

3.9 The Principles of General Insurance.
3.9.1 Nature of Contract.
3.9.2 Principle of Utmost Good Faith.
3.9.3 Principle of Insurable Interest
3.9.4 Principles of Indemnity
3.9.5 Principle of Subrogation
3.9.6 Principle of Contribution
3.9.7 Principle of Causa Proxima (Proximity Clause)

3.2 Introduction of General Insurance:

Insurance is a mechanism by which the person exposed to the potential risk, arising out of the events beyond his control, transfers the financial loss; in part or in full to a third party.

The party which transfers the potential loss is termed as the ‘Insured’ and the party which indemnifies or undertakes to compensate the other party of such potential loss is termed as ‘Insurer’.

The Insurer provides the coverage for the potential financial loss for a fee or a consideration which is called the 'Premium'.

Thus Insurance is a special type of contract between the Insurer (the Insurance Company) and the Insured (the client) wherein:

a) The client agrees to pay a premium to the Insurance Company. Such premium may be a fixed amount payable as a single payment or it may be paid as periodical payments. This will depend upon the type of Insurance and the terms thereof.

b) In lieu of the payment of such premium the Insurance Company agrees to make some payment to the client or bear the costs of the client due to financial loss incurred on the occurrence of certain events.

For example, in vehicle insurance, the Insurance Company pays the cost of repairing the vehicle if it is damaged in an accident.

3.3 The Types of Insurance:

Insurance in India is mainly of two types viz. Life Insurance and Non Life Insurance which is termed as General Insurance. These are described as follows:

a) Life Insurance

Under Life Insurance the Insured pays the premium at specified times and in turn the Insurance Company undertakes to pay the specified fixed amount to the legal heirs in the event of death of the Insured. Thus life insurance is a mechanism whereby the

b) General Insurance

Insurance other than Life Insurance falls under the category of General Insurance. The different types of General Insurance are fire, marine, Motor Vehicle, accident and other types of non life insurance.

3.4 General Insurance:

As explained in the preceding para Insurance Contracts that do not come under the ambit of Life Insurance are called General Insurance or Non Life Insurance Contracts.

General Insurance comprises of:

a) Insurance of property against fire, theft etc.
b) Personal Insurance such as Accident & Health Insurance.
c) Liability Insurance which covers legal liability arising out of third party claims such as claim from a person injured in a motor accident etc.
d) Other types of Insurances such as Credit Insurance, Crop Insurance, etc.

Thus General Insurance provides indemnity against loss arising from damage to property or assets, expenditure or loss of earning arising from injury to a person, legal liabilities etc.

3.5 Importance of General Insurance:

General Insurance is the best practical option for every person who would like to cover himself from loss arising out of risks. Risk is associated with everything that we do or are involved in. Immovable Properties that we own are prone to fire and damage / destruction due to natural calamities such as Earthquakes, Floods etc.

Movable properties including personal effects such as jewelry are prone to theft and burglary. Vehicles are also prone to accidents. Similarly human beings are prone to injuries resulting from accidents and illnesses.

All the incidents enumerated above would result into financial losses.

Then there could be Third Party Claims on you. For instance, you are driving a car and unfortunately you meet with an accident in which a pedestrian is injured. Such person will have a Claim on you.

Also there could be claims on you while you are performing your professional duties. A Doctor may be subject to a claim for negligence in treating a patient.

General Insurance, wherever applicable, would provide cover against such losses. The modern day General Insurance covers practically all losses arising out of risks. The primary risk that is not covered by General Insurance is death of a person which is covered by Life Insurance.

Needless to say, when the losses due to risks are covered a person would lead a peaceful life. The Security provided by General Insurance would improve the quality of life of a person.

Apart from the peace of mind General Insurance also covers Business Losses and Personal Losses in case the unfortunate incident happens resulting in the loss. This would help the person who has suffered loss to run his business smoothly.

Illustration

Let us take an example where a fire occurs in a factory. As a result of the fire certain stocks are damaged and are unusable. In case fire insurance has been taken for such stocks, the Insurance Company would pay, to the entity which suffered the loss, an amount equivalent to the loss or the amount of insurance whichever is less.

Thus such entity would be fully or partly compensated for the loss incurred by it. Even though the fire may result into disruptions this would help it in running its operations smoothly even after some time.

