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JAGAT GURU NANAK DEV
PUNJAB STATE OPEN UNIVERSITY, PATIALA
(Established by Act No. 19 of 2019 of the Legislature of State of Punjab)

BACHELOR OF COMMERCE (DIGITAL)
SEMESTER – VI

BCDB33605T
FUNDAMENTAL OF INSURANCE

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PREFACE

Jagat Guru Nanak Dev Punjab State Open University, Patiala was established in December 2019 by Act 19 of the Legislature of State of Punjab. It is the first and only Open University of the State, entrusted with the responsibility of making higher education accessible to all, especially to those sections of society who do not have the means, time or opportunity to pursue regular education.

In keeping with the nature of an Open University, this University provides a flexible education system to suit every need. The time given to complete a programme is double the duration of a regular mode programme. Well-designed study material has been prepared in consultation with experts in their respective fields.

The University offers programmes which have been designed to provide relevant, skill-based and employability-enhancing education. The study material provided in this booklet is self-instructional, with self-assessment exercises, and recommendations for further readings. The syllabus has been divided in sections, and provided as units for simplification.

The University has a network of Learner Support Centers /Study Centers, to enable students to make use of reading facilities, and for curriculum-based counseling and practical's. We, at the University, welcome you to be a part of this institution of knowledge.

Prof. G.S. Batra
Dean Academic Affairs

B.COM (DIGITAL)
SEMESTER VI
DISCIPLINE SPECIFIC ELECTIVE COURSE (DSE)
FUNDAMENTAL OF INSURANCE (BCDB33605T)

MAX.MARKS:100
EXTERNAL: 70
INTERNAL: 30
PASS: 40%
CREDITS: 6

Objective:

Develop understanding of the students with the concept of insurable risk and the basic principles, functions and working of the life insurance and General insurance.

INSTRUCTIONS FOR THE PAPER SETTER/EXAMINER:

1. The syllabus prescribed should be strictly adhered to.
2. The question paper will consist of three sections: A, B, and C. Sections A and B will have four questions from the respective sections of the syllabus and will carry 10 marks each. The candidates will attempt two questions from each section.
3. Section C will have fifteen short answer questions covering the entire syllabus. Each question will carry 3 marks. Candidates will attempt any ten questions from this section.
4. The examiner shall give a clear instruction to the candidates to attempt questions only at one place and only once. Second or subsequent attempts, unless the earlier ones have been crossed out, shall not be evaluated.
5. The duration of each paper will be three hours.

INSTRUCTIONS FOR THE CANDIDATES:

Candidates are required to attempt any two questions each from the sections A and B of the question paper and any ten short questions from Section C. They have to attempt questions only at one place and only once. Second or subsequent attempts, unless the earlier ones have been crossed out, shall not be evaluated.

Section A

Insurance: Meaning, nature and significance, essential requirements and principles of Insurance, Contract elements of General Insurance and Life Insurance, re-insurance, nationalization of insurance business in India, Role of Insurance in national economy. Definition of Risk and Uncertainty, Classification of risks, sources of risk-external and internal, risk management. IRDA Act: Salient feature, duties, powers and functions of the authority, Rationale of opening up of the insurance sector to the private sector.

Life Insurance: Meaning, origin and features, growth of Life insurance, types of life insurance policies, law relating to life insurance, general principles of life insurance contract, proposals and policy, assignments and nominations, title and claims, concept of trust in life insurance: Role, functions and policies, modern life insurance in India, private sector companies in life insurance sector, recent trends in life insurance.

Section B

General Insurance: Meaning and origin, growth of General Insurance, nature of general insurance, different types of general insurance, law relating to general insurance organization and management of general insurance in India. Fire Insurance: Meaning, nature, various types of fire policy, subrogation, double insurance, contribution, proximate cause, claims and recovery. Accident and

Motor Insurance: Nature, disclosure, terms and conditions, claims and recovery, third party insurance, compulsory motor vehicle insurance, accident insurance. Deposit and Credit Insurance: Nature, terms and conditions, claim, recovery etc. public liability insurance, emergency risk insurance. Marine Insurance, Insurance and Information technology, Recent developments in Insurance sector.

Suggested Readings:

1. R.S. Sharma Insurance Principles and Practices
2. N.M. Misra Insurance Principles & Practice
3. O.S. Gupta Life Insurance (Frank Brothers, New Delhi)



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BACHELOR OF COMMERCE (DIGITAL)

SEMESTER - VI

**DISCIPLINE SPECIFIC ELECTIVE COURSE (DSE)
(BCDB33605T): FUNDAMENTAL OF INSURANCE**

COURSE COORDINATOR AND EDITOR: DR. SULAKSHNA DWIVEDI

SECTION A

Unit No.	Name of the Unit
Unit 1	Uncertainty, Classification of risks, sources of risk-external and internal, risk management.
Unit 2	IRDA Act: Salient feature, duties, powers and functions of the authority, Rationale of opening up of the insurance sector to the private sector.
Unit 3	Life Insurance: Meaning, origin and features, growth of Life insurance, types of life insurance policies
Unit 4	Law relating to life insurance, general principles of life insurance contract, proposals and policy, assignments and nominations, title and claims, concept of trust in life insurance
Unit 5	Role, functions and policies, modern life insurance in India, private sector companies in life insurance sector, recent trends in life insurance.

SECTION B

Unit 6	General Insurance: Meaning and origin, growth of General Insurance, nature of general insurance, different types of general insurance, law relating to general insurance organization and management of general insurance in India.
Unit 7	Fire Insurance: Meaning, nature, various types of fire policy, subrogation, double insurance, contribution, proximate cause, claims and recovery.
Unit 8	Accident and Motor Insurance: Nature, disclosure, terms and conditions, claims and recovery, third party insurance, compulsory motor vehicle insurance, accident insurance.
Unit 9	Deposit and Credit Insurance: Nature, terms and conditions, claim, recovery etc. public liability insurance, emergency risk insurance.
Unit 10	Marine Insurance, Insurance and Information technology, Recent developments in Insurance sector.

UNIT 1: Uncertainty, Classification of risks, sources of risk-external and internal, risk management

Structure

1.0 Objectives

1.1 Introduction

1.2 Classification of risks

1.2.1 Individual and Group Risks

1.2.2 Pure and Speculative Risks

1.2.3 Static and Dynamic Risks

1.2.4 Quantifiable and Non-quantifiable Risks

1.2.5 Classifying Pure Risks

1.3 Sources of Risk

1.3.1 Internal Risk

1.3.2 How to Prepare for Internal Risks

1.3.3 External Risk

1.3.4 How to Prepare for External Risks

1.4 Risk Management

1.4.1 Why should we bother with risk management?

1.4.2 Risk Management Process

1.4.3 Risk Management Approaches and Methods

1.5 Summary

Long answer Questions

Short answer Questions

Glossary

Suggested Readings

1.0 OBJECTIVES

- To understand the concept of Uncertainty
- To study the various types of risks
- To get a complete awareness about the different sources of Risk
- To get basic idea of Risk Management
- Creating an awareness of the process of Risk Management
- To understand the various Risk Management approaches and methods

1.1 Introduction

Risk and uncertainty are frequently conflated terms. In a situation where the outcome is uncertain or unknown, it is said to be uncertain. A state of mind known as uncertainty is characterized by doubt and is based on not knowing what will or won't happen in the future. Decision-makers are in a state of uncertainty when they don't fully understand the suggested course of action and all its potential repercussions. Risk is sometimes described as the possibility that a phenomenon could be desired or undesirable.

Uncertainty can be seen as the antithesis of certainty in situations where you are certain of the result or the course of events. As a result, unsafe situations can be given some weights or probabilities, but uncertainty, the psychological response to ignorance, is not given this luxury. Making decisions in unclear circumstances is particularly challenging for the decision-maker. Everything is dependent on talent, discernment, and luck, of course. To manage uncertainties effectively, it is necessary to comprehend their ramifications.

Being a perceptual phenomenon, uncertainty implies varying degrees to various individuals. Consider a scenario where a person is required to show up for the first time at a recently launched insurance assessment.

Being a perceptual phenomenon, uncertainty implies varying degrees to various individuals. Consider a scenario where a person is required to show up for the first time at a recently launched insurance assessment.

1. An individual student received insurance instruction.
2. A person with insurance-related education or experience.

The way that A and B see the uncertainty of their exam results is different. However, the results—i.e., the questions that will be asked on the exam—are different in both cases.

Uncertainty may be:

- **Aleatory uncertainty:** Uncertainty resulting from a recognized condition of pure chance; or
- **Epistemic uncertainty:** Uncertainty resulting from a situational challenge that will require the use of judgment to solve.

The proposal, performance, review, or reporting of research and creative activities that violates the norms of scholarly conduct and ethical behavior in the academic and research communities generally or in professional scientific research (research that deviates from practices generally accepted in the discipline). In other words, scientific misconduct is the deliberate falsification of data, language, hypotheses, or procedures from the published or manuscript work of another researcher.

1.2 Classification of Risks

Since the danger that results from this can be quantified in monetary terms, it is a financial risk. A situation is said to be non-financial in nature when there is no chance of suffering a financial loss. Financial dangers tend to be more specific. For instance, there is a risk when choosing a career or a course of study. They might or might not have an impact on your finances. Risks of this nature are challenging to quantify. Risk has a component of potential financial loss when it comes to insurance.

1.2.1 Individual and Group Risks

If a risk has a macro impact on the economy or its participants, it is referred to as a group risk or fundamental risk. Both their origin and impact are impersonal. They have an impact on most the population's social groups. These risk factors could be political, socioeconomic, or natural disasters, such as the US terrorist attacks of September 11th, floods, conflicts, and earthquakes.

Risks are exclusive to specific identities or small groups. There are threats that are specific in nature, such as theft, robbery, fire, etc. A few of these can be insured. The solutions for managing basic risks vary by their very nature; for instance, the government may implement social insurance plans to manage fundamental hazards. In a similar vein, an individual may get a fire insurance policy to guard against the unfavorable effects of fire.

1.2.2 Pure and Speculative Risks

Situations with pure risk are ones in which there is a chance of loss or no loss. Both the person and the organization lose out. An automobile, for instance, may or may not be involved in an accident. If an insurance policy is purchased for that reason, the insured has nothing to benefit from if there is no accident. On the other hand, if an accident happens, the insurance provider will cover the loss.

Speculative risks are ones in which there is a chance of both profit and loss. Gain is either built into the situation or intrinsic to it. For instance, if you invest in the stock market, your stock investments could result in profits or losses.

(a) Pure hazards are typically insurable, whereas speculative risks are not. This is one way to distinguish between the two types of risks.

(b) Pure hazards can be subject to the conceptual framework of risk pooling, but speculative risks are typically ineligible. The law of mathematical expectation, however, may be helpful in particular circumstances.

(c) While pure risks like uninsured catastrophes can be seriously destructive, speculative risk has some intrinsic advantages for business or society at large.

Let's use the example of a property owner to show how the two forms of risk differ. A person runs the danger of losing or having his belongings damaged by fire when he buys a house. He won't be able to gain anything if there is a fire because he will lose everything in the event of one. His property's worth could rise or fall at the same time for several reasons. The area where the property is located might develop into a desirable neighborhood, increasing the value of his property; conversely, the region might not develop at all but instead become uninhabitable due to pollution, decreasing the value of his property. So, by investing in the property, he exposes himself to the possibility of profit or loss.

1.2.3 Static and Dynamic Risks

Dynamic risks are those brought on by shifts in the environment or the economy. Dynamic risks include, for instance, economic factors like inflation, income level, price level, technological advancements, etc. The dynamic risk is exceedingly challenging to predict and measure because it arises from the economic environment. Losses associated with dynamic risk are mostly financial losses. The public and society are impacted by these dangers. Because they are the result of resource misallocation adjustments, these hazards are the finest measures of society's advancement.

Static risks, on the other hand, are predictable and unaffected by the state of the economy. Losses from an item being destroyed or changing ownership due to dishonesty or human error are considered static risks. Such monetary losses occur even while the overall economic climate remains the same. Society does not benefit from these losses. These occur with some regularity across time and are hence typically predicted. Examples of static risk include the potential for loss in a firm, such as unemployment following professional training, loss because of third-party action, etc.

1.2.4 Quantifiable and Non-quantifiable Risks

Quantifiable risk is danger that can be assessed, such as financial risk, while non-quantifiable risk is risk that cannot be calculated, such as tension or loss of peace.

Risk for financial institutions

The risks for banks, financial institutions, etc. can be categorized in the following ways in accordance with the BASEL accord:

- **Credit Risk**

The possibility that a buyer, partner, or supplier won't fulfill their commitments. Everything from a borrower in default to a supplier missing deadlines due to credit issues is included. The term "credit risk" refers to the variation in the value of a loan brought on by shifts in the perceived capacity of counterparties to uphold their contractual obligations. Credit risk, also referred to as counterparty risk or default risk, is a concern for parties to contractual arrangements like forward contracts as well as lending institutions like banks and investors in corporate house debt instruments. The credit risk is evaluated by independent organizations and expressed as credit ratings. The credit rating is the agency's assessment of the organization's capacity to fulfill its contractual commitments, including prompt payment of the loan's principal and/or interest. The probability of default is indicated by each rating level. International credit rating organizations (including Moody's, Fitch, and S&P) forecast credit ratings using quantitative models and their collective experience. Banks and lending institutions' credit scoring models forecast the credit rating using macroeconomic forecasts, financial performance data, and stock prices (if available).

- **Market Risk**

Market risk is the fluctuation in asset values brought on by shifts in the underlying economic variables, such as interest rates, foreign exchange rates, macroeconomic factors, stock prices, and commodity prices. Market risk exists for all economic entities that own assets. For instance, the value of bonds and other government assets owned by investors depends on the current interest rates, but bills receivable of software exporters that are denominated in foreign currencies are subject to exchange rate swings. Businesses with significant exposures either have a specialized treasury department or contract with banks to handle market risk.

Operational Risk

The possibility that the company will suffer damage because of a failure in people, systems, or processes or from an outside incident. Practically speaking, operational risk affects all organizations. Operational risk for a financial institution/bank is the potential for loss because of errors made when carrying out transactions, such as settlement problems,

failures to satisfy regulatory requirements, and tardy collections. There is currently no actual model for managing credit risk.

1.2.5 Classifying Pure Risks

Since pure hazards are typically insurable and on the premise that insurable pure risks are static, the following categories can be made:

1. Personal Risks

Risks that directly impact an individual are known as personal risks. They involve the potential for an entire loss or decrease in earned revenue. Four main personal risks exist.

- **Risk of Premature Death**

The definition of premature death is the passing away of the household head while still owing money. The surviving family members may experience financial instability if they do not have enough financial resources to replace the lost income or if they do not acquire enough replacement income from other sources. Only if the dead had dependents to support or had unpaid debts may a premature death result in financial issues. Therefore, in an economic sense, a child who dies at the age of five is not premature.

- **Risk of Insufficient Income during Retirement**

It refers to the risk of not having enough money for retirement or the age at which there is a chance that an individual won't be able to support themselves. One loses his earned income when he retires. He will be at risk of financial insecurity throughout retirement unless he has enough liquid assets to draw from or access to alternative sources of retirement income like social security or a private pension.

- **Risk of Poor Health**

When a person must work to provide for their survival, they run the risk of being ill or disabled. For instance, heart surgery that is expensive or losing legs due to an accident. Financial instability will result unless the individual has sufficient health insurance, personal savings, or other sources of income to cover these losses. If the impairment is severe, the loss of insecurity is great. If a person has a long-term impairment, things will get worse, and someone needs to take care of them. Losing a source of income can be financially difficult.

- **Risk of Unemployment**

The possibility of unemployment is yet another danger to financial stability. Business cycle downturns, economic structural and technical developments, seasonal conditions, etc. can all contribute to unemployment. To cut labour costs, employers are increasingly using temporary or part-time workers. Employee perks are forfeited by temporary employees. The workers (unemployed, part-time, and temporary) will be in financial risk unless there is sufficient replacement income or past savings on which to draw. Savings from the past and unemployment compensation may run out over time.

2. Property Risks

It alludes to the possibility of having property destroyed or damaged because of fire, wind, earthquake, and several other events. When property is destroyed or stolen, there are two main categories of loss.

a. Direct Loss

A direct loss is described as a monetary loss brought on by theft, physical destruction, or damage to the property. For instance, direct loss refers to tangible harm caused by fire to a factory.

b. Indirect or Consequential Loss

A financial loss known as an indirect loss is one that happens because of direct physical damage or theft loss. For instance, in a factory, there might be direct financial losses from not being able to work for a while the factory was being rebuilt, as well as other costs known as indirect losses. No matter the price, a business risked losing its clientele. In this situation, it would be required to establish temporary business at a different site, which would incur additional costs. These are the secondary costs brought on by the factory damage.

3. Liability Risks

These are the dangers that might result from either intentional or unintended harm to a person or destruction of their property due to carelessness or neglect. Risks of liability are typically caused by the legislation. For instance, an employer may be liable under India's workmen's compensation statute or other labour regulations. In addition to the categories, dangers might also develop as a result of other people's mistakes. For instance, the monetary loss caused by standard or non-performance in an engineering or building contract.

4. Financial Risk

- **Credit Risk:** Risks associated with the possibility of default by borrowers on loans or other financial obligations.
- **Market Risk:** Risks related to fluctuations in financial markets, such as changes in interest rates, currency values, or stock prices.
- **Liquidity Risk:** Risks associated with the inability to quickly convert assets into cash without significant loss in value.
- **Inflation Risk:** The risk that the purchasing power of money will decrease over time due to inflation, leading to a reduction in the real value of assets or income.

1.3 Sources of Risk

It can be hard to consider all the numerous factors that affect the risks your firm confronts

because risk management is such a broad topic. This work can be made simpler by classifying hazards into internal risk and external risk. Understanding these two categories of hazards can help you foresee issues before they develop and make sure you are prepared to deal with them when they do.

1.3.1 Internal Risk

A risk that exists just within the organization is called internal risk. It can be viewed as any risk that the same organization can recognize and control. It's critical to comprehend how to recognize internal risks and be ready for them because they have the potential to be quite harmful to your business. Usually, internal risk can be divided into one of four groups:

- **Human:** This category of risk includes any circumstance in which personnel perform their duties improperly because of errors in judgment or skill deficiencies. It's also crucial to keep in mind that human-factor risks cannot necessarily be confined to people acting inconsistently with their job descriptions; an employee who is unaware of the company's standards and procedures may equally pose a danger.
- **Technological:** This category primarily refers to faults brought on by subpar technology or outmoded machinery. Simple things like a server going down or a software bug could be the cause.
- **Physical:** When something happens that results in loss or damage to your company's assets, such as buildings, machinery, or personnel, it is considered a physical risk. Physical risk can take many different forms, such as worker injuries caused by poor training, poor building maintenance, or theft.

1.3.2 How to Prepare for Internal Risks

Because they are typically a significant source of risk and are easier to handle, internal risks must be managed. Making ensuring that internal risks are part of your entire risk management plan, along with external ones, is the best method to prepare for internal hazards. This entails putting in place specific policies and practices for preventing, assessing, monitoring, communicating, and managing internal risk. It also entails ensuring that everyone involved understands their specific responsibilities while handling them to prevent anyone from falling between the gaps.

1.3.3 External Risk

Risks that are outside of your control are known as external risks. These are frequently referred to as "Black Swans" - unpredictable, high-impact events that could seriously disrupt your organization. Because they can expose a business to things it cannot control

or forecast, external risks are very risky. Although external hazards can be classified in several ways, they often fall into one of three categories:

- **Natural:** Threats from natural catastrophes and other unforeseen events, such as hurricanes, earthquakes, tornadoes, thunderstorms, and floods, are referred to as natural risks.
- **Political:** Any unanticipated change brought about by governmental action or inaction (such as legislation or trade policy) is a political risk.
- **Economic:** Risks are those that specifically relate to financial concerns within a nation rather than between nations; they are typically brought on by changes in the value of money that are either directly or indirectly brought on by market forces like inflation or deflation.

1.3.4 How to Prepare for External Risks

While some external hazards (such hurricanes and earthquakes) may appear unavoidable due to their nature, others can be reduced by modifying internal rules or procedures for responding to them. External risks are unexpected; therefore it's crucial to have a plan in place for how to handle them if they arise.

There are a few things to follow when planning for external risk:

- **Determine the Risk:** What are you attempting to defend against?
- **Identify the Impact:** How might a certain occurrence impact the success of your business?
- **Determine the Likelihood:** What is the likelihood that this event will occur?
- **Identify the Consequences:** What would happen if the event happened, and how severe would the consequences be?

Once external risks have been recognized, it will be simpler to develop policies and procedures to deal with them should they arise.

1.4 Risk Management

Definition of Risk Management:

a) Risk management is an integrated process of delineating (define) specific areas of risk, developing a comprehensive plan, integrating the plan, and conducting the ongoing evaluation' – Dr. P.K. Gupta.

b) Managing the risk can involve taking out insurance against a loss, hedging a loan against interest rate rises, and protecting an investment against a fall in interest rates' – Oxford Business Dictionary.

An organization exposes itself to several financial risks whenever it takes an investment decision. Such risks vary in magnitude depending on the type of financial instrument. High inflation, market turbulence, recession, insolvency, and other financial hazards are possible examples. Therefore, fund managers and investors practice risk management to reduce and manage the exposure of investments to such risks. Risk develops because of economic change, yet risk management is not given enough consideration while making investment decisions. Different categories of asset classes are associated with varying degrees of risk. A fixed deposit, for instance, is regarded as a less hazardous investment. However, equity investment is viewed as a dangerous business. Equity investors and fund managers frequently diversify their portfolios while practicing risk management to reduce the exposure to risk. The traditional approach to risk management has been to use compliance procedures and hedging strategies to safeguard the organization from loss. Avoiding the drawback is the goal here. 'Seeking the upside while controlling the downside' is the guiding principle of the new risk management strategy.

1.4.1 Why should we bother with risk management?

A community or non-profit organization should spend some time thinking about risk management for several reasons that go beyond the most recent incident.

(a) For your own safety Everyone in your group should feel safe and secure and understand that their safety and security are a top priority in every activity your group engages in. When a group does this, it typically has a satisfied, devoted, and productive membership or volunteer force.

(b) For the safety of the people you are trying to help Most neighborhood organizations aim to benefit individuals rather than do damage to them. If you are offering services to individuals or groups from outside your organization, remember that your goal is to improve their lives, not to inflict them emotional or physical suffering.

(c) The threat of possible litigation This poses a very real threat given the current situation. According to the Insurance Council of Australia, litigation is on the rise, as are the amounts awarded to plaintiffs who prevail in their lawsuits. By implementing a risk management strategy, you can lower the likelihood that individuals will file expensive lawsuits against your organization and cause it financial harm. Not every group has faced legal action, and not everyone who is injured then sues over it.

1.4.2 Risk Management Process

1. Establish the Context:

By properly understanding both the external environment and the internal culture of the organization, you will be able to grasp the context in which the relevant organization operates. This is the goal of this stage of planning. If you are unaware of a risk, you cannot mitigate it. The context of risk must be established at the beginning. It is necessary to gather pertinent material to build the context. The extent of the organization's risks and goals must be mapped out.

2. Identification:

The next phase in the risk management process is to identify possible risks after the context has been established. Risks concern situations that, when activated, will result in issues. As a result, identifying risks can begin with either the problem's cause or its physical manifestation. Knowing the organization, the market in which it competes, the regulatory, social, economic, political, and climatic environments in which it operates, its financial strengths and weaknesses, its vulnerability to unforeseen losses, its manufacturing processes, and the management systems and business mechanisms by which it conducts business are all necessary for risk identification.

Any failure to recognize danger at this point could result in a significant loss for the organization. The first step in risk management is risk identification. The establishment of templates for identifying sources, problems, or events shapes the identification procedures. There are many ways to identify risks, including brainstorming, interviews, checklists, the structured "What-if" methodology (SWIFT), scenario analysis, fault tree analysis (FTA), bow tie analysis, direct observations, incident analysis, surveys, and more.

3. Assessment:

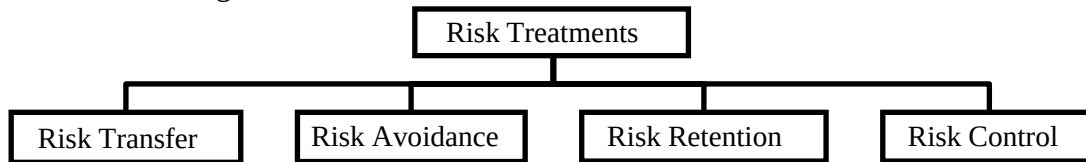
After hazards have been identified, they must then be evaluated for potential loss severity and likelihood of occurrence. The worth of a lost structure, for example, is easily quantifiable, yet the chance of an unusual occurrence happening, on the other hand, is impossible to know for sure. To appropriately prioritize the implementation of the risk management plan, it is crucial to make the most educated predictions during the assessment phase. Since statistics on all types of prior occurrences are not readily available, estimating the rate of occurrence is the fundamental challenge in risk assessment.

The management of the organization should, however, receive information from the risk assessment that makes it simple to grasp the key risks and allows for the prioritization of risk management actions. As a result, several theories and attempts to quantify dangers have been made. There are many alternative risk formulas, but rate of occurrence multiplied by impact of the event [Rate of occurrence x Impact of the event] may be the

one that is most frequently recognized for risk measurement.

4. Potential Risk Treatments:

All risk management strategies fall into one of these four primary categories once risks have been recognised and evaluated.



- a) **Risk Transfer:** The expected party transfers all or a portion of the losses resulting from risk exposure to a third party for a fee. Risk transfers are a crucial component of insurance contracts. There are a few more methods, outside the insurance device, by which the risk may be transferred.
- b) **Risk Avoidance:** Avoid taking on any risks or situations that could result in losses in another way, such as refraining from engaging in risky activities. While avoiding risks may seem like the best course of action, doing so also results in losing out on any potential benefits that accepting (retaining) the risk may have provided. Avoiding a business to reduce the danger of loss also eliminates the opportunity to make money.
- c) **Risk Retention:** Risk retention means that the party or organization involved must hold onto or bear responsibility for any losses brought on by risk exposure. For commercial organizations with the following traits, retaining risk is typically a conscious choice. The two retention strategies are captive insurance and self-insurance. According to standard definitions, a "captive insurer" is an insurance company that is fully owned and run by the people it insures. Its main objective is to ensure the risks of its owners, and those people get to share in the underwriting profits.
- d) **Risk Control:** Risk can be managed by avoiding it or by limiting losses. Avoidance indicates that either no loss exposure is obtained or an exposure that already exists is ignored. There are two ways to exert loss control: (i) make a plan; and (ii) control risks.

i. Create the Plan:

Choose the mix of techniques that will be applied to each risk. The appropriate level of management should document and approve each risk management choice. For instance, a high management judgment should be made regarding a risk to the organization's reputation. On the other hand, IT management would have the power to decide on the risk

of computer viruses. For managing the risks, the risk management plan should provide appropriate and efficient security controls. An implementation schedule for controls and the individuals in charge of such actions should be part of a solid risk management strategy. Although the idea of risk management is not new, it is still not measured particularly well. An example of how antivirus software can be used to reduce a high risk of computer infections is given.

ii. Risk Control:

The risk must be controlled after being assessed. Risk control in this scenario entails first getting the worker out from under the equipment that will soon fall on top of him and then repairing the machine to prevent further accidents. Therefore, the actions required are quick ones that avoid the danger and isolate or, better yet, remove the hazard in order to remove the risk.

By choosing a less risky alternative route that is still in line with the end goal, one can choose to either move on in the planned direction or to avoid the danger altogether. When facing a risk, it is possible to think about reducing the likelihood that it will occur, the impact of its repercussions, or both. Another approach is to transfer the risk, which is typically accomplished by purchasing insurance. Other methods consist of waivers in leasing agreements, disclaimers, tickets, and warning signs. Another tactic is to retain the risk if one understands that it is an inevitable component of the event.

The implementation of the control measures must be documented. This has many advantages, including demonstrating that enough precautions were taken to minimize and eliminate risks and that due diligence was undertaken, as well as understanding what was done to tackle a risk so that comparable risks can be tackled in that way.

5. Review and evaluation of the plan

The first versions of risk management plans will never be ideal. Changes in the plan will be required by experience, practice, and real loss results, and they will also provide information that could lead to alternative decisions in handling the risk being faced. Results of risk analyses and management strategies should be updated on a regular basis. This is done for two main reasons: (a) to determine whether the previously chosen security controls are still appropriate and effective, and (b) to assess any changes in risk level resulting from business mobility.

There are dangers that remain constant and have a static character. Other dynamic risks, on the other hand, may quickly spiral out of control in terms of their financial, legal, and ethical ramifications if they weren't constantly examined and controlled.

1.4.3 Risk Management Approaches and Methods

If you are a business leader, you are well aware of the value of risk management. Your company must have a documented policy in place to prevent the loss of assets and revenue. The six risk management approaches are listed below.

- **Avoidance:** The best method of loss control is avoidance. This is due to the fact that, as the term says, you are fully avoiding the risk. If your efforts to prevent the loss were successful, there is no chance that you will experience a loss. Because of this, avoidance is typically the first risk management strategy to be considered. It is a technique for getting rid of a danger.
- **Loss Prevention:** Loss prevention is a strategy that reduces loss rather than completely eliminating it. This method aims to minimize the loss caused by a risk rather than totally preventing it. Inventory kept in a warehouse, for instance, makes it more likely to be stolen. However, a loss prevention programme is implemented to reduce the loss because there is truly no way to avoid it. This programme may consist of roving security officers, surveillance equipment, and locked storage facilities.
- **Loss Reduction:** Loss reduction is a technique that acknowledges both hazards and the possibility of loss as a result of those risks. In the event of a threat, this method will aim to reduce the loss. A business could need to keep combustible materials in a warehouse, for instance. The management of the company decides to equip the warehouse with cutting-edge water sprinklers after realizing that this is a required risk. Losses from a fire will be kept to a minimum.
- **Separation:** Dispersing important assets is a step in the risk management process known as separation. This makes sure that if a disaster strikes at one site, the damage to the company will only affect the assets there. On the other side, the company would have a much bigger struggle if all assets were present there. This can be seen, for instance, in workplaces that employ a geographically diverse workforce.
- **Duplication:** Duplication is a risk management strategy that entails simply developing a backup plan. Technology frequently makes this necessary. An information systems server malfunction shouldn't shut down the entire company. In the case that the primary server fails, a backup or fail-over server should be readily accessible. When a business uses disaster recovery services, it is another

instance of duplication being used as a risk management strategy.

- **Diversification:** As a risk management strategy, diversification uses corporate resources to establish many business lines that provide a range of goods and/or services across various industries. With diversity, a sizable revenue loss from one business line won't have an irreparable negative impact on the bottom line of the corporation. Any sound business strategy must include risk management as a crucial element. It is essential to guarantee the long-term viability and profitability of the organization.

1.5 Summary

A state of mind known as uncertainty is characterized by doubt and is based on not knowing what will or won't happen in the future. Risk is sometimes described as the possibility that a phenomenon could be desired or undesirable. Making decisions in unclear circumstances is particularly challenging for the decision-maker. Everything is dependent on talent, discernment, and luck, of course. If a risk has a macro impact on the economy or its participants, it is referred to as a group risk or fundamental risk. Situations with pure risk are ones in which there is a chance of loss or no loss. Speculative risks are ones in which there is a chance of both profit and loss. Dynamic risks are those brought on by shifts in the environment or the economy. Static risks, on the other hand, are predictable and unaffected by the state of the economy. Quantifiable risk is danger that can be assessed, such as financial risk, while non-quantifiable risk is risk that cannot be calculated, such as tension or loss of peace. There are two types of risk: internal risk and external risk. A risk that exists just within the organization is called internal risk. The three types of internal risk are typically: human, technological, and physical. Because they are typically a significant source of risk and are easier to handle, internal risks must be managed. Risks that are outside of your control are known as external risks. Natural, political, or economic risks are the three main categories of internal risk. While some external hazards (such as hurricanes and earthquakes) may appear unavoidable due to their nature, others can be reduced by modifying internal rules or procedures for responding to them. The process of measuring or assessing risk and then coming up with management methods is known as risk management. Establish the Context, Identification, Assessment, Potential Risk Treatments, Review, and Evaluation of the Plan are all steps in the risk management process.

Glossary

1. **Uncertainty:** Lack of knowledge about future events or outcomes, characterized by unpredictability or ambiguity.

2. **Risk:** The potential for loss, harm, or negative impact resulting from uncertainty.
3. **Risk Management:** The process of identifying, assessing, prioritizing, and mitigating risks to minimize their impact on objectives.
4. **Risk Transfer:** Shifting the financial burden of risk to another party through mechanisms like insurance or outsourcing.
5. **Risk Assessment:** The process of evaluating the likelihood and potential impact of risks to determine their significance and priority for mitigation.

Long answer type Questions

- a. Differentiate between uncertainty and risk.
- b. Explain the underlying concept of Individual and Group Risks.
- c. State the differences between Pure and Speculative Risks.
- d. What do you understand by “Static and Dynamic Risks”?
- e. Elaborate the concept of Quantifiable and Non-quantifiable Risks.
- f. Classify “Pure Risks”.
- g. Investigate the sources of Risk.
- h. Define “Risk Management”.
- i. How to prepare for Internal Risk?
- j. Explain the various steps in Risk Management Process.

Short answer type Questions

- a) What is uncertainty?
- b) What are the main categories of risk classification?
- c) What are external sources of risk?
- d) What are internal sources of risk?
- e) What are some risk management strategies?
- f) What is risk management?
- g) Define risk avoidance.
- h) Define risk reduction.
- i) Define risk transfer.
- j) Define Pure Risk.

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SEMESTER-VI
COURSE: FUNDAMENTAL OF INSURANCE

UNIT II : IRDA ACT: Salient Feature, Duties, Powers And Functions Of The Authority, Rationale Of Opening Up of The Insurance Sector To The Private Sector.
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2.0 Objectives

2.1 Constitution of the Insurance Regulatory and Development Authority (IRDA)

2.2 Salient Features of IRDA Act

2.3 Duties of IRDA

2.4 Powers and Functions of IRDA

2.5 Powers of IRDA in supervising management, taking over, merger, acquisition and liquidation of Insurance companies

2.6 IRDA Guidelines for Grievance Redressal

2.7 Rationale of opening up of the Insurance Sector to the Private sector

2.7.1 Benefits to Economy

2.7.2 Benefits to Government

2.7.3 Benefits to Industry

2.7.4 Benefits to Employee

2.7.5 Benefits to Society

2.8 Summary

Glossary

Long answer type questions

Short answer type questions

Suggested Readings

2.0 Objectives

- To understand the Constitution of the Insurance Regulatory and Development Authority (IRDA)
- To study Salient Features of IRDA Act
- To get acquainted Duties of IRDA
- To get acquainted with Powers and Functions of IRDA
- Creating an awareness of Rationale of opening up of the Insurance Sector to the Private sector

2.1 Constitution of the Insurance Regulatory and Development Authority (IRDA)

The IRDA Act established the Insurance Regulatory and Development Authority (“IRDA” or “Authority”) as the statutory regulatory body to regulate and promote the Indian insurance industry and protect the interests of policyholders. The IRDA Act made a number of amendments to the 1938 Act and gave the IRDA powers of insurance administrator. The central government appoints IRDA members based on their knowledge and experience in life insurance, property and casualty insurance, actuarial, finance, economics, law, accounting, administration, etc., as well as their excellent competence, integrity, and reputation. The authority shall consist of the Chairperson, a maximum of five full-time members, and four non-executive members. Each chairman and member of her IRDA appointed shall hold office for a term of five years. However, the Chairperson cannot serve beyond the age of 65, while full-time members cannot serve beyond the age of 62. If a member is deemed insolvent, is physically or mentally incapacitated, has been convicted of a crime involving moral turpitude, has acquired financial or other interests, or has exploited his position, the central government may remove him from office. Chairperson and full-time members shall not, for a period of two years from the date of cessation of office in IRDA, hold employment with the Central Government, any State Government, or an insurance industry company.

IRDA Act aims to ensure the fair and transparent functioning of the insurance industry, promote competition, protect the interests of policyholders, and foster industry growth. Through its provisions, the IRDA Act has contributed to enhancing consumer confidence, enabling diverse insurance product offerings, and encouraging innovation in the sector, while also addressing challenges related to mis-selling and regulatory enforcement. This act continues to shape and strengthen the Indian insurance landscape, promoting a balance between industry expansion and consumer protection.

2.2 Salient Features of IRDA Act, 1999

The Insurance Regulatory and Development Authority Act, 1999 (IRDA Act) is an important piece of legislation in India that established the Insurance Regulatory and Development Authority (IRDA) to regulate and promote the insurance industry in the country. The IRDA Act has several salient features:

- a) **Establishment of IRDA:** The establishment of the Insurance Regulatory and Development Authority of India (IRDAI) through the IRDA Act marked a significant milestone in India's financial landscape. This autonomous statutory body was tasked with the pivotal role of overseeing, regulating, and fostering the growth of the insurance sector. Its multifaceted responsibilities encompassed the formulation and enforcement of regulations to ensure fair practices, financial stability, and consumer protection within the insurance industry. By meticulously licensing insurance companies, intermediaries, and agents, IRDAI ensured the industry's integrity and viability. Through its vigilant promotion of insurance awareness, it empowered individuals and businesses to make informed decisions. Additionally, IRDAI's initiatives in market development, research, and international collaboration propelled the Indian insurance sector towards modernization, transparency, and global compatibility, thereby contributing to the nation's economic progress and fostering greater trust within the insurance domain.
- b) **Regulatory Authority:** IRDA wields comprehensive powers to oversee, foster, and meticulously steer the trajectory of India's insurance sector. Its overarching mission encompasses safeguarding the welfare of policyholders, upholding the fiscal steadiness of insurance entities, and fostering an environment of equitable conduct across the industry. Through its judicious regulatory framework, the IRDA ensures that insurance companies adhere to stringent norms, promoting transparent and ethical practices. This vigilant oversight not only cultivates a sense of trust among consumers but also engenders the sector's growth in an organized and sustainable manner. By fortifying consumer protection, financial stability, and industry integrity, the IRDA plays an instrumental role in shaping a dynamic and resilient insurance landscape in India.
- c) **Registration of Insurance Companies:** Under the mandate of the IRDA Act, the registration of insurance companies with the IRDA stands as a pivotal prerequisite for their operation within India. This imperative measure is designed to meticulously vet and ascertain the credibility and financial robustness of these entities before they engage in providing insurance services to the populace. By enforcing this registration process, the IRDA establishes a stringent benchmark, ensuring that only well-founded and dependable companies enter the market, thereby safeguarding the interests of consumers and bolstering confidence in the industry. This meticulous scrutiny not only fortifies the sector against potential risks but also substantiates the authority's commitment to maintaining a competitive, secure, and consumer-oriented insurance landscape in the country.
- d) **Licensing of Agents:** The imperative for licensing insurance agents is a pivotal mechanism aimed at elevating the quality and standards of insurance distribution. By subjecting agents

to rigorous qualifications and benchmarks, the Act ensures a cohort of professionals who are well-equipped with the requisite knowledge, ethical grounding, and expertise. This not only enhances the credibility and professionalism of the insurance selling process but also fortifies consumer protection by providing policyholders with reliable guidance and transparent information. Through this licensing framework, the Act effectively aligns the insurance industry with a higher echelon of ethics, knowledge, and customer-centricity, thereby fostering an environment of trust, accountability, and responsible service provision.

- e) **Policyholder Protection:** IRDA Act underscores policyholder protection as a paramount objective, conferring a pivotal responsibility upon the IRDA to delineate and enforce an unequivocal code of conduct for insurers, agents, and intermediaries. This authoritative mandate ensures that policyholders are not merely beneficiaries but also paramount stakeholders, deserving equitable treatment and utmost transparency. By meticulously regulating interactions within the insurance ecosystem, the Act forges a safeguarding shield around policyholders, preserving their interests, and augmenting their confidence in the sector. This resolute commitment to fair practices not only nurtures a culture of trust and reliability but also upholds the Act's overarching vision of an insurance landscape characterized by accountability, integrity, and unwavering policyholder-centricity.
- f) **Control over Tariffs and Premiums:** Endowed with significant authority, the pivotal role of overseeing and controlling insurance tariffs and premiums, a mandate that serves to inequitable pricing strategies and ensure accessibility for policyholders. By meticulously scrutinizing and regulating pricing structures, the Act seeks to eliminate unjust practices that could potentially burden consumers. This oversight not only bolsters consumer confidence by instilling a sense of fairness but also aligns with the broader objective of fostering a competitive insurance market where policyholders can access reasonably priced coverage, thereby harmonizing affordability with the assurance of comprehensive protection.
- g) **Promotion of Insurance Awareness:** IRDA Act embraces a pivotal role in advocating and advancing insurance awareness, championing a mission to cultivate informed decision-making among the public regarding insurance products. By spearheading initiatives that foster comprehension and engagement, the Act nurtures a populace empowered with the knowledge to discern the nuances of insurance offerings, decipher policy terms, and comprehend the benefits of coverage. This concerted endeavor not only elevates the financial literacy of individuals but also catalyzes a culture wherein citizens are equipped to safeguard their interests through judicious insurance choices. By endorsing insurance education, the Act forges a bridge between complex financial instruments and accessible understanding, epitomizing the harmonious blend of informed consumer choices and a

thriving, transparent insurance ecosystem.

- h) **Regulation of Investments:** Empowered by this mandate, the Act ensures that insurance entities channel their resources judiciously, adhering to defined investment norms and strategies. This vigilant oversight not only guards against reckless financial exposure but also nurtures an environment of fiscal resilience, where insurance companies' investments are aligned with risk mitigation and sustainable growth. By anchoring the sector in sound investment principles, the Act harmonizes insurance operations with financial prudence, a critical synergy that contributes to the industry's robustness and underscores its commitment to safeguarding policyholders' interests.
- i) **Monitoring of Solvency:** By exercising diligent oversight, the authority ensures that insurance entities maintain adequate financial reserves and meet stringent solvency requirements. This unwavering surveillance shields policyholders from potential vulnerabilities, assuring them that the insurance companies entrusted with their protection possess the financial strength to fulfill their commitments. This potent regulatory mechanism, embedded in the IRDA Act, stands as a cornerstone of policyholder trust and industry stability, epitomizing the commitment to upholding the integrity of the insurance ecosystem and safeguarding the interests of those it serves.
- j) **Dispute Resolution:** IRDA Act establishes robust mechanisms for the resolution of disputes that may arise between policyholders and insurance companies. This framework empowers the IRDA to intervene and expedite the resolution of conflicts, thereby ensuring the swift and impartial settlement of grievances. By offering a platform for policyholders to voice their concerns and seek redress, the Act exemplifies a commitment to maintaining transparency, fairness, and accountability within the insurance landscape. The authority's ability to mediate and enforce resolutions underscores its role as a guardian of policyholders' interests, cultivating a realm where disputes are not merely resolved but where trust is nurtured, rendering the insurance sector an exemplar of integrity and consumer-centricity as envisioned by the IRDA Act.
- k) **Coordination with Government:** IRDA operates within a defined collaborative framework as stipulated by the Act, necessitating its active cooperation with the Central Government on matters pertinent to insurance regulation and development. This synergy underscores the Act's vision of a comprehensive partnership, where the autonomy of the IRDA harmonizes with the overarching goals of the government in shaping a robust and dynamic insurance sector. By engaging in mutual dialogue and concerted efforts, the IRDA and the Central Government collectively strive to align policies, strategies, and actions that promote the sector's growth, enhance consumer protection, and ensure financial stability. This integrated

approach underscores the Act's commitment to forging a unified front, where the independence of the IRDA and the government's strategic direction coalesce to foster an insurance landscape that stands as a testament to harmonious and collaborative progress.

2.3 DUTIES OF IRDA

The Insurance Regulatory and Development Authority (IRDA) in India has been entrusted with various duties and responsibilities to regulate and promote the insurance industry in the country. Some of the key duties of the IRDA include:

- a) **Regulation and Supervision:** The IRDA is responsible for regulating and supervising the insurance industry to ensure that insurance companies operate in a fair, transparent, and financially sound manner. It establishes rules, regulations, and guidelines for the functioning of insurers, intermediaries, and agents.
- b) **Licensing and Registration:** The IRDA is responsible for granting licenses and registrations to insurance companies, intermediaries (such as brokers and agents), and other entities involved in the insurance sector. This process involves evaluating their financial stability, credibility, and compliance with regulatory requirements.
- c) **Consumer Protection:** Ensuring the interests of policyholders is a key duty of the IRDA. It sets standards for fair treatment of policyholders and ensures that insurance products are clear, transparent, and suitable for the needs of consumers.
- d) **Policyholder Grievances:** The IRDA handles and facilitates the resolution of grievances and complaints raised by policyholders against insurance companies. It ensures that policyholders' complaints are addressed in a timely and effective manner.
- e) **Promotion of Fair Practices:** The IRDA promotes ethical and fair practices within the insurance industry. It establishes a code of conduct for insurers, agents, and intermediaries, ensuring that their activities are aligned with the best interests of policyholders.
- f) **Monitoring Financial Stability:** The IRDA monitors the financial solvency and stability of insurance companies to prevent situations where insurers might be unable to meet their obligations to policyholders. This involves assessing the financial health, investments, and reserves of insurance companies.
- g) **Setting Tariffs and Premiums:** The IRDA has the authority to regulate and control insurance tariffs and premiums to prevent discriminatory pricing and ensure affordability for policyholders.

- h) Promotion of Insurance Awareness:** The IRDA undertakes initiatives to increase public awareness about insurance and its benefits. It educates consumers about the importance of insurance, the types of products available, and how to make informed decisions.
- i) Market Development:** The IRDA works to promote the growth and development of the insurance market in India. It encourages the introduction of new insurance products and innovative practices that cater to the evolving needs of consumers.
- j) Regulation of Investments:** The IRDA regulates the investment practices of insurance companies, ensuring that they invest funds prudently and in accordance with established guidelines to maintain financial stability.
- k) Data Collection and Analysis:** The IRDA collects and analyzes data related to insurance companies, their financial performance, market trends, and other relevant information. This helps in making informed decisions and formulating effective regulations.

2.4 POWERS /FUNCTIONS OF IRDA

Under Section 14 of the IRDA Act, IRDA has the following powers:

- (a) Issuance of registration certificates to insurance companies, renewal, modification, withdrawal, suspension, or cancellation of registration certificates.
- (b) Protection of policyholder interests in matters pertaining to policy assignment, nomination, insurable interest, claim settlement, surrender value, and other terms and conditions of the insurance contract.
- (c) Specification of the qualifications, training, and code of conduct required of insurance agents and intermediaries.
- (d) Specification of surveyor and loss assessor code of conduct.
- (e) Promoting efficacy in insurance business operations
- (f) promoting and regulating insurance and reinsurance industry professional organisations.
- (g) The imposition of fees and other levies for the purposes of the act.
- (h) Requesting information from or conducting inspections of insurance companies, intermediaries, and other insurance-related organisations.
- (i) Control and regulation of rates, benefits, terms, and conditions that general insurance companies may offer.
- (j) Specifying the form and manner in which insurance companies and intermediaries must maintain their accounting records.
- (k) Regulation of insurance company fund investments.
- (l) Regulation of maintaining a solvency margin.

- (m) Arbitration of disputes involving insurers and insurance brokers.
- (n) Monitoring the operation of the Tariff Advisory Committee.
- (o) Specifying the proportion of the insurer's premium income that will be used to fund programmes for promoting and regulating professional organisations.
- (p) Specifying the proportion of rural or social sector insurance business to be undertaken by insurers.

2.5 Powers of IRDA in supervising management, taking over, merger, acquisition and liquidation of Insurance companies:

Section 52A empowers IRDA to submit reports to the Central Government where life insurance companies are operating in contrary to the interests of policyholders. Based on this report, the central government is empowered to appoint administrators to manage the operations of life insurance companies. Such managers will submit reports to the central government containing recommendations on how to proceed, including the option of transferring the business to an existing insurer or dissolving it if they see fit. The central government is empowered to take whatever action it deems appropriate on the basis of the report of the executive officer.

Section 52H is based on reports that the central government has failed to follow instructions from the IRDA, or that an insurance company is operating in the public interest or in a manner that is harmful to the interests of the public or policyholders, allows to get the liability of the insurance company.

In such instances, the Central Government may devise a plan for the transmission of the insurer's undertaking to another insurer and determine the appropriate compensation. For this purpose, the Central Government may establish a Tribunal with a Chairman (a current or former Supreme Court or High Court judge) and two other members (one with insurance experience and the other a Chartered Accountant).

Section 53 empowers the Tribunal to order winding up in accordance with the Companies Act, 1956, if it is satisfied to do so based on a petition presented by shareholders holding at least one-tenth of the total body of shareholders and at least one-tenth of the total share capital, or by at least fifty policyholders holding life insurance policies in force for at least three years with a total value of at least ₹50,000.

Authority of the IRDA to impose penalties for noncompliance with the Act (Section 102) Section 102 authorizes IRDA to impose a fine of up to five lakh rupees for each of the following violations by an insurance company:

- (a) Failing to provide IRDA with any document, statement, account, return, or report.
- (b) Noncompliance with the instructions (Section 34 empowers IRDA to issue directions if it is satisfied to do so in the interests of public or for prevention of affairs being conducted detrimental to policyholders or to secure proper management of any insurer).

- (c) Failure to maintain a sufficient solvency margin.
- (d) Noncompliance with the terms of the insurance contracts.

Additional Functions:

IRDA may also apply to the Tribunal for winding up on the following grounds:

- (a) The insurance company neglected to deposit or maintain with Reserve Bank of India the amount mandated to be deposited under Section 7 or Section 98.
- (b) That the insurance company has failed to comply with any requirement of the Insurance Act or has continued to violate the Act for a period of three months after receiving notice from IRDA of such failure or violation.
- (c) It is apparent from returns or statements filed by the Company or from the Company's results that the Company is insolvent.
- (d) That the continuation of the company is detrimental to the policyholders' interests or the public interest in general.

IRDA (Scheme for Merger and Transfer of Life Insurance Business Rules, 2013) and IRDA (Scheme for Merger and Transfer of Life Insurance Business Rules, 2013) (Scheme for Merger and Transfer of General Insurance Business Rules, 2011). Merger or transfer schemes are only permitted between two life insurance companies or two non-life insurance companies, according to the law. A non-life insurer is unable to acquire a life insurer. A non-life insurance company cannot acquire a life insurance company, or vice versa. The regulations stipulate that a proposal to implement a proposed merger and a manuscript of the merger's terms must be submitted to the IRDA in advance for approval. However, the following documents must be submitted for each implementation proposal prior to the application submission, a declaration of intent to the application along with a declaration of merger or transfer type, and one month prior to the application submission:

- (a) An agreement draught for the proposed merger or transfer.
- (b) Balance Sheets of both the insurance company being acquired and the insurance company being acquired.
- (c) Report on Financial Condition. Both insurance companies' Solvency Statements and Incurred but Not Reported (IBNR) Reports.
- (d) Report by an Independent Actuary (who has not been affiliated with either of the two insurance companies within the last three years) regarding the proposed merger or transfer.
- (e) An executive summary of the proposed merger or transfer, including the provisions under which the transaction is envisioned.
- (f) Report on how the interests of Policyholders will be protected and on compliance with all applicable laws, including the Competition Act of 2002.

2.6 IRDA GUIDELINES FOR GRIEVANCE REDRESSAL

The Insurance Regulatory and Development Authority (IRDA) has issued grievance redressal

guidelines for insurance companies in order to ensure the prompt resolution of consumer complaints. Grievance is defined as a customer's expression of dissatisfaction with the action or inaction on the standard of service or deficiency of service of an insurance company or any intermediary, along with a request for corrective action. It is distinguished from an inquiry or a request, which are not considered grievances because they seek information or request a service. As the Grievance Officer, every insurance company must designate a senior officer at the level of CEO or Compliance Officer.

In addition, each insurance company office must also have a complaints officer designated for that office. Here are the steps to file a complaint:

- (a) Complaints must be confirmed within three working days of her receipt of the complaint, indicating the name and designation of the person handling the complaint.
- (b) The complaints resolution procedure, including the time it will take to resolve the dispute, must be included in the confirmation.
- (c) Complaints are usually resolved within his three days. However, if it cannot be resolved within 3 days, the insurance company will resolve the complaint within his 2 weeks and send a final resolution letter.
- (d) If a claim is denied, the reasons must be clearly stated, together with the means available if the customer is still unsatisfied.
- (e) A complaint will be treated as resolved if the insurer notifies the customer that he will not return within 8 weeks from the date of resolution.

The Insurance Regulatory and Development Authority of India (IRDAI) has established comprehensive guidelines for grievance redressal in the insurance sector to ensure that policyholders' concerns are addressed efficiently and fairly. These guidelines are designed to enhance transparency, accountability, and customer satisfaction within the industry.

The key elements of the IRDA Guidelines for Grievance Redressal include:

- a) Grievance Redressal Mechanism:** Insurers are required to establish a well-defined grievance redressal mechanism that is easily accessible to policyholders. This mechanism should include designated grievance officers responsible for addressing complaints and queries.
- b) Grievance Redressal Officer:** Each insurance company must appoint a Grievance Redressal Officer who acts as a single point of contact for policyholders to escalate their complaints. This officer's details, including contact information, must be prominently displayed on the insurer's website and other communication channels.
- c) Timely Resolution:** The guidelines emphasize prompt resolution of grievances. Insurers are required to acknowledge complaints within a specified time frame and provide a resolution within a reasonable period. If the complaint requires more time for investigation, the policyholder should be informed about the progress.

- d) **Transparent Communication:** Insurers are expected to communicate with policyholders in a clear and transparent manner. All communication related to grievances, including responses, should be in simple language and address the specific concerns raised by the policyholder.
- e) **Escalation Mechanism:** If a policyholder is not satisfied with the resolution provided by the insurer, the guidelines outline an escalation mechanism. The policyholder can approach the insurer's Grievance Redressal Committee, and if still unsatisfied, they have the option to approach the Insurance Ombudsman or other appropriate authorities.
- f) **Monitoring and Reporting:** IRDA requires insurers to maintain records of complaints and resolutions and submit periodic reports to the authority. This enables the IRDAI to monitor trends, identify common issues, and ensure that insurers comply with the guidelines.
- g) **Accessibility and Awareness:** Insurers are mandated to educate policyholders about the grievance redressal process. This includes disseminating information about how to raise a complaint, the contact details of the Grievance Redressal Officer, and the various escalation levels available.

2.7 Rationale of opening up of the Insurance Sector to the Private sector

Due to Liberalization, Privatization and Globalization (LPG) of the Indian economy in 1991. India's population size and low insurance penetration compared to other developing countries in 1993 the Malhotra Commission was established to investigate whether the insurance sector should be opened to private operators. In 1999, the Authority known as Insurance Regulatory & Development Authority through IRDA Act 1999 was formed. The monopoly of life and general insurance respectively was broken by the privatization of Insurance industry. The decision to open up the insurance sector to private players was driven by a range of rationales aimed at promoting competition, innovation, and improved customer service. This shift from a state-controlled model to one embracing private participation aimed to increase competition, enhance customer experiences, and drive innovation in insurance products and distribution methods. The infusion of capital, job creation, and attraction of foreign investment were additional benefits. Overall, this move sought to create a more competitive, consumer-centric, and economically vibrant insurance industry. This was majorly done for the benefit of Indian economy which includes:

2.7.1 Benefits to the Economy

- Accelerated investment
- Improved quality of life
- Consumer-friendly products will result from increased competition
- Large-Scale Mobilization of Funds
- Insurance and Reinsurance Facilities for Major Projects
- Domestic Coverage of Export Projects

2.7.2 Advantages for Government

- Long-Term Financing for Infrastructure

- Availability of Long-Term Debt Market Instruments
- Increased Employment Opportunities and Pay
- Decreased Financial Burden of Rural, Social, and Backward Communities
- Contributions in Disasters (Sharing of Social Responsibilities)
- Transfer of Technical Expertise
- Innovative Products and Pricing Options

2.7.3 Customers will benefit the most from a market-driven economy because:

- the outlook for national companies will improve;
- the domestic industry will utilise technology and provide loyal customer service; and
- the market-driven economy will be driven by consumer demand.
- Superior Quality at Lower Costs
- A Greater Selection of Products
- World-Class Service to the Consumer
- Increased Insurance Market Penetration

2.7.4 Employee Benefits

- Human Resource Development
- Exposure to "State-of-the-Art Practices"
- Greater Job Opportunities
- Increased Compensation
- Professional Management Practices

2.7.5 Society Insurance Benefits Companies serve as Guardians in a variety of ways

- Risk coverage for large industry, trade, and property is provided in accordance with the law;
- environmental risks are mitigated;
- hit-and-run compensations are provided.
- Crop insurance to offset the risk of nature (Poor Rainfall, etc.);
- Social responsibility sharing;

2.8 Summary:

The Insurance Regulatory and Development Authority Act, 1999, is a significant Indian legislation that formed the Insurance Regulatory and Development Authority (IRDA) as the apex regulatory body for the insurance sector in the country. The Act was enacted to ensure the orderly growth and development of the insurance industry, safeguard the interests of policyholders, and maintain financial stability within the sector. It outlines the powers, functions, and responsibilities of the IRDA, including licensing and regulation of insurance companies, setting standards for insurance products, protecting consumer interests, and promoting the overall development of the insurance market in India. The IRDA Act plays a crucial role in overseeing the insurance sector and fostering its growth and stability in the country.

Glossary:

IRDA Act: The Insurance Regulatory and Development Authority Act, 1999, is an Indian legislation that established the IRDA as the regulatory body for the insurance sector in India.

Grievance redressal: Grievance redressal in the context of the IRDA Act refers to the mechanism established by the Insurance Regulatory and Development Authority (IRDA) to address complaints and concerns raised by policyholders and other stakeholders within the insurance industry.