Thus from the above it is amply clear that General Insurance plays an extremely important role in our lives.

3.6 types of General Insurance:

As stated earlier General Insurance currently covers most of the risks that we are subjected to.

However, the major type of General Insurances are as under:

3.6.1 Fire Insurance

Fire insurance is a contract under which the insurer in return for a consideration (premium) agrees to indemnify the insured/assured for the financial loss which the Insured may suffer due to destruction of or damage to property or goods, caused by fire, during a specified period.

Thus the basic ingredients of Fire Insurance are as follows:

i. The financial loss should be on account fire resulting in damage or destruction of property or goods.

ii. The maximum amount which the Insured can claim as compensation in the event of loss is agreed to between the parties at the time of entering into the contract. It should be understood here that the event that results into financial loss would be fire and not accident.

3.6.2 Marine Insurance

Marine Insurance is an Insurance against loss or damage or destruction of Cargo, freight, merchandise or means or instruments of transportation whether by sea, land or air.

Thus marine insurance provides indemnity for loss or damage to ship, cargo or mode of transport by which the property is taken, acquired or held between the point of Origin and point of destination.

3.6.3 Motor Vehicle Insurance

Motor Vehicle Insurance, also referred to as ‘Automotive Insurance’, is a contract of Insurance under which the Insurer indemnifies the Insured, who is the owner or an operator of a Motor Vehicle, against any loss that he may incur due to damage to the property (i.e. the Motor Vehicle) or any other person (i.e. Third Party) as a result of an accident.

There are two types of Motor Vehicle Insurance:

3.6.3.1 Mandatory

In India it is mandatory ie required by Law, for every owner or operator of a Motor Vehicle to take insurance that provides for payment of compensation to a Third Party who dies or suffers injuries due an accident caused by the said motor vehicle. Thus the objective of such a policy is

prevention of public liability to protect the general public from any accident that may take place on the road.

It may be noted here that in Insurance the Insured is the First Party, the Insurance Company is the Second Party and all other are third parties. Such a policy is also known as ‘Act Only’ Policy as it is mandatory by Law.

3.6.3.2Comprehensive

Under a comprehensive motor insurance policy apart from the coverage of Third Party Liability (as provided in the mandatory policy) various other risks are also covered. These include damage to the Motor Vehicle caused by fire, accident, theft etc. As a single policy is issued to cover all risks, such type of policy is called Comprehensive Policy.

3.6.4 Health Insurance Policy

The Health Insurance or Medi Claim Policies, as it is also referred to, are those policies which cover hospitalization expenses for the treatment of illness/ injury as per the terms and conditions of the policy.

These policies may also cover pre hospitalization expenses prior to hospitalization and also post hospitalization expenses for the period specified in the policy.

Some of the Insurers also cover the following expenses in this policy:

a. Ambulance Charges

b. Day Care treatment charges i.e. treatment by using advanced technologies when even 24 hours of hospitalization is not required.

3.6.5 Personal Accident Insurance

The purpose of personal insurance is to provide for payment of a fixed compensation for death or disablement resulting from injury to the body of a human being caused due to an accident.

Thus under the contract of personal accident insurance if at any time during the tenure of the said contract or policy, the insured (i.e. the person who has taken the policy) sustains any bodily injury resulting from an accident, the Insurer shall pay to the insured or to his legal representatives, as the case may be, a specified sum in the event of specified contingencies such as permanent disability, death etc.

3.6.6 Burglary or Theft Insurance

Theft Insurance Contract covers losses from burglary, robbery and other forms of theft. Theft generally refers to the act of stealing. Burglary is defined to mean the unlawful taking of the property within the premises that have been closed and in which there are visible marks evidencing forceful entry.

3.7 Evolution and History of General Insurance in India:

The history of general insurance dates back to the industrial revolution in the western countries and the growth of sea-faring trade and commerce during the 17th century. The concept of general insurance came to India during the British rule. General insurers from Britain and other countries carried out the general insurance business.