Long answer type Questions:

- a) Explain about the constitution of the IRDA Act, and what are the key qualifications and criteria for appointing IRDA members?
- b) Elaborate on the key salient features of the IRDA Act, 1999, and their significance in shaping the insurance landscape in India.
- c) Explain the role of the IRDA Act in controlling insurance tariffs and premiums.
- d) How does the IRDA contribute to maintaining the financial stability of insurance companies? Discuss its powers in terms of regulating insurance company fund investments and specifying solvency margin requirements.
- e) How has the IRDA Act empowered the authority to ensure fairness, transparency, and consumer protection within the insurance sector?
- f) Discuss the IRDA's role in promoting insurance awareness and educating the public about insurance products and their benefits.
- g) Discuss in detail about the key elements of the IRDA Guidelines for Grievance Redressal.
- h) Explain in detail about the rationale of opening up of the Insurance Sector to the Private sector.
- i) Elaborate the powers of IRDA in supervising management, taking over, merger, acquisition and liquidation of Insurance companies.
- j) Elaborate the various duties of IRDA.

Short answer type Questions:

- a) How does the IRDA Act contribute to enhancing consumer confidence and encouraging innovation in the insurance sector?

- b) What is the main purpose of the IRDA?
- c) How does the IRDA Act emphasize policyholder protection and consumer-centric practices within the insurance industry?
- d) What is the significance of the IRDA Act's provision for licensing insurance agents?
- e) How does the IRDA contribute to policyholder protection and addressing grievances in the insurance industry?
- f) How does this oversight contribute to maintaining the stability of the insurance sector and protecting policyholders' interests?
- g) How do IRDA initiatives contribute to enhancing financial literacy and empowering consumers to make informed decisions?
- h) What role does the IRDA play in promoting professionalism and ethical conduct among insurance agents and intermediaries?
- i) What is the significance of the IRDA's powers in imposing penalties for noncompliance with the IRDA Act?
- j) What are the grounds upon which the IRDA can apply to the Tribunal for winding up an insurance company?

Suggested Readings

1. Gupta, P.K. (2016). *Essentials of insurance and risk management*, Himalaya Publishing House, New Delhi
2. Mishra, M. & Mishra, S.B. (2009). *Insurance Principles and Practice*, S. Chand Publishing, New Delhi.
3. Carl L. Pritchard (2005). *Risk Management: Concepts and Guidance*, Third Edition, CRC Press.
4. Emmett Vaughan and Therese Vaughan (2002). *Essentials of Risk Management and Insurance*, John Wiley and Sons Inc

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SEMESTER-VI
COURSE: FUNDAMENTAL OF INSURANCE

UNIT-3 Life Insurance: Meaning, origin and features, growth of Life insurance, types of life insurance policies

3.0 Objectives

3.1 Introduction

3.2 Origin of Life Insurance

3.3 Difference between Insurance and Assurance

3.4 Features of Life Insurance Contract

3.4.1 Nature of General Contract

3.4.2 Other Features

3.4.2.1 Check your Progress 1

3.5 Policies of Life Insurance

3.5.1 Whole-life policies

3.5.2 Term Insurance Policies

3.5.3 Endowment Policies

3.5.4 Policies Related to Profit Participation

3.5.5 Policies According to the Number of Persons Insured

3.5.6 Policies according to the method of payment of Policy Amount

3.5.6.1 Check your Progress 2

3.6 Non-conventional Policies

3.7 Summary

Glossary

Long answer type Questions

Short answer type Questions

Suggested Readings

3.0 Objectives

The students will be able to understand:

- Nature of life insurance, meaning and features
- The features of insurance alongside the various types of Life Insurance Policies.

3.1 Introduction

The life insurance policy includes both protection and investment components. The policyholder feels secure after purchasing insurance because a predetermined sum will be paid upon death or maturity. Because life insurance comprises a guarantee to pay a specific sum, an element of investment is also included. Thus, life insurance provides dual benefits, namely protection and investment, and is available in a variety of products. Long-term policy is generally connected with less protection and more investment, and vice versa.

3.2 Origin of Life Insurance in India

In India, some form of insurance finds mention in the writings of ancient writers like Manu. The modern concept of insurance came into existence with the advent of East India Company in the 18th century. The first foreign company which started the business of insurance in India was the Oriental Company in 1818. In 1823, a company named Bombay Life started giving insurance policies. These companies failed due to improper policies and mismanagement. The passing of the Indian Life Assurance Companies Act, 1912 was, the first statutory measure to regulate the life insurance sector. Later, in 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life insurance business transacted in India by Indian and foreign insurers. In 1938, the earlier legislation was consolidated and amended by the Insurance Act 1938 with a view to protecting the interest of the insuring public. On January 19, 1956, the management of the life insurance business of 245 Indian and foreign insurers and provident societies.

3.3 Difference between Insurance and Assurance

A life insurance contract is a contract of assurance as there is a promise to pay the policy amount, at the death or maturity of the policy, whichever is earlier. This is different from general insurance contracts, as non-life insurance contracts are based on indemnity, where the policy amount will be payable at the occurrence of the insured event only. Life insurance is not based on indemnity as the loss caused by death cannot be calculated in money terms nor money an adequate compensation for the loss of a life. Life insurance is actually an assurance to extend the hand of protection to those who are left without support and helps financially in case of death of the insured. Life insurance has an element of savings.

3.4 Features of Life Insurance Contract

- (i) Nature of General Contract
- (ii) Insurable Interest
- (iii) Good faith
- (iv) Warranties
- (v) Proximate cause
- (vi) Assignment and Nomination
- (vii) Return of Premium
- (viii) Other Features.

In life insurance contract, the first three features are very important while the rest of them are of complementary nature.

3.4.1 NATURE OF GENERAL CONTRACT

Since the life insurance contract is a sort of contract, it contains all the essentials of a contract under the Indian Contract Act. According to Section 2 (H) and Section 10 of Indian Contract Act, the valid contract must have the following essentials:

- (i) Agreement (offer and acceptance)
- (ii) Competency of the parties.
- (iii) Free consent of the parties, i.e., the parties must be ad-idem.
- (iv) Legal consideration
- (v) Legal objective

Offer and Acceptance

An offer or proposal is intimation to another of one's intention to do or to abstain from doing anything in order to obtain the assent of that other person to such an act or abstinence. When the person to whom the proposal or offer is made signifies his assent to it, the offer is accepted. The offer and acceptance in life insurance is of typical nature. The proposal form is completed by the proposer and, along with the proposal form, the first premium is paid. The same may be accepted at normal rates and terms. Agents canvassing or publication of prospects and of uses of insurance constitute an invitation to offer because the public in general and individuals in particular, are invited to make a proposal for insurance. Submission of a proposal along with the premium is an offer and the dispatch of acceptance-letter is the acceptance. The risk will commence as soon as the acceptance letter is dispatched by the insurer. When a Proposal is not accompanied by the first premium. It would be an invitation to offer by the prospect and the letter from insurer (generally acceptance letter with modification is sent) asking the proposer by the prospect is accepted. As soon as a premium is dispatched, acceptance is complete provided there was no alteration in the terms and conditions.

Competency of the parties

The vital element of a valid contract is that the parties must be legally competent to contract. Every person is competent to contract who is of the age of majority according to the law, (2) who is of sound mind and (3) who is not disqualified from contracting by any law.

The insurer will be competent to contract if he has got the license to carry on insurance business. In India, the Life Insurance Corporation is solely authorized to carry on the life insurance business.

Majority

Majority is attained when a person completes the age of 18 years. A minor is not competent to contract. A contract by a minor is void except contracts for necessities. The minor can repudiate the contract at any time during his minority. If a life insurance policy is issued to a minor, the insurer cannot repudiate it, but the minor can repudiate it during his minority. At the attainment of majority, he has to exercise the option, in a reasonable time, whether he would continue to carry on the policy or not. Generally, insurers accept the proposal forms completed by the guardians of the minors. So, the incompetency of contract does not arise.

Other Disqualification

A contract with an alien enemy is void. An alien enemy is disqualified from, and is incapable of, entering into contract or enforcing it.

Free consent of the Parties

Both parties must have consensus ad idem i.e. they should think about the same subject - 900matter at the time of the contract. If the two parties do not meet in this respect, there is no perfect agreement between them. It is necessary that consent is not obtained through coercion, undue influence, fraud, misrepresentation or mistake for a contract to be made by free consent of the parties. In life insurance, both parties must know the exact nature of the risk to be underwritten.

Legal Consideration

The presence of a lawful consideration is essential for a legal contract. The insurer must have some consideration in return for his promise to pay a definite sum at maturity or death, whichever may be the case. The consideration needs to be money only. It should be anything valuable or to which value may be assigned.

3.4.2 Other Features

Life insurance policies have the following additional features:

- (i) **Aleatory Contract:** Aleatory contract means contract depends on chance. In an ordinary contract, generally equal value is exchanged by both parties; but in a life

insurance contract, the full sum assured may be payable even if all premiums are not paid. Thus, on occurrence of death, higher amount is payable. This does not make it a contract of wager because of insurable interest.

(ii) Unilateral contract: Life insurance contract is a unilateral contract because, only the insurer makes an enforceable promise. The proposer had already performed his duty of payment of premiums. If the first premium is paid, the insurer is bound to accept subsequent premium and to pay the amount claim when it arises except on the ground of fraud.

(iii) Conditional Contract: A Life insurance contract is a conditional contract because the insurer shall pay the assured sum only when the contract is continued by payment of premium. In addition, the insurer's promise to pay the sum assured is also conditional upon the furnishing of satisfactory proof of death and other conditions mentioned in the policy.

(iv) Contract of Adhesion: Contract of adhesion means that the terms of the contract are not arrived at by mutual negotiations between the parties as in the case of ordinary contracts. The proposer is not in a position of bargaining about the terms of the contract because these terms are already determined. The only course open to the proposer is whether to accept or not a particular policy.

(v) Not an Indemnity contract: In life insurance, the indemnity principle is not applicable because the value of loss at death cannot be ascertained. It is not possible to ascertain the time up to which the insured would have survived and it is also difficult to ascertain the amount of money earned by him during life time. So, the doctrine of subrogation is also not applicable. In life insurance, a fixed sum is paid, which may be the sum assured and a bonus if the policy is participating one.

3.4.2.1 Check your Progress: Discuss the features of Life Insurance Contract.

3.5 POLICIES OF LIFE INSURANCE

There are various types of life insurance policies. According to the duration, they can be classified as (1) whole-life, (2) term insurance, (3) endowment insurance and (4) survivorship policy.

3.5.1 Whole-life policies: Whole-life policies are issued for the policyholder's entire life. It signifies that the insurance amount will be paid out if the life assured dies. As a result, the life guaranteed cannot receive the insurance amount during his lifetime; only his dependents will benefit from this policy. As a result, the life assured is not eligible to receive the policy amount during his lifetime; instead, this insurance benefits only his dependents. A single premium can be paid to obtain entire life insurance coverage.

Because it is easier for the policyholder to schedule premium payments during this time

of income generation, limited premium payment is the most common type of whole-life insurance. As premiums are owed until the policyholder's death, this advantage is not available while paying them constantly. Whole life insurance coverage can be obtained by paying a single premium. (2) payment of a continuing premium; or (3) payment of a limited premium. The single premium payment is not often used, whereas the limited premium payment is the most popular type of whole-life insurance since it is more convenient for the policyholder to schedule premium payment during this income-earning time. This benefit is not available with continuous premium payment because the premium is payable throughout the life of the policyholder.

- **Limited Payment Whole-Life Policies:** The premium for this plan is higher than the premium for a complete life plan. Since premiums are payable for a specified number of years on till death, the amount of premium relies on the number of yearly premiums stipulated. If death occurs within this period, the life assured is satisfied to know the amount of maximum premium payable. If the life assured survives the premium-paying period, the policy remains in full force if all premiums have been paid but no additional premiums are necessary.
- **Convertible Whole-Life Policy:** This is a whole-life policy that allows the policyholder to convert it to an endowment policy at the conclusion of five years. If this option is selected, the policy is no longer a whole-life policy; if it is not selected, the policy remains a whole-life policy. The policy is intended to satisfy the demands of a young man starting his job and has the ability to boost income after a short period of time.

3.5.2 Term Insurance Policies

Term insurance is only available for a limited time, ranging from three months to seven years. The sum assured is only payable if the assured's life is lost within the time. The chosen term premiums are normally due for the duration of the policy or until the death of the life assured. Term insurance coverage are the most affordable.

Term insurance policies are useful to those who (1) need extra protection for a short period of time or have a lower income, (3) a young businessman can take the policy to protect himself from any business disaster during the initial stage of the business, (4) key-men's insurances are generally on a term insurance basis, (5) a mortgagor of the property may benefit from this scheme, (6) a father can take this policy during the period of education of his child and (7) any such persons who are willing to provide insurance for a shorter period.

3.5.3 Endowment Policies

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

- **Pure Endowment Policy**

Under a pure endowment policy, an insurance company agrees to pay the insured a certain amount of money if the insured is still alive at the end of a specific time period. These payments are usually made as a lump sum. Thus, the pure endowment policy is the opposite of the term policy, because the insured is paid if he survives in the pure endowment and if he dies within the term of the policy, in case of a term insurance policy. Actually, these two policies, i.e., pure endowment and term policies, are the basis of all other policies. Pure endowment is for the benefit of the policy-holder and a term policy is for the benefit of others. So, the pure endowment policy has the element of investment and the term policy has the element of protection. Pure endowment grants protection against 'living long' while the term policy grants protection against living too short. The former is old-age protection while the latter is family protection.

- **Ordinary Endowment Policy:** This is the policy which actually represents life insurance in a true sense. It provides an ideal combination of both family protection and investment. It is taken out for a specified period of years, the sum assured being payable throughout the term of the policy or for a limited period or till the prior death of the life assured. An ordinary endowment policy is a mixture of term insurance and pure endowment. So, the net premium rate for an ordinary endowment policy is equal to the net premiums of term and pure endowment policies issued at the same age, for the same period of time.
- **Joint Life Endowment Policy:** Under this policy, many lives are covered. According to this plan, the money assured is paid out either when the term expires or when one of the assured lives passes away during the endowment period. All through the endowment term or until the prior death of any of the lives assured, premiums are due.
- **Double Endowment Policy:** This policy pays the basic sum assured if the life assured dies during the endowment period and the double sum assured if he lives to the end of the term. Until the prior death of the life covered or the end of the endowment term, premiums are payable. The premiums are generally calculated according to the endowment period, irrespective of the age at entry subject to the provision that maturity age is not beyond 65.
- **Fixed Term (Marriage) Endowment Policy:** Under this plan, the money promised is only payable at the conclusion of the predetermined period; however, the premiums stop if the policyholder passes away before that time. In this situation, the insurance will continue to be fully paid up to the date of maturity, but the beneficiary may discount it earlier.
- **Educational Annuity Policy:** Like the marital endowment policy, this policy is given to the father or legal guardian after they have a physical test. The beneficiary is the child for whose benefit (education) the policy is taken. The distinction is that the sum

insured is paid out over the course of five years in equal installments rather than a lump sum. For five years, it is paid in half-yearly installments.

- **Triple Benefit Policy:** This policy combines an endowment with a guaranteed annual bonus that is payable upon death during the endowment period with a full life limited payment (without premium refund). This insurance is provided for a predetermined period of 15, 20, or 25 years. Until the life assured has passed away prior to the end of the term, premiums are due.
- **Children's Deferred Endowment Assurance:** On occasion, a kid's parent, guardian, or close relative will want to purchase an insurance policy on the child's life, with the proposer paying the premium for the first few years and the life assured (i.e., the child) for the remaining years. This can be done by taking the children's deferred endowment assurance. The low premium rate under this plan is a great attraction. A parent can help his children to take a policy at a rate which is considerably lower than that what they would be called upon to pay on attaining a majority.

3.5.4 Policies Related to Profit Participation

There are two types of profit policies: (1) profit policies and (2) profit policies without regard to participation in profits. (1) Non-participating or Without Profit Policies: Holders of non-participating or without profit policies are not eligible to receive a portion of the insurer's profits. These policyholders do not receive any bonuses; they just receive the money insured. (2) Participating insurance or With Profit Policies: The owners of participating insurance have the right to a portion of the insurer's profit. The policyholder cannot be considered a co-owner of the insurance company because they can only partake in the profit, not the loss. The policyholders cannot receive a bonus, or a portion of the profit, if there is a loss. They have a right to share.

3.5.5 POLICIES ACCORDING TO THE NUMBER OF PERSONS INSURED

On the basis of the number of people insured in a policy, the policy may be **single-life policies and multiple-life policy**.

- (1) **Single Life Policies:** Under single life policies, only one individual is insured. It is not necessary that the policy should be issued for one's own life, it may be for other's life, but the fact is that the policy insures only one life. The policy amount is payable only when the assured event occurs.
- (2) **Multiple life policies:** In this policy, more than one life is insured. It may be (a) Joint Life policy, and (b) Last Survivor Policy.
 - (a) **Joint Life Policy:** This policy covers two or more lives and the policy amount is payable on the first death. This is beneficial to the partners of a firm and to a couple.
 - (b) **Last Survivorship Policy:** The policy amount is payable at the last death. So long as any one of the insured is alive, no payment is made.

3.5.6 POLICIES ACCORDING TO THE METHOD OF PAYMENT OF POLICY AMOUNT

The policy amount may be paid in (1) Lump sum policies or (2) installments.

(1) **Lump Sum Policies:** Where the sum assured is paid in lump sum at the events insured against.

(2) **Installment or Annuity Policies:** Under this policy, the policy amount is payable in installments. It is beneficial to those whose earning capacities are reduced to a minimum in old age. At that time, this policy may be more helpful.

3.5.6.1 Check Your Progress 2:

Distinguish between term insurance and endowment insurance.

3.6 Non-Conventional Policies

To accommodate the diverse needs of the populace, the Life Insurance Corporation of India has launched a number of non-traditional plans. The main benefits of traditional insurance are protection against dying too young or living too long, although the majority of people are primarily interested in investments. The LIC has occasionally created a number of new policies to satisfy these objectives. Some of the important new policies are described below:

1. Policies under LIC Mutual Fund
2. Jeevan Akshay
3. Jeevan Dhara
4. Jeevan Kishore
5. Jeevan Chhaya

The LIC conducts market research to find suitable policies to meet the requirements of the people. Every year, some policies are issued to benefit the population.

3.6.1 POLICIES UNDER LIC MUTUAL FUND

When LIC introduced its mutual fund, it promised investors substantial returns as well as safety and security of their money. On June 19, 1989, LIC Mutual Fund began trading on the Indian stock exchange. LIC Mutual Fund developed 5 schemes in its first year of operation, each of which offers unique advantages to different types of investors. Three of the six schemes—Dhanashree 1989, Dhan 80 CC (I), and Dhanvarsha—are close-ended while the other two—Dhanaraksha 1989 and Dhanavridhi 1989—are open-ended. Since February 1, 1991, Dhan 80 CC B (I) has been available. The salient features of Dhanasahayog and Dhan 80 CC B (I) are given to illustrate the LIC Mutual Fund Policies.

1. Dhanasahayog: LIC Mutual Fund has declared a handsome income distribution under Dhanashree 1989. The following people can apply for this policy;

- (a) Resident citizens of India who are (1) Adult, individual or individuals not exceeding three in number jointly or on an either/anyone or survivor (s) basis, (2) Minors through their parents/step-parents/guardians (No joint ownership is permitted with minors), (3) Hindu Undivided Family (by the Karta acting on behalf of H.U.F.)
- (b) Companies registered in India, Bodies Corporate, Trusts, Societies, Co-operative Societies, Schools, Colleges, Universities, Clubs created under the applicable laws and authorized to invest in the units of the Mutual Fund.
- (c) Non-Residents of Indian Nationality/Origin on a non-repatriation basis.

There is no upper limit, on investment. The face value of the units will be Rs. 10/- each. The minimum investment for individual investor is 100 units and in multiples of 50 units thereafter. In the case of Trusts, Societies, companies, etc., the minimum investment will be 1000 units and thereafter in multiples of 100 units. The amount payable will be calculated on the basis of the prevailing selling price per unit of Dhanasahayog scheme.

3.6.2 JEEVAN AKSHAY: In accordance with this policy, a monthly pension will be paid for the purchase price paid over the course of the pension purchaser's lifetime in exchange. Prior to the pensioner's death date, the last payment would be due. Obtaining the policy does not involve a medical exam. For the entire year, postdated monthly checks are sent. For pension eligibility, there is no need for an existence certificate. Pension checks are payable in full at all Central Bank of India branches and any other nationalized banks that LIC may specify. The original investment made by the employee, combined with an additional bonus, will be returned to the nominee or his legitimate heirs upon the death of the pensioner. The minimum amount to be invested (premium) is Rs. 10,000 and in multiples of Rs. 100 thereafter. The minimum age at entry is 50 years. There is no restriction as regards maximum age at entry. Since the pension is payable monthly, the gross annual return works out to nearly 12.7 per cent, which is a highly lucrative return by any standard on safe, long-term investment. The plan guarantees the return for the lifetime of the pensioner, which can be as long as 50 years or more. No other investment guarantees such a high rate of return for such a long period. The Jeevan Akshay policies also enjoy various tax benefits:

3.6.3 JEEVAN DHARA

The payment of annuities in respect of policies under Jeevan Dhara has to start one month after the completion of the deferment period. In order to enable the annuitant to get the payment on the due date, the annuity cheque has to be posted at least two weeks earlier.

3.6.4 JEEVAN CHHAYA

Jeevan Chhaya," announced in March 1991, is a hybrid of the 'Jeevan Mitra' and 'Money Back' schemes. Couples with a child (not an adopted child) of less than one year might use this plan to ensure that enough financial provision is made for the child's higher education. The infant must be under the age of one year at the time the proposal is registered. Either the father or mother, or each of them independently, can purchase policies or participate in this plan. The premiums under this plan are payable for the life of the life assured and will end when the life assured dies or the term of the insurance expires, whichever comes first.

3.6.5 JEEVAN KISHORE

Jeevan Kishore is a profit plan that limits the age at which a child's life is at risk. The risk begins two years from the date of beginning or the policy anniversary following the completion of seven years of age, whichever is later. This policy allows for bonus participation from the start of the policy. However, the bonus might be vested either from the risk date or 5 years from the policy's inception, whichever came first.

3.6.6 JEEVAN SUKANYA

(a)Jeevan Sukanya: This with Profit plan is only for female children. The premiums under this plan are only payable for a limited time. The premium terminates on the policy anniversary following or soon after the life assured attains the age of 20. The policy matures on the policy anniversary after or soon following the child's completion of 50 years.

3.6.7 CHILDREN'S MONEY BACK PLAN

Children's Money Back programme is an innovative programme launched by LIC on January 16, 1995. The plan calls for the child's full and complete development. The plan covers educational as well as beginning-of-life expenses, providing a succession of financial rewards at a time when the child is most in need. A policy of Rs. 5 lakhs is issued, and Rs. 1 lakh is paid as a survival benefit on the policy anniversary immediately after the child turns 18 years old. A similar sum is paid on the insurance anniversary two years later. The value is increased to Rs. 1.5 lakhs as a survival benefit payable on the policy anniversary immediately following the completion of 22 years of age. A similar amount is paid on the policy anniversary two years later.

3.6.8 JEEVAN SURAKSHA

Jeevan Suraksha plan was introduced on 15th August, 1996. It enables individuals to provide for retirement income from a chosen date. The policy is with life cover but can be taken without life cover under certain conditions. Spouse's pension is not provided under without life cover plan. On vesting, the policy holder, has the option to receive 25% of the national cash option in lumpsum and the balance in an annuity.

3.6.9 JEEWAN SNEHA

Jeevan Sneha, which was released on June 16, 1997, was specifically created for women.

The plan is a no-loss money-back plan with the extra benefit of assured additions. When at least two full years' premiums have been paid, you will enjoy free insurance coverage for three years from the date of the first unpaid premium, as well as the option to obtain a pension in place of maturity benefits.

3.6.9 LIC'S JEEVAN NIDHI

- (a) **Guaranteed Additions:** Guaranteed Additions @ Rs. 50/- per thousand Sum assured for each completed year, for the first five years.
- (b) **Participation in profits:** The Policy shall participate in profits of the Corporation from the 6th year onwards and shall be entitled to receive bonuses declared as per the experience of the Corporation.
- (c) **Benefits of Vesting:**
 - Option to commute up to 1/3rd of the amount available on vesting, which shall include the Sum Assured under the Basis Plan together with accrued Guaranteed Additions, simple Reversionary Bonuses and Terminal Bonus, if any.
 - Annuity as per the option selected: Annuity on the balance amount if commutation is exercised otherwise annuity of the full amount.
- (d) **Death Benefit on death before annuity vests:** If the Life Assured dies during the policy's deferment period, i.e., before the annuity vests, an amount equal to the Sum Assured under the Basis plan, plus any Guaranteed Additions, simple Reversionary Bonuses, and Terminal Bonus, will be paid in lump sum to the appointed nominee, provided the policy is in force for the full Sum Assured. This sum may also be used to purchase an annuity by the nominee.
- (e) **Annuity Options:** Upon vesting, the annuity installment, mode of annuity payment, and type of annuity available to the Life Assured (Annuitant/Nominee will be determined by the Life Insurance Corporation of India's then-current Immediate Annuity plan and its returns and conditions.

3.6.10 JEEVAN ANAND

A two-in-one policy that gives the advantage of both whole life and endowment schemes.

- **Survival Benefits:** Sum Assured + Bonus at the end of the selected term and risk cover continues.
- **Death Benefit:** Sum Assured + Bonus if death takes place during the selected term and policy comes to an end. However, if death takes place after the selected term, then the Sum Assured alone is payable to the nominee/legal heirs.
- **Accident and Disability Benefit:** Exclusive in-built accident and disability benefit up to Rs. 5,00,000.
- **Minimum Sum Assured:** Rs. 1,00,000

3.7 Summary

The life insurance policy includes both protection and investment components. The policyholder feels protected after purchasing insurance because he will be paid a predetermined sum upon death or maturity. Because a specific amount must be paid, the element of investment is also present. In other words, life insurance offers and invests to varying degrees in various sorts of plans. Life Insurance Companies issue numerous plans to cover the varied risks of policyholders based on their needs.

Glossary

- **Whole-life policies:** These are issued for life and the policy amount will be paid at the death of the life assured
- **Term insurance:** It is a plan for a short period of years ranging from 3 months to seven years. Sum assured is payable only in the event of death of the life assured occurring during the period.
- **Endowment Insurance:** The insurance plan under which the sum assured is payable on the life assured surviving the endowment term.

Long answer type Questions

- a) Explain the features of life insurance contracts.
- b) What are the various kinds of life insurance policies?
- c) “These days, Children’s Deferred Endowment Policies are gaining ground” Discuss in detail.
- d) Describe the different types of endowment and term policies.
- e) “Life insurance is insurance against dying too soon and endowment insurance is insurance against living too long.” Explain.
- f) Explain the distinctive features of Double endowment policies.
- g) Explain the salient features of Jeevan Chhaya policy.
- h) Describe the terms and conditions of LIC’s Jeevan Nidhi? Explain the advantages.
- i) Distinguish between endowment and term insurance.
- j) Discuss the features of Jeevan Akshay policy.

Short answer type Questions

- a) Why is a life insurance contract not a contract of indemnity?
- b) Distinguish between Insurance and Assurance.
- c) What is an aleatory contract?

- d) What is a unilateral contract?
- e) What is a contract of adhesion?
- f) Enlist the types of Whole-life policies.
- g) Explain the features of Jeevan Kishore policy.
- h) What is a Convertible Whole-Life Policy?
- i) Explain with profit insurance policies.
- j) What is an annuity?

Suggested Readings

- a) Banking and Insurance - Law and Practice, The Institute of Company Secretaries of India (ICSI)
- b) Bodla, B.S., Garg M.C. & Singh K.P. (2003), *Insurance: fundamentals. environment and procedures*. Deep & Deep Publications Pvt Ltd
- c) C.L.Tyagi, C.L. & Madhu Tyagi, M.(2007). *Insurance - Law and Practice*, Atlantic Publishers & Dist,
- d) Gupta S.P. (1990). *Marine Insurance for Bankers and Shippers Consultech Services Bombay 1983*.
- e) Gupta, O.S. (1966), *Life Insurance: Special Reference to India*, Frank Brothers, New
- f) O.S. Gupta Life Insurance (Frank Brothers, New Delhi)
- g) Sahoo and Das (2009), *Insurance Management: Text and Case*, Himalaya Publication.
- h) Sharma R.S. (1953) *Insurance Principles and Practices*, Vora Publications.
- i) Sharma, N K (2012), *Insurance: Theory and Practice*, DND Publications
- j) Vinayakam N. Radhaswamy and Vasudevan, S.V (2015)., *Insurance-Principles and Practice*, S. Chand and Co., New Delhi.

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SEMESTER-VI
COURSE: FUNDAMENTAL OF INSURANCE

Unit-4:LIFE INSURANCE

Law relating to life insurance, general principles of life insurance contract, proposals and policy, assignments and nominations, title and claims, Concept of trust in life insurance

STRUCTURE

4.0 Objective

4.1 Introduction

4.2 Law Relating to Life Insurance

4.3 General Principles of Life Insurance Contract

4.4 Proposals and Policy

4.5 Assignment

4.6 Nomination

4.7 Difference between Nomination and Assignment

4.8 Title and claims in life insurance

4.9 Concept of trust in life insurance

4.10 Summary

Glossary

Long answer type questions

Short answer type questions

Suggested Reading

Objectives

1. The learning outcomes of studying laws related to life insurance can vary depending on the depth and focus of the course or program
2. Students should gain a comprehensive understanding of the legal framework governing life insurance, including relevant statutes, regulations, and case law.
3. Awareness of regulatory requirements imposed by government agencies on the insurance industry, including licensing, advertising, disclosure, and consumer protection laws.
4. students can develop a solid foundation in the legal aspects of life insurance, enabling them to effectively navigate the complexities of this specialized area of law.

4.1 INTRODUCTION

Insurance law is a specialized branch of law that governs the contractual relationship between insurance companies and policyholders. It encompasses a wide range of legal principles, regulations, and statutes that are designed to protect the interests of both parties involved in an insurance contract. The primary objective of insurance law is to provide a framework for resolving disputes, enforcing contracts, and ensuring fair treatment in the insurance industry. Overall, insurance law plays a crucial role in maintaining the integrity and stability of the insurance industry, safeguarding the rights of policyholders, and promoting transparency, accountability, and fairness in insurance transactions. Understanding the legal framework governing insurance contracts is essential for insurers, policyholders, regulators, and legal professionals involved in the insurance sector.

Key concepts in insurance law include:

1. **Principles of Insurance:** These are the fundamental principles that underlie insurance contracts, such as utmost good faith, insurable interest, indemnity, subrogation, and contribution. These principles help define the rights and obligations of both insurers and policyholders.
2. **Regulation and Compliance:** Insurance is heavily regulated by government authorities to ensure consumer protection, financial stability, and fair competition within the industry. Regulatory bodies set standards for insurance companies regarding licensing, solvency, reserve requirements, marketing practices, and claims handling procedures.
3. **Types of Insurance:** Insurance law covers various types of insurance products, including life insurance, property insurance, health insurance, liability insurance, and specialty lines such as marine insurance and aviation insurance. Each type of insurance may be subject to specific regulations and legal principles.
4. **Insurance Contracts:** An insurance contract is a legally binding agreement between the insurer and the policyholder. Insurance law governs the formation, interpretation, and enforcement of insurance contracts, including the terms and conditions, policy limits, exclusions, premiums, and claims procedures.

5. **Claims Handling:** Insurance law sets forth rules and procedures for filing and processing insurance claims. Insurers have a duty to investigate claims promptly, fairly, and in good faith, and policyholders have rights to appeal denied claims or dispute settlement amounts through legal channels.

6. **Litigation and Dispute Resolution:** In cases of insurance disputes or controversies, insurance law provides mechanisms for resolving conflicts through negotiation, mediation, arbitration, or litigation in court. Legal remedies may include damages, injunctions, declaratory judgments, or specific performance.

7. **Consumer Protection:** Insurance law aims to protect the interests of policyholders and ensure that insurance companies fulfill their obligations under the terms of the insurance contract. Consumer protection laws regulate marketing practices, sales tactics, disclosure requirements, and unfair claims practices to prevent exploitation or abuse of policyholders.

4.2 LAW RELATING TO LIFE INSURANCE

The life insurance industry in India is regulated by the Insurance Regulatory and Development Authority of India (IRDAI). The regulatory framework for life insurance is mainly governed by the Insurance Act 1938 and the Insurance Regulatory and Development Authority Act 1999. Below are the main terms of the laws regarding life insurance in India:

1. **Regulatory Authority:** The Insurance Regulatory and Development Authority of India (IRDAI) is a statutory body that regulates and supervises insurance companies, including those providing life insurance products.

2. **Licensing and Operation:** Insurance companies need to obtain a license from IRDAI to operate in India. The licensing process must meet certain financial and operational requirements.

3. **Product Approval:** The life insurance products offered by the company will be licensed to IRDAI. Regulators ensure that products are fair, transparent and beneficial to policyholders.

4. **Privacy Policy:** The life insurance policy should clearly state the terms and conditions, including coverage, premiums, exclusions, and other details. Notification must be fair and transparent for rights holders.

5. **Registration Guidelines:** Insurance companies follow the following guidelines set by IRDAI to identify risks associated with personal insurance. This process includes medical writing, risk stratification, and priority decision-making. 6. **Code of Conduct:** Insurers and brokers must abide by a code of conduct. The law ensures fair trading and protects the interests of shareholders. 7. **Selection of beneficiary:** The insured has the right to choose the beneficiary and the procedure for selecting the beneficiary is subject to rules. The beneficiary list can be changed and the process for these changes is defined.

8. **Premium and timely payment:** Insurance companies must specify the frequency of premiums and insured people must pay premiums on time. There is usually a convenient time for payment and if payment is not made within that time the policy is forfeited.

9. Policy and Loan: Life insurance policies in India usually have subscription or loan provisions depending on the cash value of the policy. The terms and conditions of delivery and loans have been regulated.

10. Consumer Protection: IRDAI has established mechanisms to protect the interests of policyholders. This includes complaints procedures and ensuring policyholders are treated fairly.

11. Tax Advantages: Life insurance policy in India provides tax benefits under the Income Tax Act, 1961. Premiums and death benefits received may be eligible for tax deduction.

It is important for policyholders in India to understand the specific terms and conditions stated in their insurance policies and to be aware of any changes. Consulting an insurance professional or legal professional can provide more personalized guidance depending on individual circumstances.

4.3 GENERAL PRINCIPLES OF LIFE INSURANCE CONTRACT

In India, life insurance contracts are governed by general principles that are outlined in the Insurance Act, 1938, and are overseen by the Insurance Regulatory and Development Authority of India (IRDAI). Here are some general principles of life insurance contracts in India:

BASIC PRINCIPLES OF LIFE INSURANCE

Life insurance is based on several basic principles that apply to all types of insurance, and that form the foundation of the insurance contract. Understanding these principles will help one to understand better how life insurance works. Few of the Basic Principles of Life insurance are discussed below.

- 1. Offer and Acceptance:** Like any other contract, a life insurance contract is formed through an offer and acceptance process. The applicant makes an offer by submitting the proposal form, and the insurer accepts it by issuing the policy.
- 2. Legal Purpose:** The purpose of the insurance contract must be legal. Life insurance contracts are meant to provide financial protection to beneficiaries in the event of the insured's death.
- 3. Policy Terms and Conditions:** The terms and conditions of the life insurance policy must be clearly defined in the policy document. This includes coverage details, premium payments, exclusions, and other relevant provisions.
- 4. Premium Payments:** The policyholder is required to pay premiums at regular intervals to keep the policy in force. The premium amount, frequency, and grace period for payment are specified in the policy.
- 5. Grace Period:** Life insurance policies typically have a grace period during which the policy remains in force even if the premium payment is delayed. The grace period is stipulated by the policy terms and conditions.

6. **Beneficiary Designation:** The policyholder has the right to designate beneficiaries who will receive the death benefit. The process for beneficiary designation and changes should be followed as per the policy terms.
7. **Incontestability:** After a certain period (usually two years from the policy start date), the insurer cannot contest the validity of the policy based on misrepresentations made by the policyholder.
8. **Assignment and Nomination:** The policyholder may have the right to assign or transfer the policy to another person. Additionally, nomination allows the policyholder to specify who will receive the policy benefits in case of the policyholder's death.
9. **Policy Surrender and Loans:** Many life insurance policies provide options for surrendering the policy or taking loans against the policy's cash value. The terms and conditions for surrender and loans are outlined in the policy.
10. **Free Look Period:** Policyholders have a "free look period" during which they can review the terms of the policy and return it for a refund if they are not satisfied. This period is usually 15 days from the receipt of the policy document.
11. **Insurable Interest:** Insurable interest is a fundamental concept in insurance law that stipulates a person must have a financial interest in the subject matter of the insurance policy in order to purchase insurance on it. In other words, the policyholder must stand to suffer a financial loss or hardship if the insured event occurs. This principle ensures that insurance is not used for speculative or gambling purposes. In life insurance, insurable interest means that the policyholder must have a legitimate financial interest in the life of the insured individual. Typically, this arises in the context of family relationships, business partnerships, or financial dependencies. For example, a spouse may have an insurable interest in the life of their partner to protect against financial loss in the event of their death.
12. **Utmost Good Faith:** Utmost good faith, also known as *uberrimae fidei*, is a principle that requires both parties to an insurance contract—insurer and insured—to deal with each other honestly, fairly, and transparently. Both parties are expected to disclose all material facts relevant to the insurance risk without concealment or misrepresentation. This principle ensures the integrity and fairness of insurance contracts and facilitates trust between insurers and policyholders. In the context of life insurance, utmost good faith requires the insured to disclose accurate information about their health, lifestyle, and other factors that may impact the risk of premature death. Similarly, insurers are obligated to provide clear and accurate information about policy terms, premiums, and coverage options to the insured.
13. **Risk Pooling:** Risk pooling is a fundamental concept in insurance whereby a large number of individuals or entities collectively contribute premiums to create a pool of funds. These funds are used to compensate the few who experience covered losses or risks. By spreading the financial

risk across a diverse pool of policyholders, insurance companies can effectively manage and mitigate the impact of individual losses. In life insurance, risk pooling allows individuals to protect themselves and their loved ones against the financial consequences of premature death or disability. Policyholders pay premiums into a common pool, and in return, the insurer provides death benefits or other financial benefits to beneficiaries in the event of the insured's death or disability. Risk pooling enables insurers to offer affordable coverage to individuals by spreading the cost of claims across the entire pool of policyholders.

4.4 PROPOSALS & POLICY

A life insurance proposal is a formal request submitted by an individual or entity to an insurance company seeking coverage for life insurance. The proposal form is a document provided by the insurer that the proposer completes with detailed information about themselves and the proposed insured individual. This form is crucial as it serves as the basis for underwriting the insurance policy and determining the terms, conditions, and premiums. Following details are required for proposal.

Application Form (Proposal Form): Individuals interested in purchasing a life insurance policy in India must fill out a detailed application form, commonly known as the proposal form. This form collects comprehensive information about the applicant, including personal details, financial information, health history, and lifestyle habits.

Medical Examination: Depending on the sum assured and the age of the applicant, a medical examination may be required as part of the underwriting process. The insurer may arrange for a medical professional to assess the applicant's health.

Financial Underwriting: Insurers in India evaluate the financial stability of the applicant to determine the appropriate sum assured and premium. This may involve an assessment of the individual's income, liabilities, and financial goals.

Nomination: The proposal form typically includes provisions for nominating beneficiaries. Policyholders can designate individuals or entities to receive the death benefit in the event of their demise.

Once the proposal form is completed and submitted to the insurer, it undergoes a thorough review process known as underwriting. During underwriting, the insurer evaluates the information provided in the proposal form, assesses the risk associated with insuring the individual, and determines the appropriate premiums and coverage terms. Based on the underwriting decision, the insurer may approve the application, offer modified terms, or decline coverage altogether. In summary, the life insurance proposal form is a vital document that facilitates the application process for life insurance coverage. It enables the insurer to gather essential information about the

proposer and the insured individual, assess the risk, and tailor the insurance policy to meet the needs of the applicant.

The IRDA regulations divide the Proposal form into the following broad sections:

Section A – contains details of the Proposer;

Section B – contains specialised/additional information which may vary based on the product;

Section C – contains suitability analysis which is highly recommended;

Section D – contains details of the product proposed

Key components of a life insurance proposal form typically include:

1. **Personal Information:** The proposer is required to provide personal details such as name, age, gender, occupation, address, contact information, and marital status. This information helps the insurer assess the individual's risk profile and eligibility for insurance coverage.
2. **Details of Insured:** The proposal form will also include information about the individual to be insured (the insured life), including their name, age, gender, relationship to the proposer, and any relevant medical history or health-related details. This information is critical for underwriting and assessing the risk associated with insuring the individual.
3. **Coverage Details:** The proposer must specify the type and amount of coverage desired, such as term life insurance, whole life insurance, or endowment policies. They may also indicate any riders or additional coverage options they wish to include, such as accidental death benefit or critical illness riders.
4. **Medical History:** The proposal form typically includes questions about the insured's medical history, lifestyle habits, pre-existing medical conditions, and any medications or treatments they are currently undergoing. This information helps the insurer evaluate the individual's health status and assess the risk of future claims.
5. **Financial Information:** The proposer may be required to provide details of their financial status, including income, assets, liabilities, and existing insurance coverage. This information assists the insurer in determining the insured's financial needs and capacity to pay premiums.
6. **Declaration and Signature:** The proposal form usually contains a declaration section where the proposer attests to the accuracy and completeness of the information provided. They must sign the form to confirm their agreement to the terms and conditions of the insurance contract.

B) Policies:-An insurance policy is like any contract, a legal document and enforceable in a court; the provisions of the Indian Contracts Act, 1872 are applicable to insurance contracts as well.

Elements of an Insurance Policy

1. **Offer and Proposal:** The insurance contract begins with an offer from the proposer in the form of a proposal. The proposal outlines the terms and conditions requested by the proposer.
2. **Policy Structure:** The structure of an insurance policy typically includes a heading, preamble, signature, and operative or insuring clause. These elements establish the terms and conditions of the contract.
3. **Policy Schedule:** The policy schedule is a document that details the specifics of the insurance contract, including the insured's details, nature of coverage, sum insured, period of insurance, premium, and other terms and conditions.

Contents of the Policy Schedule:

1. **Subject Matter to be Insured:** The policy schedule provides a full description of the subject matter to be insured, such as property, goods, or life.
2. **Sum Insured:** The sum insured represents the maximum amount payable by the insurer in the event of a covered loss. The basis of valuation and adequacy of the sum insured are specified to avoid disputes during claims settlement.
3. **Period of Insurance:** Specifies the duration of coverage provided by the policy.
4. **Premium:** The amount paid by the insured to the insurer in exchange for coverage.
5. **Terms and Conditions:** Details the actual coverage provided by the policy, including specific clauses and warranties. For example, in marine cargo policies, the coverage may be under different Institute Cargo Clauses (ICC).
6. **Clauses and Attachments:** Various clauses and endorsements attached to the policy schedule specify the nature and extent of coverage provided. It's essential to review these clauses carefully to understand the scope of coverage.

Clarification and Advisement: It's advisable to discuss the policy details with the insured, especially for high-value risks or complex insurance contracts. For example, in project policies, clarifying terms such as the testing period and advising on transitioning to operational coverage post-testing period can help ensure adequate protection.

Following are the types of policies

a) Term Life Insurance:

Policy Features: Term life insurance policies in India provide coverage for a specified term. If the policyholder passes away during the term, the death benefit is paid to the beneficiaries. These policies do not have a cash value component.

Popular Variants: There are variants such as level term, increasing term, and decreasing term insurance, each with specific features.

b) Whole Life Insurance:

Policy Features: Whole life insurance policies in India provide coverage for the entire lifetime of the insured. They come with a guaranteed death benefit and a cash value component that accumulates over time.

Cash Value Component: The cash value can be utilized by the policyholder through withdrawals or loans.

c) Endowment Plans:

Policy Features: Endowment plans combine insurance coverage with a savings element. If the policyholder survives the policy term, a maturity benefit is paid. In case of death during the policy term, the death benefit is provided.

Savings Component: A portion of the premium goes towards building a corpus, which is paid out either on maturity or as a death benefit.

d) Unit-Linked Insurance Plans (ULIPs):

Policy Features: ULIPs in India combine life insurance coverage with investment options. Policyholders can allocate premiums to various funds based on risk appetite.

Market-Linked Returns: The value of the policy is linked to the performance of the chosen funds, offering the potential for higher returns.

e) Money Back Policies:

Policy Features: Money back policies provide periodic pay-outs (survival benefits) during the policy term. If the policyholder survives the entire term, a lump sum is paid as maturity benefit.

Cash Flows: These policies offer liquidity through regular pay-outs, making them suitable for individuals who want periodic returns.

It's important for individuals in India to carefully review the terms and conditions of the proposals and policies, considering factors such as premium affordability, coverage needs, and long-term financial goals. Additionally, adherence to disclosure requirements in the proposal form is crucial for the policy to remain valid. Consulting with insurance advisors or agents can provide further assistance in navigating the options available in the Indian life insurance market.

4.5 ASSIGNMENT

In the context of life insurance, assignment refers to the transfer of ownership rights or interests in a life insurance policy from one party to another. When a policyholder assigns their life insurance policy, they transfer some or all of their rights under the policy to another individual or entity, known as the assignee. Assignment in life insurance involves the transfer of ownership rights or interests in a life insurance policy from the policyholder to the assignee. It allows the policyholder to designate another party to receive the benefits specified in the policy and can play a crucial role

in various financial planning strategies. Assignments in life insurance allow policyholders to transfer ownership rights or interests in their policies to other individuals or entities, providing flexibility in estate planning, financial transactions, and beneficiary designations. It's essential for individuals considering an assignment to understand the implications and consequences of transferring ownership of their life insurance policies and to consult with legal and financial advisors for guidance.

Following are the key features of Assignments

1. Transfer of Rights: Assignment involves transferring the rights to receive benefits under a contract from one party to another. In the context of life insurance, the contract refers to the life insurance policy, which outlines the terms and conditions of coverage.

2. From Policyholder to Assignee: In life insurance, the party transferring the rights is typically the policyholder, the individual who owns the life insurance policy. The party receiving the rights is known as the assignee. The assignee could be an individual, such as a family member or business partner, or an entity, such as a trust or corporation.

3. Rights to Receive Benefits: The benefits referred to in the assignment are those specified in the life insurance policy. These benefits usually include the death benefit, which is the amount paid out to beneficiaries upon the death of the insured, and any cash value that may have accumulated in the policy over time.

4. Purpose of Assignment: Assignment allows the policyholder to transfer ownership rights or interests in the life insurance policy to the assignee. This transfer could serve various purposes, such as estate planning, wealth transfer, collateral for a loan, or business succession planning.

5. Legal Process: Assignment is a legal process that typically requires the completion of an assignment form provided by the insurance company. Once the assignment is made, the assignee assumes the rights and obligations associated with ownership of the policy, including the right to receive benefits and the responsibility for paying future premiums.

6. Types of Assignment:

Absolute Assignment: In an absolute assignment, the policyholder transfers all ownership rights in the policy to the assignee. The assignee becomes the new owner of the policy and assumes full control over the policy, including the right to change beneficiaries, surrender the policy, or borrow against the cash value.

Collateral Assignment: In a collateral assignment, the policyholder assigns a portion of the policy's death benefit or cash value to the assignee as collateral for a loan or debt. Once the loan is repaid, the assignment is typically revoked, and ownership rights revert to the policyholder.

7. Effect of Assignment:

Once an assignment is made, the assignee assumes the rights and obligations associated with ownership of the policy. This may include the right to receive the death benefit upon the insured's death and the responsibility for paying future premiums.

The insurance company typically notifies the assignee of any changes to the policy, such as premium due dates, policy status, or benefit payouts.

Assignments are legally binding agreements and must be recorded with the insurance company to be enforceable.

8. Revocability: In most cases, assignments are irrevocable, meaning they cannot be reversed without the consent of the assignee. However, some assignments may be revocable if specified conditions are met or if both parties agree to revoke the assignment.

4.6 NOMINATION

Nomination is a crucial aspect of life insurance planning as it ensures that the financial benefits of the policy are directed to the intended recipients in a timely and efficient manner. It provides peace of mind to the policyholder knowing that their loved ones will be financially protected in the event of their death. Nomination is a valuable facility provided by life insurance policies that allows policyholders to designate beneficiaries to receive the policy proceeds upon their death. Governed by Section 39 of the Insurance Act, 1938, nomination is a legally binding process that plays a significant role in ensuring the smooth distribution of insurance benefits to the intended recipients.

Nomination Process:-

1. Nomination allows a policyholder to designate an individual or individuals to receive the proceeds of the policy upon the policyholder's death.
2. The nomination can be made either at the time of purchasing the policy or at any time before the policy matures for payment.
3. A nominee can be a minor, but in such cases, a major should be appointed to receive the proceeds on behalf of the minor.

Effectiveness of Nomination:

1. For a nomination to be effective, it must be incorporated within the policy either through text in the policy itself or through an endorsement to the policy.
2. The policyholder must communicate the nomination to the insurer, and the insurer must register the nomination in its records related to the policy.

Cancellation or Change of Nomination:

If a nomination is cancelled or changed by endorsement or will, the insurer is not liable for any payment made to the previous nominee unless notified of the change by the policyholder.

Maturity of Policy:

1. If the policy matures for payment during the lifetime of the policyholder, or if the nominee(s) die before maturity, the amount secured by the policy shall be payable to the policyholder, heirs, legal representatives, or the holder of a succession certificate.

2. If the nominee survives the insured person, the amount secured by the policy is payable to the survivor(s).

4.7 DIFFERENCE BETWEEN NOMINATION AND ASSIGNMENT:

Nomination and assignment are two distinct concepts in the context of life insurance, each serving different purposes and involving different legal implications. Here are the key differences between nomination and assignment:

1. Purpose:

Nomination: Nomination allows the policyholder to designate a specific individual or entity (the nominee) to receive the proceeds of the policy upon the policyholder's death. The primary purpose of nomination is to ensure the smooth transfer of benefits to the intended beneficiary.

Assignment: Assignment involves the transfer of ownership rights or interests in the life insurance policy from the policyholder to another individual or entity (the assignee). The purpose of assignment may vary, including estate planning, collateral for a loan, or transferring ownership of the policy.

2. Rights Granted:

Nomination: The nominee has the right to receive the proceeds of the policy upon the death of the policyholder. However, the nominee does not acquire any ownership rights or interests in the policy itself.

Assignment: The assignee acquires ownership rights or interests in the policy, including the right to make decisions regarding the policy, such as changing beneficiaries, surrendering the policy, or borrowing against the cash value.

3. Legal Implications:

Nomination: Nomination is governed by specific provisions in the insurance law, such as Section 39 of the Insurance Act, 1938 in India. A nomination does not confer any beneficial interest in the policy proceeds to the nominee; it only authorizes them to receive the benefits.

Assignment: Assignment is a legal transfer of ownership rights and interests in the policy, and it must be done in accordance with the relevant legal requirements. Once assigned, the assignee assumes the rights and obligations associated with ownership of the policy.

4. Revocability:

Nomination: Nomination can be revoked or changed by the policyholder at any time during the term of the policy. The policyholder can replace the nominee or cancel the nomination altogether.

Assignment: An assignment may be revocable or irrevocable, depending on the terms agreed upon between the policyholder and the assignee. Irrevocable assignments typically require the consent of the assignee to revoke or change.

5. Beneficial Interest:

Nomination: The nominee does not acquire any beneficial interest in the policy proceeds. They

are merely authorized to receive the benefits on behalf of the policyholder's estate or heirs.

Assignment: The assignee may acquire a beneficial interest in the policy proceeds, depending on the terms of the assignment. Irrevocable assignments may grant the assignee beneficial ownership of the policy.

4.8 TITLE AND CLAIMS IN LIFE INSURANCE

The ownership title to a life insurance contract is typically held by the Policyholder. However, if the policy is assigned, the title passes to the Assignee. In cases where a policy is assigned, the nomination is considered canceled, and the benefits become payable to the Assignee. For policies covering the life of a minor child, the parent or legal guardian holds the title until the child reaches the age of majority, at which point the title automatically vests in the life assured. Overall, understanding the ownership title of a life insurance policy is crucial for ensuring that benefits are distributed correctly and in accordance with the policy's terms. Whether held by the policyholder, assignee, or on behalf of a minor child, the title determines who has the right to receive the benefits provided by the policy. Following are the key features of title to the insurance contract

1. Ownership Title: A life insurance policy provides benefits both during the policyholder's lifetime (survival benefits) and upon their death (death benefits). It is crucial to establish who holds the ownership title to the policy, as this determines who is entitled to receive the benefits at different stages.

2. Policyholder's Ownership: Typically, the policyholder holds the title to the insurance contract. They are the individual who purchased the policy and are responsible for paying premiums. As the owner, they have the right to control the policy and receive its benefits.

3. Assignment of Policy: However, if the policy is assigned to another party, such as through a legal transfer, the ownership title transfers to the assignee. This means that the assignee assumes the right to receive all benefits under the policy, both survival and death benefits.

4. Effect on Death Benefits: In the event of the policyholder's death, if the policy has been assigned, the benefits pass directly to the assignee rather than to any previous nominee. The assignment effectively cancels any prior nominations.

5. Juvenile Policies: There are specific types of policies designed to cover the life of a minor child, known as "juvenile" policies. In these cases, the parent or legal guardian typically holds the title to the policy on behalf of the child until they reach the age of majority.

6. Automatic Vesting: The policy provisions are structured so that upon reaching the age of majority, the ownership title automatically transfers to the life assured (the child). This ensures that the child becomes the rightful owner of the policy and can access its benefits accordingly.

Claim: Claims under a life insurance contract are triggered by events covered in the policy, such as death or survival events. Examples of survival claims include policy maturity, surrender, milestone payments, or critical illness covered as a rider benefit. The insurer needs to verify that the event triggering the claim meets the policy conditions. However, complexities arise in cases

where critical illness claims are involved and the policy is assigned. In such situations, educating the policyholder about the extent of benefits that can be assigned through conditional assignments is crucial. Upon the triggering of a maturity or death claim, the insurance cover under the contract terminates, regardless of whether the claim is paid. Section 47 of the Insurance Act, 1938, provides a mechanism for insurers to pay the claim amount into court when faced with conflicting claims or insufficient proof of title to the rightful claimant.

Following are the key features of claim

1. Types of Claims:

- a) A claim under a life insurance contract is activated by certain events covered in the policy.
- b) Two main types of claims are distinguished: survival claims and death claims.
- c) Survival claims occur when specific events, such as policy maturity, surrender, reaching milestones in a money-back policy, or critical illnesses covered as rider benefits, take place during the policy's term.
- d) Death claims are activated upon the death of the life assured.

2. Claim Verification Process:

- a) For a survival claim to be paid out, the insurer must verify that the triggering event has occurred according to the policy's conditions.
- b) Maturity, money-back, and surrender claims are relatively straightforward to verify, as they are based on specific dates or actions taken by the policyholder.
- c) Critical illness claims require scrutiny of medical records provided by the policyholder to support their claim.

3. Complexities with Assigned Policies: complexities arising when a policy with a critical illness rider is assigned. While it's intended that critical illness benefits should assist the policyholder with expenses, if the policy is assigned, all benefits go to the assignee, which might not align with the original purpose. To address this, it's suggested to educate policyholders on the extent to which benefits can be assigned through conditional assignments.

4. Impact on Insurance Cover:

- a. Triggering a maturity or death claim results in termination of the insurance cover under the contract, regardless of whether the claim is paid out.
- b. Non-payment of a claim does not ensure the continuity of insurance cover.

5. Challenges in Claim Settlement: Sometimes, insurers face difficulties settling death claims due to various reasons:

- a. Absence of nomination by the policyholder.
- b. Registration of an assignment.
- c. Multiple claimants with conflicting claims and insufficient proof of title.

- d. Legal disputes, such as property disputes involving insurance claims.
- e. Instances where obtaining a satisfactory discharge from the claimant is impossible.

Section 47 provides a legal framework for insurers to handle complex claim situations by paying the claim amount into Court, where the Court ultimately decides on the disposal of the amount among conflicting claimants. Section 47 cover the following points:

1. **Application to Pay Amount into Court:** If an insurer determines that it's impossible to obtain a satisfactory discharge for the payment of the claim amount due to conflicting claims or lack of proof of title, the insurer may apply to pay the amount into the Court. This application is made to the Court within the jurisdiction where the amount is payable under the terms of the policy.
2. **Receipt from the Court:** Once the payment is made into the Court, a receipt granted by the Court serves as a satisfactory discharge to the insurer for the payment of the claim amount.
3. **Application Procedure:** The application to pay the amount into Court is made through a petition verified by an affidavit signed by a principal officer of the insurer. The petition includes various particulars such as the insured person's name and address, nature of the policy, details of claimants and notices of claim received, reasons for the inability to obtain a satisfactory discharge, and the insurer's address for service of notices related to the disposal of the amount.
4. **Time Limit for Application:** The Court will not entertain an application made before six months from the maturity of the policy by survival or from the date of notice of the insured's death.
5. **Investment of Amount:** If the Court determines that a satisfactory discharge cannot be obtained by the insurer, it allows the amount to be paid into Court and invests the amount in Government securities pending its disposal.
6. **Transmittal of Notices and Costs:** The insurer is required to transmit every notice of claim received after the application is made to the Court. Costs associated with the proceedings, including the application, are borne by the insurer.
7. **Notice to Claimants:** The Court is responsible for providing notice to every ascertained claimant that the amount has been paid into Court. The Court also provides notice, at the cost of any claimant applying to withdraw the amount, to every other ascertained claimant.