The development of General Insurance Business in India can be summarized as follows:

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

b) In 1938, the Indian Insurance Companies Act was consolidated and amended by the Insurance Act 1938 to protect the interests of the public.

c) The Insurance Act of 1938 was amended in 1950, which resulted in far-reaching changes in the insurance sector. These included a statutory requirement of equity capital for companies carrying on insurance business, ceiling on share holdings in such companies, stricter control on investments, submission of periodical returns relating to investments and such other information to the controller. The controller could also call for appointment of administrators and put a ceiling on expenses of management and agency commission for mismanaged companies.

d) By early 1970s, there were about 100 Indian insurers carrying on the general insurance business in India.

e) Malpractices and mismanagement had crept into the management of these companies. Some insurance companies either liquidated or cheated the policy holders. There were complaints of falsification and denial of claims, interlocking of funds and other malpractices by many insurance companies.

3.8. Present Structure of General Insurance in India:

3.8.1 Liberalization of Insurance Sector in India

Although Indian Economy started opening up both to private sector and to foreign investment in the year 1991, Insurance sector still remained the domain of Govt of India.

The setting up of Insurance Regulatory Authority (IRDA) in the year 1999 paved the way for liberalization and privatization of Insurance Sector to private sector.

IRDA has separated out Life, Non Life and Reinsurance business. Therefore a company has to have separate licenses for each line of business. Recently the limit of Foreign Investment in Insurance Business has been increased from 26% to 49% something that was under discussion for more than a decade. Also global re insurance companies have been able to set up branches in India, something that was not allowed earlier.

3.8.2 Structure of General Insurance

As of now there are 28 companies in India that carry out the business of General Insurance.
The division of these Companies is as follows:

Companies in Public Sector

As of now there are four General Insurance Companies in Public Sector in India.
These are as follows:

- National Insurance Company Ltd.
- New India Assurance Company Limited
- Oriental Insurance Company Ltd
- United India Insurance Company Ltd.

These Companies function independently. However they have formed an association known as General Insurance (Public Sector) Association of India (GISPA) with headquarters in Delhi.

The four Public Sector General Insurance Companies have a total of 101 Regional Offices, 1395 Divisional Offices, 2880 branch offices in India and 43 Overseas Offices.
These four Public Sector Insurance Companies have contributed along with General Insurance Corporation of India(GIC) and NABARD (National Bank of Agriculture and Rural Development) to set up a Crop Insurance Company called **Agricultural Insurance Company of India Ltd**.

This Company provides crop insurance to protect the farmers against crop losses suffered due to natural calamities. The Head Office of this Company is in New Delhi.

Apart from this there is another specialized company which provides insurance for risks associated with international trade. This Company is called Export Credit Guarantee Corporation of India Ltd.

Thus technically there are 6 companies in this category.

Sr. No	. Name of Company
1	Bajaj Allianz General Insurance Company Limited
2	ICICI Lombard General Insurance Company Limited
3	IIFCO- TOKIO General Insurance Company Limited
4	TATA AIG General Insurance Company Limited
5	Royal Sundaram Alliance Insurance Company Limited
6	HDFC ERGO Insurance Company Limited
7	Shriram General Insurance Company Limited etc

3.9 The Principles of General Insurance:

The main motive of insurance is Cooperation. Insurance is defined as the equitable transfer of risk from one Entity to another in exchange of Premium.
The basic principles insurance are as follows:

3.9.1 Nature of Contract

Nature of contract is a fundamental principle of insurance contract. An insurance contract comes into existence when one party makes an offer or proposal of the contract and the other party accepts the proposal. The contract should be simple to be understood by each party. The person entering into the contract should enter with his free consent.

3.9.2 Principle of Utmost Good Faith

In the case of a contract both the parties to the contract are required by law to observe good faith.

However, in general transactions, say a transaction where a person has gone to a store to buy some products, the buyer is supposed to satisfy himself about the features of the product that he is buying. The seller is supposed to disclose all material facts about the product and also the facts so disclosed should not be misleading. However the is not obliged to disclose each and every fact of the product. This casts a responsibility on the buyer to satisfy himself about the quality and other features of the product.

If after the purchase of the product the buyer is not satisfied by it, he does get a legal right to go back to the seller and return the goods. Now the discretion is with seller whether to accept the goods or not. The seller would be well within his right to refuse the return of goods on the contention that the buyer had satisfied about the quality and other relevant features of the product before buying the product.

This principle is known as Principle of 'Caveat Emptor' which means that let the buyer beware. This principle is applicable to all commercial contracts.