Claims on small life insurance policies: 47A (1) cover the procedures and regulations governing the claims process for small life insurance policies. It emphasizes transparency, efficiency, and promptness in claims processing, ensuring that claimants are informed of any requirements or queries, and providing mechanisms for dispute resolution and compensation for delays.

1. Dispute Resolution for Small Policies (Section 47A): This section applies to disputes related to the settlement of claims on life insurance policies assuring a sum not exceeding two thousand rupees. Disputes between the claimant and the insurer can be referred to the Authority for decision at the claimant's option. The decision of the Authority is final and cannot be challenged in any court.

2. Claims Procedure (Regulation 8): Life insurance policies must specify the primary documents required to be submitted by a claimant to support a claim. Upon receiving a claim, the insurance company must process it without delay. Any queries or requests for additional documents should be communicated to the claimant within 15 days of receiving the claim, in a comprehensive manner rather than piecemeal. Claims must be paid or disputed, with reasons provided, within 30 days of receiving all relevant papers and clarifications. If further investigation is necessary, it should be initiated and completed within six months of lodging the claim. If a claim is ready for payment but cannot be made due to issues with proper identification of the payee, the insurer must hold the amount for the benefit of the payee, earning interest at the rate applicable to a savings bank account. If there is a delay in processing a claim for reasons other than identification issues, the insurer must pay interest on the claim amount at a rate 2% above the bank rate prevalent at the beginning of the financial year in which the claim is reviewed.

4.9 CONCEPT OF TRUSTS IN LIFE POLICY

Trusts in life insurance policies offer various benefits, including estate planning, creditor protection, and ensuring prudent management of policy proceeds for beneficiaries. The Married Women's Property Act, 1874 further reinforces the protection of benefits for wives and children under such policies. A Trust under a life insurance policy is created by the Policyholder holding the policy on his own life and where the survival benefits inure to the policyholder. The Trust is set-up under an irrevocable, non-amendable Trust Deed and can hold one or more insurance policies.

- 1. Necessity of Trusts:** Trusts in life insurance policies were originally necessitated by the imposition of estate duty on the transfer or inheritance of benefits under such policies, including annuities.
- 2. Abolition of Estate Duty:** With the abolition of estate duty in India, the preference for using trusts may have diminished, but it's still beneficial to understand the concept in detail.
- 3. Creation of Trust:** A trust under a life insurance policy is established by the policyholder holding the policy on their own life, with the survival benefits accruing to them. The trust is formed through an irrevocable, non-amendable trust deed and can hold one or more insurance policies. It's essential to appoint a trustee to administer the trust property, which includes the benefits under the life policy.
- 4. Operation of Trust:** By creating a trust, the policyholder relinquishes their rights under the policy. Upon the death of the life insured, the trustee invests the insurance proceeds and administers the trust for one or more beneficiaries. While it's common to create the trust for the benefit of the spouse and children, beneficiaries can be any legal person.
- 5. Benefits of Trusts:** Creating a trust ensures prudent investment of policy proceeds during the beneficiary's minority and safeguards benefits against future creditors.
- 6. Married Women's Property Act, 1874:** Section 6 of this Act provides for the creation of a

trust in life insurance policies. It states that a policy of insurance taken out by a married man on his own life for the benefit of his wife or children is deemed to be a trust for their benefit. Such policies are not subject to the control of the husband or his creditors as long as the trust's objectives remain. If no special trustee is appointed, the sum secured under the policy becomes payable to the Official Trustee of the State where the insurance office is located.

7. Protection of Creditors: The creation of a trust under the Act does not impede the rights of creditors to be paid out of the policy proceeds, provided that the policy was not effected with the intent to defraud creditors.

4.10 SUMMARY

In summary, the law relating to life insurance governs the formation, execution, and enforcement of life insurance contracts, emphasizing principles of good faith, indemnity, and fairness in claims settlement. Proposals and policies are essential components of the insurance process, and policyholders have rights regarding assignments, nominations, and claims settlement, ensuring transparency and protection for all parties involved.

- i. **General Principles of Life Insurance Contracts:** Life insurance contracts are agreements between an insurer and a policyholder, where the insurer agrees to pay a specified sum of money upon the death of the insured or upon the maturity of the policy. These contracts are governed by principles of utmost good faith, meaning both parties must disclose all relevant information truthfully and fully. Life insurance contracts are based on the principle of indemnity, where the insurer compensates the insured for the loss suffered due to the insured event.
- ii. **Proposals and Policies:** A proposal is an application for insurance submitted by the proposer to the insurer, containing details about the insured's health, lifestyle, and other relevant factors. Upon acceptance of the proposal, the insurer issues a policy document outlining the terms and conditions of the insurance coverage. The policy specifies the premium amount, coverage period, beneficiaries, and other essential terms of the insurance contract.
- iii. **Assignments and Nominations:** Policyholders have the right to assign their life insurance policies to another person or entity. An assignment transfers the rights and benefits of the policy to the assignee. Assignments can be partial or absolute, and they must be executed in writing and endorsed by the insurer. Policyholders can nominate individuals or entities to receive the policy benefits in the event of their death. Nomination provides clarity regarding the distribution of benefits and facilitates smoother claims processing.
- iv. **Title and Claims:** The title to a life insurance policy represents the legal ownership of the policy. The policyholder holds the title until it is assigned or transferred to another party. Upon the death of the insured or the maturity of the policy, beneficiaries or nominees are entitled to make a claim for the insurance proceeds. The process of claims settlement involves the submission of relevant documents, such as the death certificate and policy documents, to the insurer. Insurers are required

to process claims promptly and fairly, adhering to the terms and conditions outlined in the policy contract and applicable laws.

- v. **Trust in Life Insurance:** Trust is the cornerstone of life insurance, providing assurance to policyholders that their loved ones will receive financial support in the event of their demise.

GLOSSARY

- **Beneficiary:** A person or entity designated to receive the proceeds of a life insurance policy upon the death of the insured.
- **Policyholder:** The individual or entity that owns the life insurance policy and pays the premiums to the insurer.
- **Insurer:** The insurance company that provides coverage and pays out benefits under the life insurance policy.
- **Premium:** The payment made by the policyholder to the insurer in exchange for coverage under the life insurance policy.
- **Sum Assured:** The guaranteed amount that will be paid out to the beneficiary upon the death of the insured.
- **Assignment:** The transfer of rights or interests in a life insurance policy from the policyholder to another party, such as a creditor or a family member.
- **Nomination:** The designation of a specific individual or entity as the beneficiary of a life insurance policy.
- **Trust:** A legal arrangement where a trustee holds the life insurance policy proceeds for the benefit of the beneficiaries according to the terms of the trust.
- **Irrevocable Trust:** A trust that cannot be changed or revoked by the policyholder once it has been established.
- **Revocable Trust:** A trust that can be changed or revoked by the policyholder during their lifetime.

Long Answer Type Questions

- a) Explain the legal principles that govern life insurance contracts and how they influence the relationship between insurers and policyholders.
- b) Discuss the significance of utmost good faith in life insurance contracts and provide examples of how this principle is applied in practice.
- c) What role does insurable interest play in the validity and enforceability of life insurance contracts? How is insurable interest determined in different contexts?
- d) Describe the process of proposing and issuing a life insurance policy, including the responsibilities of both the insurer and the policyholder.

- e) Examine the legal mechanisms by which a life insurance policy can be assigned to another party and the implications of such assignments on the rights of the original policyholder and the assignee.
- f) Discuss the importance of nominations in life insurance policies and explain the difference between revocable and irrevocable nominations.
- g) Explain the concept of title in the context of life insurance policies and how it impacts the ownership and transferability of such policies.
- h) Outline the steps involved in making a claim under a life insurance policy, from the initial notification of the insurer to the disbursement of proceeds to the beneficiaries.
- i) Discuss the common exclusions and limitations found in life insurance policies and their legal implications for policyholders and beneficiaries.
- j) Examine the legal principles that govern the resolution of disputes related to life insurance claims, including the role of courts and regulatory bodies in ensuring fair outcomes.

Short Answer Type Questions

- a) What are the fundamental principles governing life insurance contracts?
- b) How does the principle of indemnity apply to life insurance contracts?
- c) Define a life insurance proposal and explain its importance in the insurance process.
- d) What information is typically included in a life insurance proposal?
- e) Describe the elements commonly found in a life insurance policy document.
- f) What is meant by the assignment of a life insurance policy?
- g) Why is the nomination of beneficiaries important in life insurance policies?
- h) Explain the concept of title in the context of life insurance policies.
- i) Describe the insurer's responsibilities regarding claims settlement under the law.
- j) How do these laws protect the interests of policyholders and beneficiaries?

Suggested Readings:

- a) Banking and Insurance - Law and Practice, The Institute of Company Secretaries of India (ICSI)
- b) Bodla, B.S., Garg M.C. & Singh K.P. (2003), *Insurance: fundamentals. environment and procedures*. Deep & Deep Publications Pvt Ltd
- c) C.L.Tyagi, C.L. & Madhu Tyagi, M.(2007). *Insurance - Law and Practice*, Atlantic Publishers & Dist,
- d) Krishnaswamy, G. (2009), *Principles and Practice of Life Insurance*, Excel Books.
- e) Life Insurance Corporation Act, 1956.

- f)** Mishra, M.N. (1979) *Insurance Principles and Practice*; S. Chand and Co., New Delhi.
- g)** Misra, M.N. and Mishra, S.B. (2009), *Insurance Principles and Practices*, S. Chand Publication.
- h)** Narayanan,H.(2008), *Indian Insurance - A Profile*, Jaico Publishing House; First Edition
- i)** O.S. Gupta Life Insurance (Frank Brothers, New Delhi)
- j)** Sahoo and Das (2009), *Insurance Management: Text and Case*, Himalaya Publication.
- k)** Sharma R.S. (1953) *Insurance Principles and Practices*, Vora Publications.
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SEMESTER-VI
COURSE: FUNDAMENTAL OF INSURANCE

Unit -5

Role, Functions and Policies, Modern Life Insurance in India, Private Sector Companies in Life Insurance Sector, Recent Trends in Life Insurance

STRUCTURE

- 5.1 Introduction
- 5.2 Role and Function of Life Insurance Companies
- 5.3 Modern Life Insurance in India
- 5.4 Sector Companies in Life Insurance Sector
- 5.5 Recent Trends in Life Insurance
- 5.6 Summary
- 5.7 Glossary

Self-Assessment Questions

Suggested Reading

5.0 Objectives

- Students can gain a comprehensive understanding of the modern life insurance landscape in India, enabling them to make informed decisions, navigate complexities, and contribute effectively to the sector's growth and development.
- Gain insight into various life insurance policies available in India, including term insurance, whole life insurance, endowment plans, ULIPs (Unit Linked Insurance Plans), and pension plans. Understand their features, benefits, and suitability for different individuals' needs.
- Familiarize with the regulatory framework governing the life insurance sector in India, including the Insurance Regulatory and Development Authority of India (IRDAI) Act, regulations, and guidelines. Understand the role of IRDAI in overseeing the functioning of insurance companies and protecting policyholders' interests.
- Gain knowledge about the leading private sector life insurance companies operating in India, including their market share, financial performance, product offerings, distribution channels, and customer service initiatives.

5.1 INTRODUCTION

The life insurance sector in India continues to evolve, driven by technological advancements, changing consumer preferences, and innovative product offerings from both public and private sector companies. India's life insurance sector comprises both public and private sector companies. Private sector companies have played a key role in expanding the reach of life insurance products and enhancing customer service standards. Some prominent private sector life insurance companies in India include ICICI Prudential Life Insurance, HDFC Life Insurance, SBI Life Insurance, and Max Life Insurance, among others. In India, the life insurance sector has witnessed significant growth and transformation in recent years, driven by factors such as increasing awareness, rising disposable income, and favourable government policies. Modern life insurance companies in India offer a wide range of innovative products and services tailored to meet the diverse needs of customers. Trust in life insurance plays a crucial role in the insurance sector, particularly in ensuring the financial security of individuals and their families. Trust forms the cornerstone of life insurance, providing financial security, risk management, and peace of mind to policyholders and their beneficiaries.

5.2 ROLE AND FUNCTION OF LIFE INSURANCE COMPANIES

Life Insurance Companies in India have a big role to play. It is the life insurance Companies which collects the savings of a person and converts into the wealth. life insurance companies serve as vital financial intermediaries that provide individuals and businesses with risk management, financial protection, wealth accumulation, and long-term financial planning solutions. Their role in the economy extends beyond providing insurance coverage to contributing to economic growth, employee benefits, and consumer education. The functions and role of Life Insurance Company may be understood as:

1. **Risk Transfer:** One of the primary functions of life insurance companies is to transfer the financial risk of unforeseen events, such as death, disability, or critical illness, from individuals or businesses to the insurance company. Policyholders pay premiums to the insurance company in exchange for coverage against these risks.
2. **Financial Protection:** Life insurance companies offer financial protection to policyholders and their beneficiaries by providing a lump sum or periodic payments in the event of the insured individual's death, disability, or illness. This protection ensures that beneficiaries can maintain their financial security and standard of living in the absence of the primary breadwinner.
3. **Wealth Accumulation:** Life insurance policies often include a savings or investment component that allows policyholders to accumulate wealth over time. These policies, such as whole life insurance or unit-linked insurance plans (ULIPs), offer a combination of

insurance coverage and investment opportunities, enabling policyholders to build savings for future needs, such as retirement or education expenses.

4. **Financial Planning:** Life insurance companies play a vital role in helping individuals and businesses with long-term financial planning. By offering a range of insurance products tailored to different needs and risk profiles, they assist clients in assessing their financial goals, identifying potential risks, and selecting appropriate coverage options to achieve financial security and stability.
5. **Risk Management:** Life insurance companies engage in risk management practices to assess, mitigate, and spread the risks associated with insurance policies. Through actuarial analysis, underwriting processes, and investment strategies, they ensure that they can meet their financial obligations to policyholders while maintaining solvency and profitability.
6. **Economic Contribution:** Life insurance companies contribute to the overall economy by mobilizing savings and channeling them into productive investments. They invest premiums received from policyholders in various asset classes, such as stocks, bonds, real estate, and infrastructure, thereby fostering economic growth and development.
7. **Employee Benefits:** Life insurance companies offer group insurance products to businesses for their employees, including group term life insurance, group health insurance, and retirement benefits. These employee benefits help employers attract and retain talent, promote employee welfare, and enhance overall organizational performance.
8. **Consumer Education:** Life insurance companies engage in consumer education initiatives to raise awareness about the importance of insurance, the benefits of various insurance products, and the significance of financial planning. By providing information, resources, and financial literacy programs, they empower individuals to make informed decisions about their insurance needs and coverage options.

5.3 MODERN LIFE INSURANCE IN INDIA

Modern life insurance in India reflects a dynamic and competitive market where insurers continually strive to meet the changing needs of consumers. Individuals are encouraged to carefully assess their financial goals and select policies that align with their requirements. Seeking guidance from financial advisors and comparing policies from different insurers can aid in making well-informed decisions. Modern life insurance in India has evolved to offer a diverse range of products and services, combining traditional protection with innovative features to cater to the evolving needs of policyholders. The life insurance sector in India is regulated by the Insurance Regulatory and Development Authority of India (IRDAI), ensuring consumer protection and fair market practices. Here's an overview of modern life insurance in India:

1. Product Diversity:

Term Insurance: Provides pure life coverage for a specified term. If the policyholder dies during the term, the death benefit is paid to the beneficiaries.

Whole Life Insurance: Offers coverage for the entire lifetime of the insured and includes a savings component with a cash value.

Unit-Linked Insurance Plans (ULIPs): Combines life insurance with investment options. Policyholders can allocate premiums to different funds, providing market-linked returns.

Endowment Plans: Combines insurance coverage with savings, paying out a lump sum on maturity or as a death benefit.

Money Back Policies: Provides periodic pay-outs during the policy term, offering liquidity and survival benefits.

2. Online Presence:

Many insurers in India have embraced digital channels, allowing individuals to research, compare, and purchase policies online. Online platforms simplify the buying process and provide access to a variety of plans.

3. Riders and Add-ons:

Policyholders can enhance coverage by adding riders or additional benefits to their base policies. Common riders include critical illness cover, accidental death benefit, and waiver of premium in case of disability.

4. Underwriting Practices:

The underwriting process often includes a thorough assessment of the applicant's health, lifestyle, and financial situation. Medical examinations may be required for higher coverage amounts.

5. Technology Integration:

Insurers leverage technology for policy servicing, premium payments, and claims processing. Mobile apps and online portals facilitate easy access to policy information and services.

6. Customer-Centric Approach:

Insurers focus on customer satisfaction by offering personalized solutions, transparent communication, and efficient claims settlement processes.

7. Simplified Issuance:

Many insurance products in India offer simplified underwriting processes for smaller coverage amounts, making it easier for individuals to obtain coverage without extensive medical examinations.

8. Financial Planning Services:

Insurers often provide financial planning tools and services to help policyholders assess their needs, set goals, and choose appropriate insurance coverage.

9. Regulatory Compliance:

The IRDAI ensures that insurers adhere to regulatory guidelines, protecting the interests of

policyholders. Regulations may cover aspects like product features, pricing, and solvency ratios.

10. Education and Awareness:

Insurers conduct educational campaigns to increase awareness about the importance of life insurance and the various products available. This helps individuals make informed decisions based on their needs.

11. Sustainability Initiatives:

Some insurers in India incorporate sustainability and social responsibility into their operations, contributing to community development and environmental conservation.

5.4 SECTOR COMPANIES IN LIFE INSURANCE SECTOR

India's life insurance sector comprises both public and private sector companies. Private sector companies have played a key role in expanding the reach of life insurance products and enhancing customer service standards. Some prominent private sector life insurance companies in India include ICICI Prudential Life Insurance, HDFC Life Insurance, SBI Life Insurance, and Max Life Insurance, among others.

- 1. HDFC Life Insurance Company Limited:** One of the leading private life insurers in India, HDFC Life offers a diverse range of insurance products, including term plans, savings and investment plans, and health insurance.
- 2. ICICI Prudential Life Insurance Company Limited:** A joint venture between ICICI Bank and Prudential Corporation Holdings Limited, ICICI Prudential is known for its wide array of life insurance products, including term plans, ULIPs, and endowment plans.
- 3. SBI Life Insurance Company Limited:** A joint venture between the State Bank of India (SBI) and BNP Paribas Cardif, SBI Life is among the largest private life insurers in India. It offers various life insurance products catering to different customer needs.
- 4. Max Life Insurance Company Limited:** A joint venture between Max Financial Services and Mitsui Sumitomo Insurance Company, Max Life is known for its customer-centric approach and diverse product portfolio, including term plans and savings-oriented policies.
- 5. Reliance Nippon Life Insurance Company Limited (Now HDFC Life):** Reliance Nippon Life Insurance was a major player before its merger with HDFC Life. The combined entity operates as HDFC Life Insurance Company Limited.
- 6. Aditya Birla Sun Life Insurance Company Limited:** Part of the Aditya Birla Group, this insurance company provides a range of life insurance products, including protection plans, savings plans, and retirement solutions.
- 7. Kotak Mahindra Old Mutual Life Insurance Limited (Now Kotak Mahindra Life Insurance):** This company is a joint venture between Kotak Mahindra Bank and Old

Mutual. It offers various life insurance solutions, including term plans, ULIPs, and savings plans.

8. **Bajaj Allianz Life Insurance Company Limited:** A joint venture between Bajaj Finserv and Allianz SE, Bajaj Allianz Life is known for its innovative insurance products, including ULIPs, retirement plans, and child plans.
9. **Exide Life Insurance Company Limited:** Formerly known as ING Vysya Life Insurance, Exide Life is a part of the Exide Industries group. It provides a range of life insurance products and solutions.
10. **PNB MetLife India Insurance Company Limited:** A joint venture between Punjab National Bank, MetLife International Holdings, and other private investors, PNB MetLife offers a variety of life insurance products.

5.5 RECENT TRENDS IN LIFE INSURANCE

It's important to note that the insurance industry is dynamic, and trends may continue to evolve based on technological advancements, regulatory changes, and shifting consumer preferences. For the latest and most accurate information, it's recommended to refer to recent reports, industry publications, and official announcements from insurance regulatory bodies. Following are some general trends that were prevalent in the life insurance industry.

- a. **Digital Transformation:** Online Sales and Servicing: The industry has been increasingly leveraging digital channels for policy sales, customer service, and claims processing. Many insurers have developed user-friendly websites and mobile apps to enhance the customer experience.
- b. **Customization and Personalization:** Tailored Products: Insurers have been moving towards offering more personalized and customized life insurance products. This includes policies that cater to specific demographics, such as millennial, and policies that can be tailored to individual needs and preferences.
- c. **Health and Wellness Integration:** Incentivizing Healthy Lifestyles: Some insurers have been incorporating wellness programs and incentives into their policies, encouraging policyholders to adopt healthier lifestyles. This may involve discounts, rewards, or access to health and fitness services.
- d. **Data Analytics and Underwriting:** Advanced Underwriting Techniques: The use of data analytics and artificial intelligence has allowed insurers to refine

underwriting processes. This includes more accurate risk assessments based on comprehensive data analysis.

- e. **Evolving Product Offerings:** Hybrid Products: There has been a trend towards hybrid products that combine life insurance with other financial components, such as savings or investment features. Unit-linked insurance plans (ULIPs) are an example of such hybrid products.
- f. **Rise of Term Insurance:** Increased Awareness: Term life insurance, offering pure protection without a savings component, has gained popularity. There's an increasing awareness among consumers about the importance of having adequate life coverage.
- g. **Sustainability and ESG:** Environmental, Social, and Governance (ESG) Considerations: Some insurers are incorporating ESG principles into their operations and investment decisions. This includes a focus on environmentally sustainable practices, social responsibility, and governance.
- h. **Regulatory Changes:** Adaptation to Regulatory Reforms: Insurers are adapting to regulatory changes, ensuring compliance with new guidelines and addressing the evolving regulatory landscape set by authorities such as the Insurance Regulatory and Development Authority of India (IRDAI).
- i. **Cyber security Measures:** Protection against Cyber Threats: With increased reliance on digital platforms, insurers are prioritizing cyber security measures to protect customer data and ensure the integrity of online transactions.
- j. **Customer-Centric Approach:** Enhanced Customer Engagement: Insurers are focusing on building a customer-centric approach by improving communication, simplifying processes, and providing better post-sales services.
- k. **Partnerships and Collaborations:** Insurtech Collaborations: Insurers have been exploring partnerships with insurtech companies to enhance technological capabilities, streamline processes, and bring innovation to the industry.
- l. **Pandemic-Driven Changes:** Remote Work and Virtual Services: The COVID-19 pandemic has accelerated the adoption of remote work and virtual services, prompting insurers to enhance digital

5.6 SUMMARY

In essence, trust underpins the functioning of life insurance, enabling insurers to provide

financial protection and support to policyholders and their beneficiaries. Modern insurance in India, with the participation of private sector companies, reflects an evolving landscape characterized by innovation, customer-centricity, and adaptability to emerging trends and technologies. Trust in life insurance is fundamental to the functioning of the industry, serving as the bedrock upon which policies, functions, and operations are built. Here's a summary covering the concept of trust in life insurance, its role, functions, policies, modern insurance in India, private sector involvement, and recent trends:

- **Trust in Life Insurance:** Trust is the cornerstone of life insurance, providing assurance to policyholders that their loved ones will receive financial support in the event of their demise.
- **Role and Functions:** Trust enables life insurance companies to fulfilled critical functions, including offering financial security, managing risks, serving as long-term savings vehicles, and providing peace of mind to policyholders.
- **Types of Policies:** Life insurance policies vary, including term life insurance (covering a specific period), whole life insurance (covering the entire lifespan), and endowment policies (combining coverage with savings/investment components).
- **Modern Insurance in India:** India's life insurance sector has witnessed significant modernization, driven by increased awareness, rising incomes, and supportive government policies. Companies offer a diverse range of products and services tailored to meet evolving customer needs.
- **Private Sector Companies:** Alongside public insurers, private sector companies play a vital role in India's life insurance sector. Leading private insurers include ICICI Prudential, HDFC Life, SBI Life, and Max Life, contributing to sector growth and innovation.
- **Recent Trends:** Recent trends in life insurance encompass digital transformation, customized products, a focus on health and wellness, and innovative distribution channels. Insurers leverage technology, offer personalized solutions, emphasize health-related products, and explore alternative distribution avenues to adapt to changing consumer preferences and market dynamics.

5.7 Glossary

1. **Insurance Regulatory and Development Authority of India (IRDAI):** The regulatory body responsible for overseeing the insurance industry in India, including licensing, regulation, and protection of policyholders' interests.

2. **Premium Payment Frequency:** The frequency at which policyholders pay their insurance premiums, such as monthly, quarterly, semi-annually, or annually.
3. **Digitalization:** The process of incorporating digital technologies and platforms into insurance operations, including online policy sales, claims processing, customer service, and distribution channels.
4. **Insurtech:** The intersection of insurance and technology, encompassing innovations such as artificial intelligence, machine learning, blockchain, and data analytics to improve efficiency, customer experience, and risk management in the insurance industry.
5. **Microinsurance:** Insurance products specifically designed to cater to the needs of low-income and underserved populations, offering affordable coverage for risks such as health, life, property, and livelihood.
6. **Health Insurance:** Insurance coverage that provides financial protection against medical expenses incurred due to illness, injury, or hospitalization. Health insurance policies in India may cover hospitalization expenses, outpatient treatment, and other healthcare-related costs.
7. **Online Insurance Aggregators:** Digital platforms that allow consumers to compare, purchase, and manage insurance policies online from multiple insurance companies, offering convenience and transparency in the insurance buying process.
8. **Claim Settlement Ratio:** The ratio of the number of claims settled by an insurance company to the total number of claims received during a specific period. A higher claim settlement ratio indicates better claim settlement performance and customer service.
9. **Persistency Ratio:** The percentage of policyholders who continue to renew their insurance policies with the same insurer over time. Higher persistency ratios indicate better customer retention and loyalty.
10. **Solvency Ratio:** A measure of an insurance company's financial strength and ability to meet its financial obligations, calculated by comparing its capital and assets to its liabilities. Regulatory authorities require insurance companies to maintain minimum solvency ratios to ensure financial stability and policyholder protection.
11. **Product Innovation:** The development and introduction of new insurance products and services tailored to evolving customer needs, market trends, and regulatory changes. Product innovations may include customizable coverage options, bundled policies, and value-added services.

12. **Bancassurance:** A distribution channel where insurance products are sold through banks, leveraging their extensive network of branches and customer base. Bancassurance partnerships enable insurance companies to reach a wider audience and offer insurance solutions alongside banking products.

SELF ASSESSMENT QUESTIONS

Long answer type questions:

- a) What are the primary roles and functions of life insurance in the Indian financial landscape, and how have they evolved over time?
- b) Discuss the key policy types offered by life insurance companies in India, highlighting their features, benefits, and suitability for different individuals' financial goals and risk profiles.
- c) How do private sector life insurance companies in India compete with each other, and what strategies do they employ to attract and retain customers in a highly competitive market?
- d) Analyze the regulatory framework governing the life insurance sector in India, including the role of the Insurance Regulatory and Development Authority of India (IRDAI) in safeguarding policyholders' interests and ensuring market stability.
- e) Explore the recent trends and innovations in the Indian life insurance industry, such as digitalization, InsurTech advancements, and product innovations, and assess their impact on the market landscape.
- f) What are the challenges and opportunities faced by private sector life insurance companies in India in adapting to changing consumer preferences, technological advancements, and regulatory reforms?
- g) Discuss the role of bancassurance in the distribution of life insurance products in India, highlighting its benefits, challenges, and implications for insurers, banks, and consumers.
- h) Evaluate the performance and market positioning of leading private sector life insurance companies in India, considering factors such as market share, financial strength, product offerings, and customer service.
- i) How do recent demographic and socioeconomic trends in India, such as urbanization, rising income levels, and aging population, impact the demand for life insurance products and services?

- j) Analyze the ethical considerations and social responsibilities of private sector life insurance companies in India, particularly in areas such as fair treatment of customers, transparency, and corporate citizenship.

Short answer type questions

1. What are the primary functions of life insurance in India?
2. Name three common types of life insurance policies available in India.
3. Which regulatory body oversees the insurance industry in India?
4. What recent technological trends are shaping the Indian life insurance sector?
5. Give an example of a recent product innovation in the Indian life insurance industry.
6. What is bancassurance, and how does it impact the distribution of life insurance products?
7. Name two leading private sector life insurance companies in India.
8. What is the claim settlement ratio, and why is it important for policyholders?
9. How do demographic changes influence the demand for life insurance in India?
10. Discuss the role of private sector life insurance companies in promoting financial inclusion in India.

Suggested Readings:

- Banking and Insurance - Law and Practice, The Institute of Company Secretaries of India (ICSI)
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Unit-6: General Insurance: Meaning and origin, growth of General Insurance, nature of general insurance, different types of general insurance, law relating to general insurance organization and management of general insurance in India.