However Insurance Contracts are different from General Contracts. While general contracts work on the principle of 'simple good faith' insurance contracts work on the principle of 'utmost good faith'. The principle of utmost good faith is also known as principle of Uberrima Fides'.

Let us now see as to why the insurance contracts must follow the principle of utmost good faith and not simple good faith.

a) In an insurance contract the seller is the Insurer and the buyer is the insured. In this case the buyer or the insured has the full knowledge of the property being insured and the seller is ignorant about it. This is a situation which is opposite of a general purchase contract. In a general purchase contract it is the seller who would have full knowledge and details of the property and not the buyer.

Thus in case of insurance contracts the seller would be dependent upon the buyer to provide complete information about the property. In view of this there is a need of utmost good faith of the insurer on the insured that the later has provided full information of the property.

It could be argued here that the insurer has the option to examine the property. But such examination may not bring forth all facts and especially the history of the property.

Let us examine a situation where a person is seeking medical insurance. In such a case the Insurance Company would insist on the medical examination of the said person to know full facts about the health and the medical history of that person i.e. past illness, accidents etc.

However, such medical examination may not reveal the complete medical history of the said person. Hence notwithstanding the medical examination, the insurance company would expect the proposed insured person to disclose full details about his medical condition so that the insurance company is able to take a prudent decision on firstly whether to provide insurance cover and if so, at what cost i.e. should be the premium.

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

Hence, while the insured must disclose all information about the property for which he is seeking insurance. It is also the duty of the Insurance Company not to make any false promises during negotiation. The Insurer must exactly appraise the insured about the circumstances in which and the extent to which it would be compensated by the Insurance Company in case of damage.

For instance in the case of earthquake in Gujarat (Latur) a number of disaster victims failed to get any relief from the Insurance Company as the risk of earthquake was not covered.

Thus the term ‘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 an Insurance contract 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.

In case it is found that full and true disclosures were not made at the time of the contract the effected party will have the right to regard the contract as void.

From the above we can arrive at the following conclusion:
1.Each party is required to tell the other the truth and the whole truth and nothing but truth.
2.Failure to reveal information even if not asked for gives the aggrieved party the right to regard the contract void.

3.9.3 Principle of Insurable Interest

One of the essential ingredients of a Insurance Contract is that the insured must have insurable interest in the subject matter of the contract. A person is supposed to have Insurable Interest in something when the loss or damage to that thing would cause the person to suffer financial or any other kind of loss. Thus insurable interest means that the Insured must stand to suffer a direct financial loss if the event against which the insurance policy is taken does actually occur.

The insurable interest is generally established by ownership, possession or direct relationship.

For example people have insurable interest in their own houses and vehicles and not in neighbour’s houses and certainly not that of strangers.

For an insurance company the insurable interest is the basic reason for issuing a legal insurance cover to an insured (or the beneficiary) as it gives legal right to enforce an insurance claim.

There are four essential components of Insurable interest:
1. There must be some property, right, interest, life, limb or potential liability which is capable of being insured.
2. Any of the above i.e. property, right, interest etc must be subject matter of insurance.
3. The insured must have a formal or legal relationship with the matter which is the subject of insurance.
4. The relationship between the insured and the subject matter of insurance must be recognized by law.

Examples of Insurable Interest:

a. If the house you own is damaged by fire, the value of your house has been reduced by damages sustained in the fire. Whether you pay to have the house re built or you end up selling it at reduced price, you have suffered a financial loss from the said fire. On the contrary if your neighbor’s house which you don’t own is damaged by fire you may feel sympathetic for your neighbor and you may also be emotionally upset, but the fact is that you have not suffered any

financial loss from the fire. You have insurable interest in your own house but in this example you do not have an insurable interest in your neighbor's house.

b. In Life Insurance everyone is considered to have an insurable interest in his own life and that of his spouse.

c. At times the insurable interest may be subjective. For instance the Employer has an insurable interest in the lives of their employees. The reason for this is that if the employee dies or becomes incapacitated due to an accident there will be a cost of training of the employees who would replace the existing employees who has expired. In such case the amount of insurable interest cannot be exactly determined but it should be reasonable and proportionately related with the salary of the employee. Insurable interest is one of the foundations of insurance business because in its absence the insurance contract would not constitute a binding contract. Absence of Insurable Interest would make the contract of
Insurance Null & Void.

3.9.4 Principles of Indemnity

Indemnity according to Cambridge International Dictionary means 'Protection against possible damage or loss. Thus Indemnity means security, protection and compensation given against damage, loss or injury.

In context of Insurance indemnity is defined as 'Financial Compensation sufficient to place the Insured in the same financial position after the loss as he enjoyed immediately before the loss was incurred'.

Thus under the principle of indemnity the insured should be compensated only for the loss that has been incurred by him as a result of the event in respect of which the insurance has been taken. It will not be in order if the Insured should make any profit out of such event (such as fire, motor accident etc.).Since the compensation of loss, and only the loss, is the basic factor under the principle of indemnity, it will be essential that the evaluation of loss is done as precisely as possible.

Though the financial evaluation of loss is possible in most of the cases, in case of loss of life and disablement it may not be precisely possible to determine the loss in monetary terms. In certain cases the amount of compensation given by the Insurer may be less than the actual loss that has been incurred. However under no circumstances the compensation to the Insured should be more than the loss that has been incurred. This is more adequately explained by the following two examples:

a) "A" has insured his bike for Rs 50,000. Unfortunately he meets with an accident and the bike is extensively damaged. This results in total loss of the bike. Though 'A' must get a compensation of Rs 50,000 as his bike has been totally destroyed in the accident but this may not always be the case. There could be a possibility that either he has estimated the value of the bike at a higher price than its real value or that the prices of the bile have been reduced.

In both the cases Insurer will pay compensation of an amount that is equal to the value of the bike at the time of Insurance. In such case if the Insurer finds that a bike of the same make and model and in the same condition as existed immediately before the loss is available for Rs 30,000, he will be liable to pay only Rs 30,000 and nothing more than this.

b) Suppose in the case mentioned above in the said accident the bike is only partially damaged & can be adequately repaired to bring it back to its condition immediately prior to the loss. However during the process of repairs certain parts are replaced. Assuming that the bike was two years old. In such case the parts that need to be replaced would have suffered wear and tear.

In this if the Insurer gives the value of the new part as compensation to the Insured, it would mean that the Insured is making a profit out of it. This will be against the Principle of Indemnity.

Hence in this case the Insurer will make a suitable deduction from the cost of the new part in respect of wear and tear of the part that has been damaged and accordingly pay the balance amount to the Insured.

Exceptions

However there are certain exceptions to the ‘Principles of Indemnity’. These are as follows:

a. As discussed above in case of Life and Personal Accident (i.e., accident to an individual) Insurance it is not possible to make financial evaluation of the loss. Hence the Principle of Indemnity cannot be strictly made applicable to this case.

b. There are certain Insurance Policies called ‘Agreed Value Policies’. In case of such policies at the time of entering into contract the Insurer agrees that it will accept the value of the property as stated in the contract of insurance or the Insurance Policy as the true value and indemnify the insured to this extent incase of total loss. Such type of policies is obtained for Jewellery, Antiques, and valuable pieces of Art etc. This amount will be the sum assured.

In this case also the Principle of Indemnity cannot be strictly followed.

c. There is another type of policy where the principle of indemnity cannot be strictly followed. Such policies are called ‘Reinstatement Policies’ issued for Fire Insurance etc.

In case of such a policy Insured is required to insure the property for its Replacement Value i.e. the value at which it will be replaced. In this case the Insurer agrees that in the event of a total loss he shall replace the damaged property with new one or shall pay for the replacement of the same. Except for the exceptions stated above the principle of indemnity is strictly followed in Insurance.

3.9.5 Principle of Subrogation

The Principle of Subrogation is basically a corollary or an offshoot of the Principle of Indemnity. We have already seen in the preceding sections that the purpose of indemnity is to ensure that the Insured does not make any profit or gain in any way or as a consequence of loss. He should, at the maximum, in the same financial position which he had occupied immediately before the loss had been incurred.

However, in case the Insured gets compensated for the loss by the Insurer and, simultaneously or subsequently, also gets compensated, fully or partly, for the same loss from a third party, the insurer is entitled to recover such additional compensation from the insured. In case the insured, after having received compensation for loss (i.e., indemnity) from the Insurer also receives from another person any amount towards such loss then he will be placed in a position of

gain which is against the Principle of Indemnity. Hence the Insurer will have the right to recover the indemnity or the compensation paid to the Insured to the extent the same has been received by the Insured from a person other than the Insurer though limited to the compensation paid by the Insurer.