STRUCTURE

6.0 Objectives

6.1 Introduction

6.2 Meaning and Origin

6.2.1 Origin

6.3 Growth of General Insurance

6.4 Nature of General Insurance

6.5 Types of General Insurance

6.6 Laws relating to General Insurance Organization in India

6.7 Management of General Insurance in India

6.8 Summary

Glossary

Long answer type questions

Short answer type questions

Suggested Readings

6.0 Objectives

After reading this chapter student will be able to understand

- The general insurance origin and its growth along with its types
- The laws and management of general insurance in India.

6.1 Introduction

General insurance has gained momentum over the period of time as compared to life insurance in India. General insurance has the potential to provide risk coverage against a variety of risks which may be instrumental in providing support in the event of crisis. General insurance provides risk coverage against any financial loss suffered to the subject matter covered due to numerous reasons such as fire, perils of sea, theft, riots etc.

It provides protection to our valuables and provide them protection against any type of risk covered under the general insurance policy. There are many companies which provide general insurance in India. The party known as the 'insurer' is responsible for bearing the risk. And the 'insured' is one whose risk is covered by the insurer. The insurer covers the

risk in exchange of premium which may be paid depending on the policy norms of the company by the insured. Sometimes the policyholder i.e., the insured also has to pay an amount out of his pocket known as deductible. The rest of the amount of claim is to be paid by the insurer in the event of loss or damage.

6.2 Meaning and Origin

Insurance is defined as a contract which is entered by two parties where one party promises to fulfill the loss of another party in return of consideration referred to as premium. In other words, risk of one party is covered by another party on the happening of an uncertain event. The insurer may bear the loss or indemnify the other party in case of general insurance or non-life insurance. Any insurance which is not determined by life insurance is general insurance like fire, marine, motor and burglary insurance etc. General insurance provides protection to the assets of the insured or policyholder. Thus, it gives a kind of relief to the insured in the event of loss.

The general public, commercial organizations, industries, traders, associations can be the buyers of general insurance. The general insurance policy can be bought through all the licensed intermediaries like the agents, brokers, financial institutions like banks, corporate agents etc. Such intermediaries must be duly licensed by the Insurance Regulatory and Development Authority (IRDA). The intermediaries are defined as:

- Agent is a person aged 18 years, must have passed 12th standard and undergone a training program of 50 hours of life or general insurance business recognized by IRDA can become an insurance agent. The agent is paid commission for discharging its functions as per the guidelines issued by the IRDA.
- A Corporate Agent is one who holds a license to act as an insurance agent for a life insurer and a general insurer. Bancassurance is another type of channel through which insurance policies are sold i.e., a strategic alliance between a bank and an insurance company. In other words, the insurance products are sold through a bank by an insurance company. For e.g. LIC has a strategic alliance with Punjab & Sind Bank.
- Broker is a highly professional individual who is licensed to provide professional advice to the clients. A broker can be a firm, company or an individual who gives his advice to the people who wants to invest or buy an insurance policy with the insurer. A broker must be professionally competent and be able to guide the policyholders on various matters of insurance. The brokers are usually paid by the insurer for whom they get the business.

6.2.1 Origin

The evolution of general insurance business relates to the East India Company. A company named Triton Insurance Company Ltd. was formed in the year 1850 in Calcutta by the British in order to trade all kinds of General Insurance in India. Later in the year 1907,

Indian Mercantile Insurance Ltd. was established to carry out all categories of business in the general insurance sector.

In order to maintain transparency and fairness in the general insurance business, the General Insurance Council was formed in the year 1957, which was part of the Indian association of insurance. Later in the year 1968, the amendment was made in the Insurance Act to fix the minimum solvency margins along with an objective to regulate investments. A tariff advisory committee was set up following the amendment in the Insurance Act.

With the nationalization of the General Insurance Business by the general insurance Business (Nationalization) Act in 1972(GIBNA), the Government of India bought 55 shares of the 55 Indian Insurance companies along with the undertakings of 52 insurers carrying on general Insurance business. Many companies like United India Insurance Company Ltd., United India Insurance Company Ltd., the Oriental Insurance Company Ltd. and The National Insurance Company Ltd., were formed through the amalgamation of 107 insurers. General Insurance Corporation was formed in 1971 and began operations on January 1, 1973 under the Companies Act, 1956.

Soon after the establishment of GIC, all the general insurance shares of the Government of India were transferred to it along with the government's nationalized undertakings. Looking at the major reforms in the insurance sector the government set up a committee under the chairmanship of R N Malhotra, former Governor of RBI. Amongst the major recommendations of the committee was the permission of private companies in the insurance business in India.

Following the recommendations of the committee, Insurance Regulatory and Development Authority of India (IRDAI) was set up as a statutory body in the year 2000 to regulate the insurance business.

6.3. Growth of General Insurance Both the life and non-life insurance come under the ambit of Insurance Regulatory and Development Authority of India. Over the period of time insurance sector in India has witnessed a robust growth trend in the last decade. With the increasing demand of the life insurance policies there has been an equal demand for general insurance policies in the insurance sector which offers a wide range of products. There are around 24 companies in the Life insurance sector and 33 companies in the general insurance business which are currently operating in India.

The general insurance sector has witnessed an increase in the overall amount of direct premiums by 5.19% in the financial year 2021-22. Out of the total non-life insurance business, car insurance has independently contributed around 34.1% as compared to medical insurance that amounts to 29.5%. Easy disbursement of automobile loans by the banks and the rapid increasing demand for cars have created an opportunity for companies in the general insurance business in India. As per the latest statistics, the GDPI for liability

and fire insurance has increased by 16.4% and 28.1% along with an increase in the GDPI for health insurance by 13.3% respectively.

The investment limit on the foreign direct investment was 49% which has now been raised to 74% by the government of India to foster growth in the insurance sector. The government of India has also taken many initiatives to boost the growth of the Insurance market in India like Pradhan Mantri Jeevan Jyoti Bima Yojana, Pradhan Mantri Jan Arogya Yojana, Pradhan Mantri Suraksha Bima Yojana and many more.

Over the years, the young generation has realized the importance of being insured against the uncertainties of life which can ruin their savings at any point of time. Thus many digital platforms have catered to the needs of the young generation for buying the insurance policy online which provides them ease and offers many attractive features in an insurance policy.

6.4. Nature of General Insurance

General Insurance is a kind of contract between the insurer and the policyholder for covering the risk of the latter for an amount called premium. The loss of the policyholder i.e., the insured will be indemnified by the insurer on the happening of an uncertain event. The insurance contracts work on the principle of sharing of risks by pooling of funds. People having similar type of risk may come together and contribute their money towards the pool and which may be later used for compensating for any losses suffered by members of the pool.

The pooling of the risk creates a number of risk exposures and as a result of which the sample gets larger along with the possibility of future loss also gets reduced. This is referred to as the 'law of larger numbers. For a risk to be considered for insurance by the insurer there are few conditions which must be satisfied.

The law of larger numbers advocates that more the number of risk exposures more accurate will be the prediction with less deviation of the actual losses. In other words, it means if everything else remains same there will be relative less risk if the sample size is large. Thus, the prediction of future losses becomes more accurate on the basis of pooling of exposures in this way. With more risk exposures the risk of an insurer gets lowered as compared to the insurer with fewer exposures. It also becomes convenient for the insurer to estimate the amount of premium payable based on the relevant statistics and probabilities. More will be the similar exposure units, hence more will be the accuracy in the probability statistics.

Secondly the loss covered against any risk in an insurance contract must be accidental. An event which is certain and bound to happen cannot be insured against any such type of risk. Thus, there should be an element of uncertainty in the event to be insured against any kind of risk in a contract of insurance. For eg. if a person whose age is 94 years, in such a case

the chances of death are quite certain. Hence, insurance policy in such a case will be invalid. Similarly, such a condition is also applicable in the general insurance contracts. There must exist an element of uncertainty in the types of insurance contracts i.e., both life and non-life insurance policy.

The third condition is that the loss to be covered under the insurance policy must be measurable. There must not be any doubt regarding the calculation or measurability of loss in any case. In other words, the insurer must not face any difficulty in measuring the loss of the insured.

The loss to be covered under the insurance policy must not be catastrophic which may cause complete devastation from a single occurrence of an event. As the magnitude of destruction in such a case is large thus insurance companies may or may not cover such losses depending upon the terms and conditions in a policy.

6.5. Types of General Insurance

General insurance provides risk coverage against any financial loss suffered to the subject matter covered due to numerous reasons such as fire, perils of sea, theft, riots etc. There are many types of general insurance contracts depending upon the needs of an individual. Following are the main types of general insurance in India:

Motor Insurance

The motor insurance is a type of insurance which covers typically:

- Extended Third-Party Liability
- Statutory Third-Party Liability
- Third Party Liability
- Comprehensive

Motor insurance is necessary for an individual who drives in India. All the private cars, motor cycles, commercial vehicles, Motor trade road risk, Motor trade internal risk are covered under the motor insurance in India. Thus, it covers the loss or damage to the vehicle, loss of use of vehicle and the liability due to the third party.

Apart from many risks covered in a motor insurance contract such as fire, burglary, earthquake, floods, malicious act, landslides, terrorist activity, riots etc. other benefits can also be covered under this type of general insurance.

Bicycle Insurance

Apart from cars or two wheelers, nowadays an insurance policy can also be taken for a bicycle. Changing lifestyle or call it a fashion, people are interested in buying expensive bicycles for which they get insurance to cover the risk of accident, theft etc.

Health Insurance

Nowadays health insurance is the most popular type of general insurance due to the

changing trends in our lifestyle, habits, also to meet the high medical costs etc. Health insurance provides financial support to the family for all the medical expenses incurred at the time of hospitalization of any individual in the family covered under it. It thus provides for reimbursement of medical expenses incurred if any by the insured for hospitalization. Health insurance policies come with many benefits. Expenses on home treatment with daycare expenses, hospitalization i.e., both pre and post hospitalization are all covered under various types of health insurance policies provided by companies in the general insurance sector. Also, one can avail financial coverage for tests recommended by the doctors for diagnosis.

Marine Insurance

The marine insurance is complex in nature as it is subject to the country's regulatory norms, insurance intermediaries, surveyors who must possess good knowledge about marine principles and laws. Marine hull insurance and marine cargo insurance amounts to 20 percent of gross non-life insurance premium income in India.

This is another type of general insurance policy which provides protection against any kind of happening which may arise due to sinking of the ship, incursion of water in the ship because of bad weather, goods may catch fire or may be stolen while being in transit or any other reason. The purpose of this type of insurance is to provide for indemnification against kind of such losses. Marine cargo provides support to both domestic and international trade. The minimum extent of cover is against the total loss or damage of the cargo. If the cargo remains undelivered that is also a type of loss to the insured.

The marine insurance policies are on the agreed value basis i.e., the sum insured in such policies is the value agreed between the insurer and the insured. Another feature of this policy is that these are freely assignable until the final consignee takes the delivery of the goods insured under the policy.

Travel Insurance

Travel insurance is a kind of policy which provides protection to the policyholder while on a trip. In other words, it provides for any kind of financial help to the insured or policyholder against any kind of emergencies while travelling. It covers a variety of medical emergencies depending upon the travel policy offered by a company in the general insurance sector.

Mobile Insurance

This type of insurance is mainly taken to protect the phone or mobile from any kind of damage. It provides a protection cover to the screen of the phone or against any such kind of damage which may be insured by the insurer. Mobile insurance may be taken by the

insurer for an old or new phone and also sometimes for most expensive phone to protect it from any kind of uncertain damage.

Fire Insurance

Any loss occurred to the property due to explosion, storm, hurricane, damage caused by leakages in the pipe, lightning etc. is covered under the fire insurance. For the purpose of risk coverage under this policy the both the movable and immovable property such as machines, buildings, furniture, stocks and stock in process can be insured against specific kind of perils. The owner of the property having insurable interest in the property can get the property insured under this type of insurance. An amount of additional premium can be paid to the insurer in order to obtain extra benefits under the policy.

Home Insurance

Also known as property insurance provides protection to the property of the home owner against damage or uncertain losses caused due to fire accident, theft, natural calamity like earthquakes or floods etc.

6.6 Laws relating to General Insurance organization in India

The Insurance Act, 1938 governs the insurance sector in India. It broadly provides guidelines for both the life and general insurance business. The insurance act was enacted with a view to ensure transparency in insurance business, regularize inspection of the companies in the sector, supervise all the organizations and ensuring registration of the companies.

The act was later amended in the year 1950, 1956 and also in the year 1972 with the passing of General Insurance Business (Nationalization) Act to nationalize the general insurance business in India. Many of the insurers were amalgamated and grouped into four companies i.e. United India Insurance Company Ltd., Oriental Insurance Company Ltd., National Insurance Company Ltd. and New India Assurance Company Ltd.

The Insurance (Amendment) Bill, 2021 was passed by the Parliament of India in March 2021 which raised the maximum investment limit of Foreign Direct Investment in the insurance sector from 49% to 74%.

The major laws governing the general insurance business in India are General Insurance Nationalization Act, 1972, Amendments to GIN Act, 1972, Multi-Modal Transportation Act, 1993, Inland Steam Vessels Amendment Act, 1977, Marine Insurance Act, 1963, Carriage of Goods by Sea Act, 1925, Public Liability Insurance Act, 1991, Merchant

Shipping Act,1958, Bill of Lading Act,1855, Indian Ports (Major Ports) Act,1963, Carriers Act,1865, Indian Post Office Act,1898, Carriage by Air Act,1972, Motor Vehicles Act,1988, Workmen's' Compensation Act,1923, ESI Act,1948 and Indian Railways Act,1989.

6.7 Management of General Insurance in India

Legal provisions

The statutory requirement for carrying on the general insurance business in India have been amended with a view to protect the interests of the policyholders and smooth functioning of the insurance sector in the economy.

Certificate of Registration for Insurance Business:

In order to continue insurance business, the insurer must obtain the registration certificate within three months from the commencement of the IRDA Act,1999. No registration was required before the commencement of this act, however registration certificate is necessary to start insurance business within three months or an application must have been made by an insurer for registration and till the disposal of such application.

Application for Registration

In case the applicant is a company a copy of Memorandum and Articles of Association, copy of prospectus, the statement of type of business to be done, names and addresses of directors, an affidavit regarding domicile of the business of the insurer whether incorporated in India or outside the country, receipt of fees or any other requisite document specified by IRDA may be submitted for registration.

Attainment of Certificate of Registration

In case the authority is satisfied regarding the financial strength, volume of business, soundness of the management and also that the business will serve the interest of the public, it will grant the certificate of registration to the insurer.

Renewal of Registration

The authority may renew the certificate of registration every year on the ending of the financial year i.e. 31st March every year.

Capital Limit

For the purpose of getting registered for carrying general insurance business, the insurer must have paid-up capital of Rs.100 crores.

Deposit with RBI

The insurer in a general insurance business must deposit and keep deposited with RBI, a sum which is equal to 3 percent of the total gross premium written in a financial year ending 31st March in India.

Accounts and funds

The insurer carrying on more than one type of business are required to maintain separate account of receipts and payment for each business-like marine, fire and motor etc.

Financial Statements

Every insurer shall prepare a Balance Sheet, Profit and Loss statement, account of receipt and payments for every separate class of business in the end of every financial year.

Specification for Investment of fund

The Insurance Regulatory and Development Authority (Investments) Regulations, 2000 amended in the year 2004 provides for guidelines regarding time, manner and other conditions for the investment of assets held by the insurer for the purpose of protecting the interest of the policyholder.

Payment of Commission

With respect to general insurance business in India, the IRDAI has fixed a percentage limit for the payment of commission to the agents and brokers to 15 percent of the premium payable on the fire, marine or any other general insurance policy.

Limitation on Expenses of Management

The insurer in any year shall not spend expenses of management an amount in excess as prescribed. Any expense incurred on procuring business in the form of commission or remuneration shall not be exceed the prescribed limit. In case the insurer spends more than the limit specified, he may have deemed to contravene the statutory provision.

Solvency Margin

The insurer carrying on general insurance business must maintain the solvency margin. In other words, every insurer at all times must have assets the value of which must be in excess

than the amount of liabilities referred to as 'required solvency margin' as per the IRDA Act, 1999.

The required solvency margin must be highest of Rs. 50 crores (Rs. 100 crores in case of reinsurance) or a sum equivalent to 20 percent of net incurred claim which is subject to credit or reinsurance in computing net premiums and net incurred claims being actual, but a percentage which may be determined by the regulations however not exceeding 50 percent or a sum equivalent to 20 percent of net premium income.

6.8 Summary

Like life insurance, the need for general insurance has also increased over the years. With the purpose to indemnify the financial losses of the insured by the insurer, the contract of general insurance comes into existence. The insurance sector has witnessed a robust growth since its inception in India. It provides financial security to the insured on the happening of an event.

There are many types of general insurance policies depending upon the requirement of the insured like motor insurance, travel insurance, marine insurance, health insurance etc. The insurance business in India is regulated by the Insurance Regulatory and Development Authority of India which is set up to protect the interest of the policyholder.

The insurance sector in India is primarily governed by the Insurance Act, 1938 which grants the power to IRDAI to set up a regulatory framework for the companies operating in the insurance sector. Both public and private sector companies in the general insurance business are regulated by IRDAI.

Glossary

- **Policyholder:** An individual in whose name an insurance policy is held.
- **Perils:** It refers to exposures which can harm, destroy or cause any kind of loss.
Eg. Fire.
- **Deductible:** That part of loss which is paid by the insured or policyholder.
- **Indemnification:** To compensate for any loss or damage occurred.
- **Exposure:** A person's inclination to risk.
- **Sum Insured:** Insurer's limit of liability in a contract of insurance.
- **Surveyor:** Assesses the extent of loss incurred to the insured in case of general insurance

Long answer type questions

- a) Write a detailed note on the growth of general insurance sector in India.
- b) List down the various types of general insurance in detail.

- c) Highlight the regulatory framework of general insurance in India.
- d) Discuss the management of General Insurance business.
- e) What is general insurance? What do you mean by health and motor insurance?
- f) Explain the nature of general insurance.
- g) State the importance of growth of general insurance business in India.
- h) Write the characteristics of any 3 types of general insurance.
- i) Highlight the importance of IRDAI in the insurance sector.
- j) Discuss the origin and growth of general insurance business in India.

Short answer type questions:

- a) Define general insurance
- b) What do you mean by deductible?
- c) Principle of large numbers.
- d) Home insurance.
- e) Corporate Agents.
- f) Characteristics of travel insurance.
- g) Perils in marine insurance.
- h) Role of IRDAI in general insurance.
- i) Nature of general insurance.
- j) Risk must be measurable. Explain.

Suggested Readings

- Banking and Insurance - Law and Practice, The Institute of Company Secretaries of India (ICSI)
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(SEMESTER - VI)

COURSE: FUNDAMENTAL OF INSURANCE

UNIT 7: Fire Insurance: Meaning, Nature, Various Types of Fire Policy, Subrogation, Double Insurance, Contribution, Proximate Cause, Claims and Recovery

Structure

- 7.0 Objectives**
- 7.1 Introduction**
- 7.2 Types of Fire Insurance Policy**
- 7.3 Subrogation**
- 7.4 Double Insurance**
 - 7.4.1 Features of Double Insurance**
- 7.5 Contribution**
- 7.6 Proximate Cause**
- 7.7 Insurance Claims and Recovery**
- 7.8 Summary**
- Glossary**
- Long answer type questions**
- Short answer type questions**
- Suggested Readings**

7.0 Objectives

- To understand the concept of Fire Insurance
- To study the various types of fire Insurance policy
- To get acquainted with the idea of Subrogation.
- To understand the basic meaning of Double Insurance
- To get a complete awareness about the different Double Insurance
- To get basic idea of Contribution
- Creating an awareness of the Proximate Cause
- To understand the various Insurance Claims and Recovery

7.1 Introduction

One kind of insurance coverage that offers financial security against fire-related loss or damage is fire insurance. Usually, this type of insurance is included with a larger property insurance coverage that could also include coverage for additional risks including theft, vandalism, and natural catastrophes. For property owners, fire insurance is an essential part of risk management since it offers financial help in the event of a fire-related incident that could otherwise cause large financial loss. For fire insurance, one could get a stand-alone policy or a coverage that is part of property insurance. It pays for the costs associated with rebuilding, repairing, or replacing property that has sustained fire damage. Because the computation of loss from fire is uncertain, this policy is given with fixed value compensation as an upper limit established by the property insurance policy. You get paid the full pre-agreed amount or the actual loss when you file a fire insurance claim. Fire insurance was introduced after marine insurance. Those with marine insurance could only be those who traded in any capacity. A fire insurance policy offers compensation for losses incurred by the insured.

Despite offering an assurance to compensate for the loss, this contract does not aid in the containment or prevention of fires. A fire insurance policy is a contract that an insurer and an insured party enter into to reimburse the insured party for losses incurred in exchange for the insured party paying premiums. "An agreement" is what is meant to be understood when one party agrees, for a consideration, to hold the other party harmless from any financial loss the latter may suffer as a result of certain subject matter being destroyed or damaged by fire or other specified perils, up to a predetermined amount. This is known as a fire insurance contract. Two conditions must be met for the definition of "fire": (a) a fire or other source of ignition must exist; and (a) The fire needs to be unintentional. The property needs to burn or undergo damage. The term "fire" does not apply if the property is harmed by heat or smoke but does not catch fire.

7.2 Types of Fire Insurance Policy

To avoid misunderstandings about the number of claims, this insurance contains a variety of terms. These forms reduce uncertainty about the amount owed for the claim and the premium. It's critical for business owners to comprehend the kind of policy they need and whether it fits with their operations. Let's look at several varieties of fire insurance.

a) Valued Policy: When estimating the objects' worth at the time of the claim is difficult, a valued policy is provided. For example, the cost of artwork, jewellery, and paintings varies over the year. The policyholder and the insurance provider agree on an expected value for specific scenarios when acquiring insurance. In the event of an, the predetermined amount is paid. In the unfortunate case of an incident, the predefined sum is reimbursed; actual loss is not computed. In this case, the indemnity concept is not applied; rather, an attempt is made to pay the insured for their losses at a fixed rate without any talks or disputes before the actual loss occurs.

b) Specific policy: This insurance has a predetermined maximum amount that must be paid. If something unfavorable happens, you'll be paid for the lesser of the actual loss or the agreed upon sum. For example, in the event of a fire loss of Rs. 5 lakhs, the amount payable is Rs. 2 lakhs if a fire insurance policy with a specific value of Rs. 2 lakhs are obtained. However, the entire amount of Rs. 1 lakh will be due if the loss has a value of Rs. 1 lakh.

c) Average Policy: Often, the applicant asks for the insured amount to be less than the value of the property. In such a case, the insured is penalized by the insurance company by means of the "average clause" for selecting a policy that is less costly than the property's value. For example, your shop and its contents are worth Rs. 30 lakhs, but your fire insurance covers just Rs. 20 lakhs. In this instance, the insurance company will only pay you Rs. 20 lakhs if a fire in the shop results in damage exceeding Rs. 30 lakhs, as per the standard policy condition.

d) Floating Policy: If a business owner has warehouses dispersed over several locations, they could decide on a floating policy. The insurance of all the commodities spread across numerous warehouses is made possible by this one policy. This method eliminates the need to buy customized policies for each warehouse. You can also select an average clause if you want to reduce the premium. The amount due at the moment of loss is substantially less than the actual loss, nevertheless, in the case of the average clause.

e) Consequential Loss Policy: An insured person suffers additional losses following a fire in addition to the loss brought on by the fire. Your factory may experience a week- or months-long production line outage following the fire, as well as the loss of vital equipment. Revenue or profit declines as a result of lower production. A claim for this kind

of indemnity may be filed under the consequential loss policy. To offset these losses, the business that depends on continuous manufacturing needs to carry consequential loss insurance.

f) Comprehensive Policy: Owners of businesses may occasionally want to protect their structures against every type of calamity, such as fire, theft, explosion, earthquake, lightning, labour unrest, and the like. The business owner in this case should select an all-risk policy or comprehensive coverage that can handle all possible sources of loss.

g) Replacement Policy: The loss of property brought on by the fire necessitates the acquisition of replacement property in order to continue business operations. There are two versions of the policy accessible. According to its depreciated value, lost property is replaced in the first scenario. Alternatively, it is advantageous to reimburse the whole cost of the replaced property. In the unfortunate circumstance, you have to comprehend replacement insurance policy in order to get the appropriate claim.

h) Excess Policy: Sometimes a businessman's stock fluctuates, which prevents him from purchasing a single insurance policy. If he buys insurance for a larger amount, he will have to pay a higher premium. Conversely, he will be liable for the same loss if he buys insurance for a lesser amount. The insured in this case may purchase both a "First Loss Policy" and a "Excess Policy." A stock that will never go below that level is protected by the "First Loss Policy."

i) Experience can be used to determine the minimum stock quantity. If any stock remains after meeting the minimum, he can buy an additional insurance known as a "excess policy." Every month, the precise worth of the excess stock is revealed. The premium amount is calculated using the average monthly excess amount. The premium rate is likewise quite low because there is very little likelihood that the extra amount will be paid. This means that the insured will pay a comparatively small premium as opposed to the premium that would have been payable on the entire amount had the policy been. This insurance is also covered by the average clause.

j) Adjustable Policy: An adjustable policy removes the disadvantage. This insurance is essentially a regular policy on the businessman's stock; the insured can change his mind at any time, and the premium is pro-rata adjustable based on changes in the stock price. Because the excess premium is collected at the end of the year in the event of a declaration insurance, the insured may set the property on fire. If a policy is "Adjustable," there is less chance of this happening. This is a short-term issue with the current inventory. Regular calculations are made to determine the premium, which is paid in full at the start of the policy. The insured quickly notifies the insurer of any changes to the stock. The policy is adequately accepted and the premium is prorated as soon as the information regarding the adjustment is received. As a result, the policy's deductible could occasionally

alter. Furthermore, the premium is paid in compliance.

k) Sprinkler Leakage Policies: This insurance covers unexpected water release or seepage from automated sprinkler installations on insured properties against destruction or damage. This coverage does not, however, cover water leaks or discharges caused by an earthquake, a war, an explosion, the installation of sprinklers, building repairs or heat produced by a fire.

7.3 Subrogation: The subrogation principle is the indemnity principle's corollary. If the insured can recover the loss from third parties responsible for the loss, then the insured's rights to recovery are transferred to the insurers when the insurers indemnify the loss. The power of one person to act in another's place and utilise that other person's rights and remedies is known as subrogation. Subrogation is, in essence, the idea of indemnity's corollary. The indemnity principle states that the insured is only entitled to compensation for actual property loss or damage.

This implies that the assured might be able to get back the lost property or might have other claims against the third party over the property if the damaged property still has any worth. This needs to be communicated to the insurance. It goes against the indemnity concept to allow the assured to keep them since he will have gained more than the actual loss. Should the assured choose to sue a third party, the insurer is released from liability. Any money received from the third party up to the insurer's distribution level belongs to the insurer if the insured has received full reimbursement for his loss. After the action against him is settled, common law allows the insurer to use the right of subrogation.

7.4 Double Insurance

The practice of getting coverage for the same subject matter from several insurers, or from the same insurer under different policies, is known as double insurance. This suggests that a subject may be covered for a value more than what is actually insured. Double insurance is permitted under all types of insurance contracts. A person can purchase different plans that guarantee their life for different amounts. The assured under a life insurance policy may get the amount protected by different policies upon maturity or, in the event of his death, may select a beneficiary to receive the same amount. This is made possible by the fact that life insurance is not indemnity insurance. Under indemnity insurance plans such as fire and marine, only the actual loss may be paid out.

The insurer is entitled to the actual loss in proportion to the insured amount under different policies received from different insurance firms when the same topic is covered by multiple insurers under fire and marine insurance. Stated differently, the aggregate claim amount cannot exceed the actual damage, which will be reimbursed by each insurer in a pro rata manner. If any of the insurers pay more than his shares, he is entitled to a contribution from the other insurers. Not every insurance policy can be utilised to the insured's advantage. If

the entire loss is less than the total value of insurance policies insured by many insurance companies, the insured may file a full claim against all of the policies.

7.4.1 Features of Double Insurance

Using the data above, the advantages of double insurance can be summed up as follows:

- a) Multiple policies may cover the same subject or life.
- b) Every policy addresses the same subject.
- c) Every policy provides coverage for the same risk.
- d) The risk is constant over the course of all policies.
- g) There is an equal insurable interest in both the subject matter and the insured.
- h) One can have the option of purchasing the plans from an independent insurer or from the same insurer.

7.5 Contribution

The principle of contribution, which follows from the idea of indemnity, allows the insured to receive payment for a ratable portion of the loss under each policy if the same property is covered by many policies. He is never going to make a profit or get back more than he lost. Regarding fire insurance, the term "contribution" can have a specific meaning related to the principles of indemnity and how multiple insurance policies covering the same property share the financial burden in the event of a loss. Here are the key aspects of contribution in fire insurance:

a) Principle of Indemnity

The basis of fire insurance is the indemnity principle, which states that the insured should not get richer after the loss, but rather be put back in the same financial situation as before. The purpose of fire insurance is to compensate the insured for the actual financial loss suffered due to a covered peril (such as a fire).

b) Multiple Insurance Policies

It's common for a property to be covered by more than one fire insurance policy. For example, a building might be insured by both the property owner and a mortgage lender. In case of multiple policies, each policy contributes to the indemnity in proportion to its limit or the terms specified in the policies.

c) Average or Co-insurance Clause

Some fire insurance policies may include an average clause. If the property is underinsured (insured for less than its actual value), the insured may only receive a proportionate amount of the loss. Co-insurance clauses may require the insured to maintain coverage up to a certain percentage of the property's value, and failure to do so may result in reduced claim payments.

d) Contribution Formula

The contribution between multiple policies is usually calculated based on the ratio of the insurance amount of each policy to the total insurance covering the property. If Property A is insured for \$100,000 under Policy X and \$50,000 under Policy Y, and a loss of \$75,000 occurs, the contribution from Policy X might be 2/3 of the loss (\$50,000), and from Policy Y, it might be 1/3 of the loss (\$25,000).

e) Avoidance of Over-Insurance

Having multiple policies with high coverage amounts for the same property may lead to over-insurance. Over-insurance can distort the principle of indemnity and may result in higher premiums for the insured.

f) Communication with Insurers

Policyholders are usually required to disclose all existing insurance policies covering the same property to their insurers. Insurers may coordinate with each other to determine the appropriate contribution and avoid overcompensating the insured. To provide just and suitable compensation in the case of a covered loss, it is imperative that both insurers and policyholders comprehend the notion of contribution in the context of fire insurance. It also highlights how crucial it is to determine the property's value with accuracy and to keep the right amount of coverage.

7.6 Proximate Cause

A cause that, as opposed to a remote, intermediate, or predisposing cause, comes before and directly causes the outcome. a course of action without which a loss or harm would not have occurred and that has direct, immediate, and inevitable effects. It is the main reason for damage or loss. An injury may not necessarily result from the first instance or the closest cause in terms of time or location. Everybody encounters risk in many different areas of their lives. There could be harm, death, or even the loss of property. The insured must continue to pay premiums after that in order for their coverage to remain in effect. If any of these contributions are not made, the insured party might not receive payment.

A number of generally recognized insurance standards are strictly followed by insurance companies. You must provide all relevant information truthfully and to the best of your knowledge when applying for a job. This is known as the ultimate good faith idea or total disclosure. Using the information obtained in these situations, the risk an applicant is exposed to is calculated in order to estimate the premium amounts. This is one of the most important insurance ideas because the insurance contract wouldn't exist without it. Additionally, in compliance with the conditions of the insurance agreement, all accepted candidates must regularly pay their premiums. It is possible to prevent issues with compensation denial by paying such payments on schedule.

The insurance holder is entitled to payment up to the value of the cover when insured hazards materialize. As a result, people have no right to benefit from these agreements.

When a cover refers to property that the insurer replaces, any wreckage or garbage becomes the insurer's property. An individual with an insurable interest in a piece of property is the only one who can obtain insurance for it. This suggests that the person whose name is on the title documentation must sign the cover. If this rule is broken, compensation is automatically rejected when an insured risk materializes. The cover is only good for a certain period of time.

Property insurance policies may only be valid for a year or less, during which time the policyholder must remain insured. As a result, the premiums are valid through the date written on the cover certificate. Since a human life is not a financial asset, the subrogation concept does not apply to life insurance. However, for payment to be eligible, the risk that the loss is insured against must manifest. This is what is meant by the proximate cause principle. For example, only losses directly related to or caused by fire may be covered by an insured who has acquired a fire insurance policy. Consequently, there is no right to compensation in the event that any additional loss-causing events occur.

7.7 Insurance Claims and Recovery

a) Reporting the Loss: The insured must inform the insurance company immediately after a fire incident, adhering to the policy requirements regarding the timeframe for reporting losses.

b) Claim Documentation: The insured needs to provide a proof of loss form, detailing the extent of the damage, and supporting documentation such as photographs, estimates, and other relevant records.

c) Claim Investigation: The insurance company conducts a thorough investigation to determine the cause of the fire, the extent of the damage, and whether the loss is covered by the policy. An insurance adjuster may visit the property to assess the damage firsthand and gather information for the claims process.

d) Adjustment and Valuation: The insurer assesses the financial value of the loss based on the terms and conditions of the policy. The insurer may use appraisers and other professionals to determine the value of the damaged property.

e) Claims Approval or Denial

If the claim is valid and covered by the policy, the insurer approves the claim and determines the amount to be paid to the insured. If the loss is not covered or if there are issues with the claim, the insurer provides a written explanation for the denial.

f) Payment to Insured: Upon approval, the insurance company disburses the agreed-upon amount to the insured. The payment aims to cover the financial losses incurred due to the fire.

g) Subrogation and Recovery: The insurer, having compensated the insured, may invoke subrogation rights. This allows the insurer to pursue legal action against any party responsible for the fire, seeking to recover the amount paid to the insured.

h) Salvage and Recovery Actions: The insurer may take possession of salvageable items from the damaged property. These items may be sold to reduce the overall loss. The insurer may pursue legal action against individuals or entities whose negligence or actions led to the fire.

i) Contribution in Case of Double Insurance: If there is double insurance (coverage with more than one insurer), the insurers coordinate to determine their proportionate contributions to the loss. Contribution ensures that no single insurer pays more than its fair share of the total loss.

j) Reinsurance: The primary insurer may have reinsurance arrangements in place. In the event of a large loss, the reinsurer may reimburse a portion of the amount to the primary insurer, reducing the financial impact. Understanding the fire insurance claims and recovery process is crucial for policyholders to facilitate a smooth and efficient resolution in the aftermath of a fire-related incident. Insured individuals or entities should review their policies, follow the claims procedures diligently, and cooperate with the insurance company throughout the process.

7.8 Summary

Fire insurance is a type of insurance coverage that provides financial protection against the loss or damage caused by fire. This form of insurance is typically part of a broader property insurance policy that may also cover other perils such as theft, vandalism, and natural disasters. Fire insurance is a crucial component of risk management for property owners, providing financial support in the event of a fire-related incident that could otherwise result in significant financial loss. The nature of fire insurance is indemnity, meaning the policy aims to restore the insured to the same financial position they were in before the loss occurred. The insured will receive payment from the insurer for the actual financial loss resulting from an occurrence related to fire. The basic fire policy covers damage caused by fire, lightning, and sometimes, limited perils like explosion or implosion. Comprehensive fire policy extends coverage to additional perils beyond fire, such as earthquakes, floods, storms, and more. As per valued policy, the value of the insured property is agreed upon at the time of policy inception, eliminating the need for valuation at the time of loss. Floating policy covers property at various locations or a variety of properties under a single policy. After a claim is settled, the insurer has the option to sue a third party that caused the loss on behalf of the insured. This process is known as subrogation. It assists in avoiding double benefits for the insured party from the same loss. When the same property is individually insured by two or more insurers, it is referred to as double insurance. Each insurer pays a percentage of the claim in the event of a loss, determined by the total coverage offered by all policies. This keeps the insured from profiting from a full claim settlement from each insurer.

Contribution comes into play when the same property is insured with multiple insurers, and each policy contributes proportionally to the loss. Each insurer shares the burden based on the amount of coverage it provides. Proximate cause refers to the dominant and most direct cause of a loss. In insurance, determining the proximate cause is crucial in deciding whether a claim is covered. For instance, if a fire causes a building to collapse, the proximate cause is the fire. When a loss occurs, the insured needs to notify the insurer promptly and file a claim. The insurer assesses the claim and, if valid, compensates the insured for the covered loss. Recovery involves the process of the insurer seeking reimbursement from responsible third parties or other insurers through subrogation.

Glossary

- **Fire Insurance:** A contract involving an insurer and an insured party that offers financial protection against losses or damage due to fire is known as fire insurance. It usually includes coverage for contents and property damage brought on by fire-related occurrences.
- **Replacement Policy:** Covers the cost of replacing damaged property, irrespective of its depreciated value.
- **Floating Policy:** Covers movable property (e.g., inventory) at various locations under a single policy.
- **Valued Policy:** Valued coverage is given when determining the worth of the items at the time of the claim is challenging. For instance, the price of jewelry, paintings, or other forms of art fluctuates over the year.
- **Subrogation:** The legal right of the insurer to seek a non-insured person for the loss covered by the policy is known as subrogation. Following the insured's payment, the insurer may pursue reimbursement against the negligent party.
- **Double Insurance:** Double insurance occurs when the same property is insured with two or more insurers separately. Each insurer contributes proportionately to the loss, ensuring the insured does not profit from the situation.
- **Contribution:** Contribution is the principle that applies when the same property is insured with multiple insurers. Each insurer contributes to the loss in proportion to the amount it has insured, preventing overpayment by any single insurer.
- **Proximate Cause:** Proximate cause refers to the primary or most dominant cause of a loss. In fire insurance, it helps determine if the loss is covered by the policy. If the proximate cause is a covered peril, the insurer is liable to pay the claim.
- **Claim:** A claim in insurance refers to a formal request made by the policyholder to the insurance company for compensation or coverage for a covered loss or event.

- **Recovery:** Recovery in insurance refers to the process by which the insurer seeks to recoup the amount paid on a claim, typically by pursuing a liable third party.

Long Answer Type Questions

- Differentiate between Fire Insurance and Marine Insurance
- Explain the underlying concept of Valued Policy and Specific Policy
- State the differences between Average Policy and Floating Policy
- What do you understand by “Comprehensive Policy”?
- Elaborate the concept of Subrogation.
- Differentiate between Consequential Loss Policy and Comprehensive policy.
- Explain with the help of examples the double insurance technique for obtaining coverage.
- Discuss in detail the various procedural steps of Insurance claims and Recovery.
- What is the principle of Proximate Clause?
- What do you understand by “Principle of Indemnity”?

Short Answer Type Questions

- What do you understand by Average Policy?
- Explain in brief the underlying concept of replacement policy.
- Enlist the different features of double insurance.
- Define the term “Fire Insurance”.
- Elaborate the concept of Contribution formula.
- Write a short note on adjustable policy.
- What is Co-Insurance Clause?
- Define “Reinsurance”.
- Write an example of a proximate cause in fire insurance?
- Explain in brief the Sprinkler Leakage Policies

Suggested Readings:

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UNIT-8: Accident and Motor Insurance: Nature, disclosure, terms and conditions, claims and recovery, third party insurance, compulsory motor vehicle insurance, accident insurance

STRUCTURE

- 8.1 Introduction to Motor Insurance**
 - 8.2 Type of Motor Insurance Policies**
 - 8.3 Objectives of Motor Insurance**
 - 8.4 Motor Vehicle Act, 1988**
 - 8.5 The Motor Vehicle (Amendment) Act, 2019**
 - 8.6 Types of Motor Insurance according to vehicles**
 - 8.7 Third Party Insurance**
 - 8.8 Claims and Recovery**
 - 8.9 Third Party Claims**
 - 8.10 Accident Insurance**
 - 8.11 Summary**
- Glossary**
- Long answer type questions**
- Short answer type questions**
- Suggested Readings**

8.0 OBJECTIVES

After studying the Unit, you will be able to understand the

- Meaning of Motor Insurance
- Nature, Disclosure and Terms and conditions of Motor Insurance
- Claims and Recovery
- Types of Motor Insurance Policies in India
- Motor Vehicle Act, 1988
- About Accident Insurance

8.1 INTRODUCTION TO MOTOR INSURANCE

Motor insurance is similar to any other type of insurance, with the exception that it is required by law. It is one of the most commonly purchased types of insurance. This is happening because an increasing number of Indians are purchasing their own cars these days. As the name implies, it applies to all types of motor vehicles, such as motorbikes, cars, jeeps, commercial vehicles, and so on. Motor vehicle insurance, often known as automotive insurance, is a contract in which the insurer assumes the risk of any loss incurred by the owner or driver of a vehicle as a result of property or person damage caused by an accident. When most people think of general insurance, they envision this form of coverage. This is due to the fact that all motorized vehicles must obtain third-party liability insurance before they may be driven on the road.

Motor insurance is a type of insurance policy that protects car owners from financial losses that could happen if their car is damaged by an accident, stolen, or damaged in some other way.

8.2 Types of Motor Insurance Policies

There are two main types of motor insurance policies:

1. **Third-Party Insurance:** This is the most basic type of car insurance. It protects the policyholder against any damage the insured vehicle causes to a third party in an accident. This kind of policy doesn't pay for damage to the car itself.
2. **Comprehensive Insurance:** This is a more comprehensive type of car insurance that covers both damage to the insured vehicle and damage to property owned by someone else. Theft, fire, natural disasters, and other such things are also covered by comprehensive insurance.

Besides from these basic types of policies, there are also a number of add-ons that can be

bought to increase the protection that auto insurance provides. These things are:

1. **Personal Accident Cover:** This gives the policyholder and anyone else in the car money in case of an accident that hurts or kills them or someone else in the car.
2. **Zero Depreciation Cover:** This covers the full cost of fixing or replacing parts, without taking into account how much they've already lost value.
3. **Engine Protection Cover:** This keeps the engine of the car from getting broken.
4. **Roadside Assistance Cover:** This gives you help if your car breaks down, like towing services, gas delivery, etc.

Overall, auto insurance protects car owners financially and gives them peace of mind in case of an accident or something else that could happen.

8.3 Objectives of Motor Insurance

Followings are the objectives of Motor Insurance:

- **Offers covers for damage to property:** - There is always a chance that your car will get damaged in an accident. The cost of repairs is, in fact, very high. If you buy a car insurance, your insurance company will cover a large portion of the cost of repairs, so you won't have to pay for them.
- **Provides coverage for hospitalization costs:** - A car insurance plan protects you financially from huge medical bills if you get seriously hurt or break a bone.
- **Reduces your liability:** - In India, the Motor Vehicle Act says that everyone must buy third-party liability insurance. With this kind of policy, if you cause an accident, you won't have to pay as much if someone gets hurt. The insurance company pays for any damage you do to someone else's property or injuries you cause to someone else. You are also protected from legal consequences if a case is brought against you.
- **Compensates the family in case of death:** - Accidents can lead to the unlucky death of the person who owns the car. If the policyholder dies, the family may have trouble making ends meet, especially if he or she was the main source of income. Plans for car insurance give a lump sum of money in case of death.
- **Offers coverage for natural and man-made calamities:** - A vehicle insurance plan also protects you financially from things like floods, cyclones, hailstorms, hurricanes, and many other natural disasters.

8.4 Motor Vehicle Act, 1988

In India, the Motor Vehicle Act of 1988 covers auto insurance and all rights and responsibilities of third parties related to it. The Act's Part XI, i.e., "Insurance of motor vehicle against third party risks" (from section 145 to section 164) only talks about third

party-related rules.

The Motor Vehicles Act, which was passed in 1939 and changed in 1988, is important to know about. In the past, many pedestrians who were hit by cars and killed or hurt did not get any money because the drivers did not have the money to pay and were not insured. So, the Motor Vehicles Act of 1939 made insurance mandatory to protect the interests of pedestrians.

The insurance of motor vehicles against damage is not required, but the insurance of third-party liability caused by the use of motor vehicles in public places is.

According to Section 146 of the Motor Vehicles Act of 1988, you have to buy car insurance before you take your car out on the roads. A car without insurance cannot be driven in a public place. Here are the liabilities that must be covered by insurance:

- (a) Any liability the insured has to pay because someone died or got hurt in the carriage, including the owner of the goods or his authorized representative.
- (b) Liability for damage to a third party's property
- (c) Responsibility for any passenger of a public service vehicle who dies or gets hurt.
- (d) Liability under the Workmen's Compensation Act of 1923 for the death or injury of:
 - Paid driver of the vehicle
 - Conductor, or person who checks tickets (Public service vehicles)
 - Workers, carried in a goods vehicle
- (e) Liability for passengers who die or get hurt while being carried for hire or pay or because of or in the course of a contract of employment.

8.5 The Motor Vehicle (Amendment) Act, 2019

With the 2019 update to the Motor Vehicle Act, it's even more important to know about the different things that affect you as a vehicle owner. The Motor Vehicles (Amendment) Act, 2019 went into effect on September 1, 2019, with the goal of reducing car accidents and making roads safer in India. This huge change to the Motor Vehicles Act of 1988 has led to new fines and license requirements for drivers, as well as new rules for how both personal and commercial motor vehicles should work. The Bill also wants to make people more aware of road safety and discourage drivers from breaking traffic laws.

The Bill tells the Central Government to set up a special Motor Vehicle Accident Fund. This fund will be used to make sure that all car owners have insurance. The goal of the government's car insurance and two-wheeler insurance is to make sure:

1. Under the "golden hour" scheme, people hurt in car accidents get medical care right away.
2. The family of a person who died in a "hit and run" accident should be given money.
3. If someone is badly hurt in a "hit and run" accident, the person's family should get money.
4. Money will be given to other victims who have been named in the new rules.

Types of motor vehicles

For insurance purposes, there are three main types of motor vehicles:

- (a) Private cars
 - (b) Bicycles and scooters that run on gas
 - (c) Commercial vehicles.
- The different types of commercial vehicles are
 - Goods carrying vehicles
 - Passenger carrying vehicles e.g. - Motorized rickshaws, Taxis, Buses
 - Miscellaneous Vehicles, e.g. - Hearses (funeral van), Ambulances, Cinema Film Recording & Publicity vans, Mobile dispensaries etc.

8.6 Types of Motor Insurance According to Vehicles

Following are the types of Motor insurance policies in India:

1. **Private Car Motor Insurance Policy:** This is auto insurance that is required by the government of India for any private car owned by an individual. It covers damage to the car from things like accidents, fire, theft, and natural disasters. It also covers any injuries to the owner. It also pays for any injuries or damage to a third party.
2. **Two-Wheeler Insurance Policy:** This insurance policy is required by the government of India and covers two-wheeled vehicles like scooters and bikes. The two-wheeler is insured against damage from accidents, natural disasters, fire, theft, etc., as well as damage and injuries to third parties. It also has a personal accident coverage that is required for the owner rider and can be bought for passengers as well.
3. **Commercial Vehicle Insurance Policy:** All vehicles that aren't used for personal use are covered by this insurance. This kind of insurance covers all vehicles that aren't used by the owner for personal reasons. Some of the vehicles that this insurance covers are trucks, buses, heavy commercial vehicles, light commercial vehicles,

multi-utility vehicles, agricultural vehicles, taxis, ambulances, auto-rickshaws, etc.

8.7 Third Party Insurance

Third-party insurance is basically a type of liability insurance that an insured buys from an insurer to protect themselves against claims from someone else (Third-party). The Motor Vehicles Act says that you have to have third-party insurance, which is also called an "act only" policy. It is called a "third-party" policy because the person who benefits from it is not one of the two parties to the contract (the car owner and the insurance company). It is a type of insurance that protects against damage to a third party's vehicle, personal property, and injury.

But it covers the insured's legal liability for a third party's death, disability, loss of property, or injury. Up until now, the premium for third-party insurance was based on rates set by the Tariff Advisory Committee, which is part of IRDA, the organization in charge of regulating insurance. But IRDA got rid of it, and now the victim's compensation depends on how much money they can make.

Importance of Third-Party Insurance

1. The law says that you have to have third-party insurance. So, having third-party coverage makes it possible for the policyholder to meet the law.
2. It gives policyholders peace of mind to know that they will be able to pay for any damage they cause to others in an accident.
3. Third-party motor insurance secures the policy holder's finance against accidental risks.

Third-Party Policy

One of the most common types of car insurance is third-party insurance, which only pays for damage or loss to a third-party person, vehicle, or property. When the policyholder is at fault and hurts someone else, a third-party car insurance plan protects the policyholder from any legal liability that could come from that. It pays for damage to a third party's property or person caused by the insured vehicle. In India, the Motor Vehicles Act of 1988 says that every person who owns a car must buy at least third-party insurance.

A third-party car insurance plan protects the owner of a car against any legal liability, such as harm to a third party's life or body or damage to their property caused by the insured car. The following risks are covered by third-party car insurance:

- **Third Party Injuries/Death:** This pays for a third party's medical bills or funeral costs if they are hurt or killed in an accident caused by your car.
- **Third Party Property Damages:** This covers up to Rs. 7.5 lakh of your legal

responsibilities to third parties if your car damages their property.

- **Personal Accident Cover for Owner-Driver:** It pays out money to the owner-driver of the insured car if they die or become disabled because of an accident.

8.8 Claims And Recovery

The claims arising out of motor Vehicles are classified into two as

1. Claim for own Damage
2. Claim for Third-party Liability

1. Claim for own Damage: This damage arises when the vehicle is damaged by the insured.

The Settlement is done in the three stages as follows

a) Preliminary Scrutiny: When a loss is reported, the policy records are checked to make sure the policy is still active and covers the vehicle in question. The loss is written down in the Claims Register, and the insured is given a claim form to fill out and send back. The insured must send in a detailed estimate of the cost of repairs from any repairer he wants. Most of the time, these repairs are fine with the insurance company. However, they may ask the insured to get a repair estimate from another repairer if they have reason to think that the first repairer's skill, moral hazard, or business ethics are not good enough.

b) Assessment - Independent auto surveyors with an engineering background are in charge of figuring out what went wrong and how bad it is. They get a copy of the policy, a claim form, and an estimate from the repair shop. They check out the damaged vehicle, talk to the repairer about how much it will cost to fix or replace it, negotiate according to the indemnity, and send in their survey report. Independent surveyors aren't always called in for small damage claims. Officials or car experts from the insurance company look at the car and write up a report.

c) Settlement- The survey report is looked at, and the settlement is done based on what is suggested in it. Most of the time, the repairs are approved directly with the repairer, who gets a letter to that effect. In this letter, the repairers are also told to collect directly from the insured the amount of the excess, depreciation, salvage, etc., if they apply to the claim, before giving him his repaired car. The repairers are also told to set aside any salvageable damaged parts so that the salvage buyer chosen by the insurers can pick them up. Or, if the repairers want to keep the salvage, the surveyor's estimate of its value is subtracted from the claim bill. After the repairs are done, the repairer is paid when the final bill and a note or voucher from the insured saying that the repairs were done to his

satisfaction are received. Sometimes the insured pays the repairman directly, in which case the insured is reimbursed when the repairman sends a bill with a receipt. In either case, you will get a discharge voucher or a receipt. The amount of the claim and any salvage, if any, is written in the Claims Register and the policy and renewal records to show that the claim has been paid.

2. Claim for Third-party Liability: The Motor Vehicles Act of 1988, Section 165, gives the State Governments the power to set up Motor Accident Claims Tribunals (MACT) to decide on third-party claims. When a tribunal has been set up for a certain area, no civil court can hear any claims that fall under the tribunal's jurisdiction. The person who was hurt must go to the tribunal within six months of the date of the accident. When making the award, the court has to say how much the insurer has to pay.

Total Loss Claims: When a surveyor finds that a vehicle can't be fixed or that it wouldn't be cost-effective to fix it, he works with the insured to figure out the loss on a "Total Loss" basis, which is based on the vehicle's market value right before the loss. If the market value is higher than the insured value, the insured value is what will be paid out. The insured person will be paid in cash, and the insurers will take care of salvaging the damaged car and selling it for their own gain by putting ads in newspapers and calling for bids. But before the actual payment is made to the Insured, the Insurer will collect from him the Registration and Taxation books, ignition keys, and blank TO. and T.T.O. forms duly signed by the Insured. This is why salvage is usually not encouraged, unless the Insured wants to avoid the hassle of getting rid of salvage.

Theft Claims: Total losses can also happen if the vehicle is stolen and the police are unable to find it until the end. These losses must be backed up by a copy of the First Information Report (FIR), which must be filed with the police as soon as the theft is discovered. The police officials write down the complaint and give it a number in the Station Diary. This number, which is usually called SDE No. or C.R. No. (Crime Register), must be given to the insurers when a claim is made.

The police keep looking until they find the owner of the car and give it back to them. But if they aren't able to find the car after, say, one to two months, they put the case away and sign a paper saying that the case is true but undetected. This certificate from the police, called a "non-Traceable" certificate, is needed before an insurance company will pay for a total loss caused by theft.

The documents that the Insured will need to send in are the same as those listed above. If the vehicle is stolen along with the R.C. Book and Taxation Certificate. The insured person will have to get copies from the Registering Authority and then turn them in to the

Insurers. The only other paperwork that needs to be done is for the insured to write to the R.T.O. and tell them that the car was stolen and that he will not be responsible for paying the taxes.

Some insurers also ask the insured to sign a special type of release on a stamped piece of paper that says the insured will pay back the claim amount if the police find the vehicle and give it back to him. In the Discharge Form, he also promises to pay any taxes that may still be due on the stolen car. The insurance company keeps the ignition keys, R.C. books, and other important documents so that they are easy to find if the car is ever found again. It is always a good idea to send a Registered A/D letter to the concerned Registering Authority to let them know that a total loss claim is being processed for payment on a stolen vehicle and to ask them not to give the vehicle to anyone else. This will make it hard for the thief to get rid of the stolen car.

Repairs

Most of the time, repairs that are needed because of damage covered by the policy can't be done until the insurers give permission. But the insured person can make the repairs without permission from the insurance company, as long as:

- (a) the estimated cost of such repair does not exceed Rs500/- (Rs.150/- for motor cycles).
- (b) the insurers are furnished forthwith with a detailed estimate of the cost
- (c) the insured gives the insurers every assistance to ensure that such repair is necessary and that the charge is reasonable.

General Exclusions

These say that the insurance company is not responsible for:

- (a) any accident that happens outside of where the policy says it can happen, which is India. For an extra premium, the limit can be increased to include Bangladesh, Bhutan, Nepal, Pakistan, Sri Lanka, and the Maldives.
- (b) contractual liability.
- (c) any accident that happens when the car isn't used according to the rules (use clause)
- (d) any accident that happens when the car is driven by someone who doesn't have a valid license (Driver's Clause)
- (e) war, etc. and nuclear risks

Conditions

In addition to the usual conditions, such as giving notice of a loss, cancelling the policy, going to arbitration, etc., motor policies have two conditions that are unique to them.

- a) The insured is responsible for keeping the car safe from theft or damage and making sure it works well. If there is an accident, the insured person must take steps to stop more damage. If the car is driven before repairs are done, any further damage is at the risk of the insurance company.
- b) The insurance company can fix or replace the car or its parts, or it can pay the amount of damage or loss in cash. The insurer can't pay more than the vehicle's estimated value (as stated in the policy) or its value at the time of loss, whichever is less.

8.9 THIRD PARTY CLAIMS

The Motor Vehicles Act of 1988, Section 165, gives the State Governments the power to set up Motor Accident Claims Tribunals (MACT) to decide on third-party claims. When a tribunal has been set up for a certain area, no civil court can hear any claims that fall under the tribunal's jurisdiction. The person who was hurt must go to the tribunal within six months of the date of the accident. When making the award, the court has to say how much the insurer has to pay.

Here is a brief explanation of how third-party claims work: When a claim is made by an insured person, a third party, or the MACT, the matter is given to an advocate. The insured is asked for all of the details about the accident. Documents are collected, and these are some of them:

- Driving Licence
- Police report
- Details of driver's prosecution, if any
- Death certificate, coroner's (PM report) report, if any (fatal claims)
- Medical Certificate (bodily injury claims)
- Details of age, income and number of dependents etc.

The advocate then gives the MACT a written statement about the facts of the case. In the end, if the MACT makes the award, the money is given to the third party after getting a proper receipt.

8.10 ACCIDENT INSURANCE

Accident insurance is a type of insurance that pays out directly to the policy holder if they get hurt in an accident. The person who gets the payment can use it however they want.

Accident insurance is not a replacement for health insurance. Instead, it is a supplement to it. Accident insurance is a type of insurance that is meant to help people pay for medical care. There are also health insurance, disability insurance, and accidental death and dismemberment insurance in this group.

Accidental Insurance coverage

One can avail the following coverage benefits with a personal accident insurance policy: -

- **Accidental Death cover:** - An accident can be hard on the family members who depend on them both emotionally and financially. In case of fatal injuries, the entire sum assured is paid to the nominee as mentioned in the policy document.
- **Permanent/Total Disability cover:** - If an accident causes a permanent disability or total lifelong impairment, like losing both limbs, the policyholder gets a certain amount of money.
- **Permanent Partial Disability Cover:** - If a person gets hurt and ends up with a permanent partial disability, they get a certain percentage (up to 100%) of the benefit.
- **Temporary Total Disability:** - If the insured has a temporary total disability and has to stay in bed, the insurance company will pay a weekly allowance to make up for the lost income. If there is a loss of income, the insured can also use this claim amount to pay the EMIs.

8.11 Summary

Both accident insurance and auto insurance are examples of insurance policies that provide coverage against unforeseen occurrences that could result in monetary losses. Both of these types of insurance policies are important to have. The purpose of having accident insurance is to provide financial protection in the event of unforeseen mishaps that could result in bodily harm or even death. Depending on the specifics of the policy, it may provide benefits such as coverage for medical expenses, benefits in the event of disability, and accidental death benefits. On the other hand, motor insurance refers to a specific kind of insurance policy that provides monetary protection against financial losses that may be incurred as a result of mishaps involving motor vehicles. In many countries, owning a vehicle and maintaining insurance coverage for third-party liability in the event that it causes injury or property damage to another person is a legal requirement. Depending on the requirements of the policyholder and the services provided by the insurance provider, auto insurance policies can include a variety of coverage options. These options include collision coverage, comprehensive coverage, and liability coverage, among others.