The theory discussed above forms the premise or the objective of the 'Principle of Subrogation'. Subrogation may be defined as 'transfer of legal right of the Insured to recover to the Insured'.

However there is a limitation to the right of the Insurer to recover the compensation paid by it to the Insured. The Insurer can only claim the amount of compensation paid by it to the Insured. If the Insured has received an amount of compensation which is higher than the compensation paid by the Insurer, the Insurer will get the right to recover the compensation given by it and nothing over and above that. The principle is that if the insured is not allowed to make profit the insurer is also not allowed to make profit and he can only recover to the extent he has indemnified the insured.

Exception

There is an exception to the 'Principle of Subrogation'. This principle does not apply to Life and Personal Accidents as in respect of these insurances the 'Principle of Indemnity' is not strictly applicable to these insurances.

In case the death of a person is caused by the negligence of another person then the legal heirs of the deceased can initiate proceedings to recover from the guilty party a compensation which will be in addition to the proceeds of the Life Insurance Policy of the deceased.

In such case the Insurance Company providing the Life Insurance Policy does not get the right to receive compensation from the legal heirs in respect of such additional compensation.

3.9.6 Principle of Contribution

Contribution is also a Corollary or Offshoot of Principle of Indemnity. An individual may have more than one policy for the same in respect in of the same property and in case of a loss if the Insured is able claim compensation for the said loss from all Insurers it is but obvious that he would be making a profit from this loss. This is against the Principal of Indemnity.

This situation is taken care of by the Principle of Contribution. Contribution may be defined as the right of the Insurer who has for a loss to recover a proportionate amount from other insurers who are also liable for the same loss.

The condition of contribution will arise if the following conditions are met:

1. Two or more policies should exist.
2. The policies must cover a common interest.
3. The policy must cover the same cause or event which results into a loss.
4. The policies must cover a common subject matter i.e. the same property.
5. All the policies must be in operation at the time of loss.

It may be noted here that it is not essential that the policies should be identical to each other. The essential condition for the principle of contribution to come into force is that the two policies should overlap each other. The subject matter should be common and the event causing the loss should be common and covered by both the policies. The same principle will be applicable if there is more than one policy.

The Insured has the right to recover the loss from any one insurer. The Insurer who compensates the Insured for the loss will have the right to recover proportionate amount from other insurers.

In order to make the Principle of Contribution enforceable the insurers generally insert a clause in the policy that in the event of loss they shall be liable to pay only ' Rate – able proportion' of loss.

It means that each Insurer will pay only its share and if the Insured wants full indemnity he should a claim with other Insurers also.

Let us try to understand this by the following example:

Westin Industries Ltd has taken three Insurance Policies to cover the risk of fire in respect of the same office building.

The sum assured under these three insurance policies is as under:

Sum Assured Policy A Rs 10,00,000

Sum Assured Policy B Rs 20,00,000

Sum Assured Policy C Rs 30,00,000

Total Rs 60,00,000

Assuming that the claim is for Rs 6lacs, the same will be paid by each of the three insurers in proportion of the sum assured by them.

The amount of claim to be borne by each of the three Insurers would be as follows:

A Rs 1,00,000

B Rs 2,00,000

C Rs 3,00,000

Total Rs 6,00,000

3.9.7 Principle of Causa Proxima (Proximity Clause)

Principle of Causa Proxima is a Latin phrase in English which means Principle of Proximity. The loss to a property can be caused by more than one cause. Under this principle in such a situation the nearest or the closest or the most proximate cause shall be taken into consideration to decide the liability of the insurer.

Example:

A cargo ship's base was punctured due to rats. This resulted in the sea water entering the ship and accordingly the cargo was damaged.

Here there are two causes for the damage of the cargo ship:

1.The Cargo ship getting punctured because of rats.

2.The sea water entering the ship through the punctures.

In this case the risk of sea water is covered but the first cause i.e., damage due to rats is not covered. Since the nearest cause of damage is the sea water which is insured, the insurer must pay the compensation.

However, in the case of Life Insurance, the principle of Causa Proxima does not apply. Whatever be the reason of the death (whether natural or unnatural) the insurer is liable to pay the amount of insurance.