In a nutshell, accident insurance shields policyholders from financial hardship in the event

of unanticipated injuries or deaths, whereas motor insurance shields policyholders from financial hardship in the event of losses sustained as a result of accidents involving motor vehicles.

Glossary:

- **Third-Party Liability Insurance:** Insurance coverage that protects the insured against legal liabilities towards third parties for bodily injury, death, or property damage caused by the insured vehicle.
- **Comprehensive Insurance:** A type of motor insurance policy that provides coverage for damages to the insured vehicle as well as third-party liabilities.
- **No Claim Bonus (NCB):** A discount offered by insurers on the renewal premium for motor insurance policies if no claims were made during the preceding policy period. NCB can accumulate over consecutive claim-free years.
- **Deductible:** The portion of a claim amount that the insured must bear before the insurer pays the remaining claim amount. Deductibles are common in motor insurance policies.
- **Add-On Covers:** Additional coverage options that policyholders can purchase along with their standard motor insurance policy to enhance protection. Add-ons may include zero depreciation cover, engine protection cover, roadside assistance, etc.
- **Cashless Claim:** A claim settlement process where the insured can get their vehicle repaired at a network garage without paying cash upfront. The insurer settles the repair bills directly with the garage.
- **Own Damage (OD) Cover:** Insurance coverage that protects the insured vehicle against damages due to accidents, theft, fire, natural calamities, and other specified perils. It is a component of comprehensive motor insurance.

Long answer type questions

1. What is General insurance? What are the various benefits of General Insurance?
2. Give in detail about Motor insurance and various types of Motor Insurance.
3. Give in detail various liabilities which are being met by Motor Insurance?
4. Give in detail various Provisions of Motor Vehicle Act.
5. What is general process of claim of damage?
6. What is Third Party claim? Give in detail.
7. “Accident Insurance brings various benefits along “. Explain.
8. Give in detail various recent amendment of Motor Insurance Act?
9. What are various requirements of Third-Party Insurance?

10. Give in detail various claims arising out of motor Vehicles

Short answer type questions

- a) Third-Party Insurance
- b) Zero Depreciation Cover
- c) Third party risks
- d) What is golden Hour
- e) Indemnity
- f) IRDA
- g) Preliminary scrutiny
- h) Permanent Vs. Partial Disability Cover
- i) MACT
- j) Driver's Clause

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UNIT-9 DEPOSIT AND CREDIT INSURANCE: NATURE, TERMS AND CONDITIONS, CLAIM, RECOVERY, ETC. PUBLIC LIABILITY INSURANCE, EMERGENCY RISK

9.0 Objective

9.1 Deposit insurance

9.1.1 Meaning

9.1.2 Features

9.1.3 Nature

9.1.4 Terms and Conditions

9.1.5 Procedure to Claim Deposit Insurance

9.1.6 Mode of Recovery in Deposit Insurance

9.2 Credit Insurance

9.2.1 Meaning

9.2.2 Features

9.2.3 Terms and Conditions

9.2.4 Procedure to Claim Credit Insurance

9.2.5 Mode of Recovery in Credit Insurance

9.3 Difference between deposit insurance and credit insurance

9.4 Examples of Companies that provide Deposit and Credit insurance

9.5 Public Liability Insurance

9.5.1 Meaning

9.5.2 Features

9.5.3 Procedure to Claim

9.6. Emergency Risk Insurance

9.6.1 Meaning

9.6.2 Features

9.6.3 Procedure to Claim

Summary

Glossary

Long answer type questions

Short answer type questions

Suggested Readings

9.0 Objectives

After studying the Unit, you will be able to understand the

- About the meaning and features of Deposit insurance
- About Nature, Terms and Conditions, Procedure to Claim Deposit Insurance and Mode of Recovery in Deposit Insurance
- About the meaning and features of Credit Insurance
- About Terms and Conditions Procedure to Claim, Mode of Recovery in Credit Insurance
- About Public Liability Insurance
- About Emergency Risk Insurance

9.1 Deposit insurance

9.1.1 Meaning: Deposit insurance is a type of financial protection provided by the government or a designated agency to depositors in the event that their bank or financial institution fails or becomes insolvent. The purpose of deposit insurance is to protect depositors against the risk of losing their money if the bank or financial institution is unable to pay its obligations. In most countries, deposit insurance is mandatory for banks and financial institutions that accept deposits from the public. The amount of deposit insurance coverage varies by country, but it typically covers a certain amount of the depositor's funds, such as up to \$250,000 per depositor in the United States. Deposit insurance provides a safety net for depositors, giving them the confidence to keep their money in banks and financial institutions. This helps to promote stability in the financial system and prevent bank runs, which can have devastating consequences for both depositors and the broader economy. It's important to note that deposit insurance does not protect against losses from investment activities or market fluctuations. It only covers deposits made with a bank or financial institution that is insured by the deposit insurance agency.

Deposit insurance in India is provided by the Deposit Insurance and Credit Guarantee Corporation (DICGC), a wholly-owned subsidiary of the Reserve Bank of India (RBI). The DICGC was established in 1961 and is responsible for insuring deposits in all commercial banks, including foreign banks, regional rural banks, and local area banks in India. The current deposit Insurance limit in India is Rs. 5 lakh per depositor per bank, including both principal and interest amounts held in the same capacity and same right. This limit was increased from Rs. 1 lakh to Rs. 5 lakhs in 2020 as part of the Union Budget of India. The deposit insurance coverage in India applies to all types of deposits, including savings

accounts, current accounts, fixed deposits, and recurring deposits, among others. The coverage extends to all types of depositors, including individuals, Hindu Undivided Families (HUFs), trusts, and non-profit organizations. It's important to note that the deposit insurance coverage is per depositor per bank, not per account. This means that if a depositor has multiple accounts with the same bank, the deposit insurance coverage is limited to Rs. 5 lakhs in total across all accounts. In case of a bank failure, the DICGC steps in to reimburse the depositors up to the insured limit. However, it's important to note that the DICGC will only provide deposit insurance if the bank is a member of the deposit insurance scheme.

Is Deposit insurance and credit insurance being same?

No, deposit insurance and credit insurance are not the same.

Deposit insurance provides protection to depositors in the event that their bank or financial institution fails or becomes insolvent, and is unable to repay the deposits held by the depositors up to a certain limit. Deposit insurance is typically provided by a government agency or a designated entity, and the coverage limit varies by country.

On the other hand, credit insurance is a type of insurance that protects lenders or creditors against the risk of borrower default or non-payment of a loan or credit facility. Credit insurance may cover different types of credit risks, such as commercial credit, export credit, or consumer credit. In case of default by the borrower, the credit insurance policy would pay the lender or creditor a portion of the outstanding loan or credit balance.

While both deposit insurance and credit insurance provide protection against financial loss, they are designed to cover different types of risks and serve different purposes. Deposit insurance protects depositors against the risk of bank failure, while credit insurance protects lenders or creditors against the risk of borrower default.

9.1.2 Features of deposit insurance:

- 1. Protection of Deposits:** Deposit insurance protects depositors against the risk of losing their money in the event of bank failure. It provides a safety net for depositors, giving them confidence to keep their money in banks and financial institutions.
- 2. Coverage Limit:** Deposit insurance typically has a coverage limit that specifies the maximum amount that will be reimbursed to the depositor in case of bank failure. The coverage limit may vary by country and may be subject to periodic adjustments.
- 3. Mandatory for Banks:** Deposit insurance is often mandatory for banks and financial institutions that accept deposits from the public. Banks and financial institutions are required to pay premiums to the deposit insurance agency to fund the insurance program.

4. **Depositor Eligibility:** Deposit insurance typically covers all types of depositors, including individuals, businesses, and organizations, up to a certain limit. The coverage limit may apply to each depositor, each account, or each bank, depending on the country's regulations.
5. **Exclusions:** Deposit insurance may exclude certain types of deposits, such as those held by government agencies or financial institutions, or those held in foreign currencies. Deposits held by certain types of entities, such as financial institutions, may also be excluded.
6. **Insured Banks:** Deposit insurance is typically provided by a government agency or a designated entity, and only banks or financial institutions that are insured by the deposit insurance agency are eligible for coverage.
7. **Reimbursement Process:** In the event of bank failure, the deposit insurance agency will reimburse the depositors up to the insured limit. The reimbursement process may take some time, and the depositor may be required to provide documentation to support their claim.

Overall, deposit insurance provides an important safety net for depositors and helps to promote stability in the financial system.

3.1.3 Nature of Deposit Insurance

The nature of deposit insurance can be described as a form of financial protection provided by a government agency or a designated entity to depositors in the event of bank failure or insolvency.

Deposit insurance is a type of insurance that aims to protect depositors against the risk of losing their money in the event that a bank or financial institution becomes unable to repay its deposit obligations. Deposit insurance is typically mandatory for banks and financial institutions that accept deposits from the public. The nature of deposit insurance is that it is a form of risk management that seeks to mitigate the risks associated with bank failure and protect the interests of depositors. Deposit insurance programs are funded by premiums paid by banks and financial institutions that are insured by the deposit insurance agency. The nature of deposit insurance varies by country, but it typically involves a coverage limit that specifies the maximum amount that will be reimbursed to the depositor in case of bank failure. The coverage limit may apply to each depositor, each account, or each bank, depending on the country's regulations.

Overall, the nature of deposit insurance is to provide a safety net for depositors, promote stability in the financial system, and reduce the risk of bank runs and financial instability. Deposit insurance is an important component of the financial infrastructure in many countries and helps to maintain public confidence in the banking system.

Deposit insurance in India is a system designed to protect the depositors of a bank in case the bank fails or becomes insolvent. Here are some points that describe the nature of deposit insurance in India:

1. Deposit insurance in India is provided by the Deposit Insurance and Credit Guarantee Corporation (DICGC), which is a subsidiary of the Reserve Bank of India (RBI).
2. The deposit insurance scheme covers all commercial banks, including public sector, private sector, foreign banks, regional rural banks, and local area banks.
3. The scheme provides insurance cover for deposits up to Rs. 5 lakh per depositor per bank. This means that if a bank fails, each depositor will be reimbursed up to Rs. 5 lakh of their deposits.
4. The deposit insurance cover includes all types of deposits, such as savings accounts, current accounts, fixed deposits, and recurring deposits.
5. The premium for deposit insurance is paid by the banks to the DICGC. Currently, the premium rate is 0.15% per annum of the amount insured.
6. The deposit insurance cover is automatic and free for all depositors. There is no need for depositors to apply for the insurance or pay any additional premium.
7. The deposit insurance cover is not transferable. If a depositor has deposits in multiple banks, the insurance cover is limited to Rs. 5 lakh per bank.
8. The deposit insurance cover is not applicable to certain types of deposits, such as inter-bank deposits, deposits of foreign governments, and deposits of central/state governments.
9. In case a bank fails, the DICGC takes over the bank's operations and repays the insured deposits to the depositors within two months of the bank's failure.
10. The deposit insurance scheme is an important safety net for depositors and helps maintain stability in the banking system. However, it is important for depositors to choose their banks carefully and diversify their deposits across multiple banks to mitigate the risk of a bank failure.

9.1.4 Terms and conditions

Deposit insurance in India is governed by certain terms and conditions set forth by the Deposit Insurance and Credit Guarantee Corporation (DICGC), which is a subsidiary of the Reserve Bank of India (RBI). Some of the key terms and conditions of deposit insurance in India are:

1. **Eligibility:** All commercial banks that are registered with the RBI and participate in the deposit insurance scheme are eligible for deposit insurance.
2. **Coverage:** The deposit insurance scheme covers all types of deposits, including savings accounts, current accounts, fixed deposits, and recurring deposits.

3. **Coverage limit:** The maximum insurance cover is Rs. 5 lakh per depositor per bank. If a depositor has deposits in multiple banks, the insurance cover is limited to Rs. 5 lakh per bank.
4. **Premium:** The premium for deposit insurance is paid by the banks to the DICGC. The current premium rate is 0.15% per annum of the amount insured
5. **Automatic coverage:** The deposit insurance cover is automatic and free for all depositors. There is no need for depositors to apply for the insurance or pay any additional premium.
6. **Non-transferable coverage:** The deposit insurance cover is not transferable. If a depositor has deposits in multiple banks, the insurance cover is limited to Rs. 5 lakh per bank.
7. **Exclusions:** The deposit insurance cover is not applicable to certain types of deposits, such as inter-bank deposits, deposits of foreign governments, and deposits of central/state governments.
8. **Timeframe for reimbursement:** In case a bank fails, the DICGC takes over the bank's operations and repays the insured deposits to the depositors within two months of the bank's failure.
9. **Reimbursement process:** The DICGC verifies the claims made by depositors and reimburses the insured amount directly to their bank account.
10. **Enforcement:** The DICGC has the authority to take action against banks that do not comply with the deposit insurance scheme. If a bank fails to pay the premium or violates any other terms and conditions of the scheme, the DICGC can impose penalties or take legal action.

It is important for depositors to understand the terms and conditions of deposit insurance in India to ensure that their deposits are protected in case of a bank failure.

9.1.5 Procedure to Claim Deposit Insurance

If a bank fails or becomes insolvent, depositors can claim their deposit insurance by following these steps:

1. **Contact the bank:** If a bank fails, the first step is to contact the bank and find out about the process of filing a claim for deposit insurance. The bank may provide information about the claim process and the documentation required to file a claim.
2. **Contact the DICGC:** Depositors can also contact the Deposit Insurance and Credit Guarantee Corporation (DICGC), which is a subsidiary of the Reserve Bank of India (RBI). The DICGC can provide guidance on the claim process and help depositors file their claims.

3. **Gather required documents:** To file a claim for deposit insurance, depositors need to submit certain documents, such as their deposit receipts, bank statements, and identity proof.
4. **Submit the claim:** Depositors need to submit their claim for deposit insurance to the DICGC within three months of the bank's failure. The claim can be submitted through the bank or directly to the DICGC.
5. **Wait for verification:** The DICGC will verify the claim and determine the amount of compensation that the depositor is eligible for. The verification process may take some time, and the DICGC may request additional documentation from the depositor.
6. **Receive reimbursement:** If the claim is approved, the DICGC will reimburse the insured amount directly to the depositor's bank account. The reimbursement process typically takes two months from the date of the bank's failure.

It is important for depositors to keep their deposit receipts and bank statements safe, as these documents will be required to file a claim for deposit insurance in case of a bank failure. Depositors should also contact the DICGC or the bank immediately if they have any questions or concerns about the claim process.

9.1.6 Mode of Recovery in Deposit Insurance

In the event of a bank failure, the Deposit Insurance and Credit Guarantee Corporation (DICGC) takes over the bank's operations and pays the insured deposits to the depositors. The DICGC uses various methods to recover the amount paid to depositors, such as:

1. **Liquidation of assets:** The DICGC takes over the bank's assets and liabilities and liquidates the assets to recover the amount paid to depositors. The proceeds from the liquidation are used to repay the deposit insurance claims and other liabilities of the bank.
2. **Sale of assets:** If the DICGC is unable to recover the entire amount from the liquidation of assets, it may sell the assets to recover the remaining amount. The proceeds from the sale of assets are used to repay the depositors and other creditors of the bank.
3. **Recovery from defaulters:** The DICGC may recover the amount paid to depositors by taking legal action against the defaulters, such as borrowers who have defaulted on their loans. The DICGC may also recover the amount from the guarantors or collateral provided by the defaulters.
4. **Contribution from other banks:** If the amount recovered from the liquidation of assets, sale of assets, and recovery from defaulters is not sufficient to repay the depositors, the DICGC may ask other banks to contribute to the deposit insurance fund. This is done to ensure that the deposit insurance scheme remains solvent and can continue to provide insurance cover to depositors.

In summary, the DICGC uses various methods to recover the amount paid to depositors in

case of a bank failure. These methods include liquidation of assets, sale of assets, recovery from defaulters, and contribution from other banks

9.2 Credit Insurance

Credit insurance, also known as trade credit insurance, is a type of insurance that protects businesses from losses due to non-payment of debts by customers. It can be purchased by businesses of any size, from small businesses to large corporations.

Credit insurance works by providing coverage for the risk of non-payment by customers. This can include coverage for insolvency, bankruptcy, or default of payment. If a customer fails to pay their debt, the credit insurance policy will pay out a percentage of the outstanding balance to the business that was owed the money. Credit insurance can help businesses manage their credit risk and protect their cash flow. It can also provide businesses with access to financing by using insured receivables as collateral. In addition, credit insurance can provide businesses with valuable information on the creditworthiness of potential customers. There are different types of credit insurance policies available, including whole turnover policies that cover all customers, specific account policies that cover individual customers, and excess of loss policies that cover large losses. The cost of credit insurance will depend on a number of factors, including the creditworthiness of the customers, the level of coverage required, and the size of the business.

Credit insurance is available in India through various insurance companies and it offers a range of features that can vary from one policy to another. Some of the **common features** of credit insurance in India include:

1. **Protection against non-payment:** Credit insurance provides protection to businesses against the risk of non-payment by their customers due to insolvency, bankruptcy or other reasons. This coverage ensures that businesses are able to recover their losses in case their customers default on payments.
2. **Customizable coverage:** Credit insurance policies can be customized to suit the needs of individual businesses. This means that businesses can choose the level of coverage they require based on the creditworthiness of their customers and the risks involved.
3. **Competitive pricing:** Credit insurance in India is available at competitive prices, which makes it an affordable option for businesses of all sizes.
4. **Access to credit:** With credit insurance, businesses can use their insured receivables as collateral to access financing. This can be particularly helpful for small businesses that may have difficulty obtaining financing from other sources.
5. **Risk assessment:** Credit insurance companies provide valuable information on the creditworthiness of potential customers. This information can help businesses make informed decisions about extending credit to customers and managing their credit risk.

- 6. Claims management:** Credit insurance companies provide assistance with claims management, which can help businesses recover their losses quickly and efficiently.

Overall, credit insurance can be a valuable tool for businesses in India to manage their credit risk and protect their cash flow. It can provide businesses with the confidence to extend credit to new customers and help them grow their business without fear of non-payment.

The terms and conditions of credit insurance

The terms and conditions of credit insurance policies in India can vary depending on the insurance company and the specific policy purchased. However, there are some common terms and conditions that are typically included in credit insurance policies. Some of these are:

- 1.Coverage:** The policy will outline what type of coverage is provided and the maximum amount of coverage available. This may include coverage for insolvency, bankruptcy, or other forms of non-payment by customers.
- 2.Premiums:** The policy will outline the premiums to be paid by the business for the credit insurance coverage. The cost of the premiums will depend on the level of coverage required, the creditworthiness of the customers, and the size of the business
- 3.Deductibles:** The policy may include a deductible, which is the amount the business will need to pay before the insurance coverage kicks in. The deductible may vary depending on the policy and the insurance company.
- 4.Exclusions:** The policy may include certain exclusions, which are situations where the insurance coverage will not apply. Common exclusions may include situations where the business was aware of a customer's poor credit history or financial condition.
- 5.Claims:** The policy will outline the process for filing a claim and the time limits for doing so. It may also specify what documents and information are required to support the claim.
- 6.Termination:** The policy may include provisions for termination, including the circumstances under which the policy may be terminated and the notice period required
- 7.Renewal:** The policy may also include provisions for renewal, including the terms and conditions for renewing the policy and any changes to the premium or coverage that may occur.

It is important for businesses to carefully review the terms and conditions of credit insurance policies in India before purchasing them to ensure that they understand the coverage provided and any limitations or exclusions that may apply.

Procedure for getting a claim

The procedure for getting a claim in credit insurance in India may vary depending on the insurance company and the specific policy purchased. However, there are some common

steps involved in filing a claim for credit insurance. These are:

- 1.Notification:** The business must notify the insurance company as soon as possible after a customer default on payment or becomes insolvent. This notification should include all relevant details, such as the amount owed, the reason for default, and any efforts made to recover the debt.
- 2.Documentation:** The insurance company will require documentation to support the claim. This may include invoices, purchase orders, delivery receipts, and any correspondence with the customer regarding payment.
- 3.Claim form:** The insurance company will provide a claim form that must be completed and submitted along with the supporting documentation. The claim form will require details such as the name of the customer, the amount of the claim, and the reason for the claim.
- 4.Investigation:** The insurance company will investigate the claim to determine its validity. This may involve contacting the customer to verify the information provided and reviewing any other relevant information.
- 5. Settlement:** If the claim is deemed valid, the insurance company will settle the claim by paying the agreed-upon amount to the business. The settlement may be made in a lump sum or in instalments, depending on the policy terms.

It is important for businesses to understand the claims process for their credit insurance policy and to keep accurate records of all transactions and correspondence related to credit sales. This will help to ensure smooth claims process and increase the chances of a successful claim.

Mode of Recovery in Credit Insurance

Recovery is an important aspect of credit insurance in India. Recovery refers to the process of recovering outstanding debts from customers who have defaulted on payment or become insolvent. The recovery process may involve various steps, such as:

- 1. Notification:** As soon as a customer defaults on payment or becomes insolvent, the business should notify the insurance company. The insurance company may then take steps to recover the debt, such as contacting the customer directly or engaging a collection agency.
- 2. Collection agency:** If the insurance company decides to engage a collection agency, it will typically choose a reputable agency with experience in debt recovery. The collection agency will then take over the recovery process, using various methods such as phone calls, letters, and legal action to recover the debt.
- 3. Legal action:** If the collection agency is unable to recover the debt, the insurance company may decide to take legal action against the customer. This may involve filing

a lawsuit, obtaining a court judgment, and using legal means such as garnishing wages or placing a lien on assets to recover the debt.

4. **Settlement:** In some cases, the customer may agree to settle the debt outside of court. The insurance company will negotiate with the customer to agree on a settlement amount, which may be paid in instalments or in a lump sum.

The recovery process can be time-consuming and expensive, but it is an important aspect of credit insurance in India. The insurance company will typically take a proactive approach to recovery, using various methods to recover the debt and minimize losses for the business. The recovery process may also vary depending on the terms of the credit insurance policy and the specific circumstances of the default or insolvency. In addition to recovery, credit insurance may also include other services such as credit monitoring and risk assessment. Credit monitoring involves keeping track of customers' creditworthiness and alerting the business to any changes in their credit history that may indicate a higher risk of default. Risk assessment involves analyzing the creditworthiness of potential customers to determine the likelihood of default and setting appropriate credit limits.

Overall, credit insurance can provide valuable protection for businesses that rely on credit sales to generate revenue. By transferring the risk of non-payment or insolvency to the insurance company, businesses can reduce their exposure to financial losses and focus on growing their business. It is important for businesses to carefully review the terms and conditions of credit insurance policies in India and understand the coverage provided, including the recovery process and any limitations or exclusions that may apply.

9.3 Difference between Credit insurance and deposit insurance

These are both types of insurance that offer protection against financial loss, but they are designed to protect different entities and cover different risks. The main differences between credit insurance and deposit insurance are as follows:

1. **Coverage:** Credit insurance is designed to protect businesses against the risk of non-payment by their customers due to insolvency, bankruptcy, or other reasons. Deposit insurance, on the other hand, is designed to protect individual depositors against the risk of loss due to the failure of a bank or financial institution.
2. **Entities covered:** Credit insurance covers businesses that extend credit to customers, while deposit insurance covers individual depositors who have placed their money in a bank or financial institution.

3. **Type of risk:** Credit insurance covers credit risk, which is the risk of non-payment by customers. Deposit insurance covers credit risk to a limited extent, but it primarily covers the risk of loss due to the failure of a bank or financial institution.
4. **Premiums:** The premiums for credit insurance are typically paid by the business that is purchasing the policy, while the premiums for deposit insurance are paid by the banks or financial institutions that are insured. The cost of credit insurance premiums is based on factors such as the creditworthiness of the customers, the level of coverage required, and the size of the business. The cost of deposit insurance premiums is typically based on the amount of deposits held by the bank or financial institution.
5. **Government backing:** Deposit insurance is typically backed by the government and is often mandatory for banks and financial institutions to provide. This means that deposit insurance is generally more secure than credit insurance. Credit insurance is not backed by the government and is optional for businesses to purchase.

In summary, while both credit insurance and deposit insurance offer protection against financial loss, they cover different risks and entities. Credit insurance is designed to protect businesses against the risk of non-payment by their customers, while deposit insurance is designed to protect individual depositors against the risk of loss due to the failure of a bank or financial institution. Deposit insurance is typically mandatory and is backed by the government, while credit insurance is optional and is not backed by the government.

9.4 Examples of Companies that provide Deposit and Credit insurance

In India, there are several companies that provide deposit and credit insurance to businesses and individuals. Here are some examples:

1. Deposit insurance:

- Deposit Insurance and Credit Guarantee Corporation (DICGC): This is a wholly-owned subsidiary of the Reserve Bank of India (RBI) and provides deposit insurance to all banks and financial institutions that are registered with the RBI.
- Life Insurance Corporation of India (LIC): This is a government-owned insurance company that provides deposit insurance to policyholders under certain schemes, such as the Pradhan Mantri Vaya Vandana Yojana.
- Private insurance companies: Several private insurance companies in India also offer deposit insurance as part of their product portfolio, such as ICICI Lombard, HDFC Ergo, and Bajaj Allianz.

2. Credit insurance:

- a) **Export Credit Guarantee Corporation of India (ECGC):** This is a government-owned company that provides credit insurance to Indian exporters to protect them against the risk of non-payment by overseas buyers.
- b) **SBI General Insurance Company:** This is a joint venture between the State Bank of India and Insurance Australia Group (IAG) that offers credit insurance to businesses to protect them against the risk of non-payment by their customers.
- c) **HDFC Ergo General Insurance Company:** This is a joint venture between HDFC and Ergo International AG that provides credit insurance to businesses of all sizes to help them manage credit risk.
- d) **ICICI Lombard General Insurance Company:** This is a joint venture between ICICI Bank and Fairfax Financial Holdings that offers credit insurance to businesses to protect them against the risk of non-payment by their customers.
- e) **Bajaj Allianz General Insurance Company:** This is a joint venture between Bajaj Finserv and Allianz SE that provides credit insurance to businesses to protect them against the risk of non-payment by their customers.
- f) These are just a few examples of companies providing deposit and credit insurance in India. It is important for businesses and individuals to carefully review the terms and conditions of insurance policies offered by different companies and choose the one that best meets their needs and requirements.

9.5 Public liability insurance

Public liability insurance is a type of insurance policy that provides protection to businesses and individuals against claims made by third parties for bodily injury, property damage, or other losses resulting from their business activities.

The policy covers the cost of legal fees, compensation, and other expenses associated with defending a claim against the policyholder. Public liability insurance is particularly important for businesses that interact with the public or third parties, as it can help protect against the financial consequences of accidents or incidents that occur on their premises or as a result of their products or services.

For example, if a customer slips and falls on a wet floor in a retail store and suffers an injury, they may file a claim against the store for negligence. In this case, the store's public liability insurance would cover the legal fees and any compensation awarded to the injured customer.

Public liability insurance is not a legal requirement in most countries, but it is recommended for businesses and individuals who operate in high-risk environments

or engage in activities that could result in third-party claims.

Features of a public liability insurance policy

The features of a public liability insurance policy can vary depending on the specific policy and the insurance provider. However, some common features of a public liability insurance policy include:

1. **Coverage for bodily injury or property damage:** This coverage provides protection against claims made by third parties for injuries or damages caused by the policyholder's business activities.
2. **Legal fees and expenses coverage:** Public liability insurance can cover the legal fees and expenses associated with defending against a claim or lawsuit brought against the policyholder.
3. **Limits and deductibles:** The policy will specify the maximum amount of coverage available for each claim and may also include a deductible, which is the amount the policyholder must pay out-of-pocket before the insurance coverage kicks in.
4. **Third-party liability coverage:** This coverage protects against claims made by third parties, such as customers, vendors, or visitors to the policyholder's premises.
5. **Products liability coverage:** This coverage protects against claims arising from the use or consumption of the policyholder's products.
6. **Personal injury coverage:** This coverage protects against claims for slander, libel, or other non-physical injuries.
7. **Business interruption coverage:** Some policies may include coverage for lost income or expenses incurred as a result of an incident that results in a temporary interruption of business operations.
8. **Exclusions:** The policy will specify certain types of claims or events that are not covered by the insurance, such as intentional acts or certain types of professional negligence.

Procedure for getting a claim of public liability insurance

The specific procedure for getting a claim of public liability insurance can vary depending on the insurance provider and the policy terms. However, the general steps for making a claim for public liability insurance typically include the following:

1. **Report the incident:** The policyholder should report the incident to their insurance provider as soon as possible after the event occurs. This may involve filling out a claim form or contacting the insurance provider directly to report the incident.
2. **Gather documentation:** The policyholder should gather all relevant documentation related to the incident, including witness statements, police reports, and any other evidence that can support their claim.

3. **Provide details:** The policyholder should provide detailed information about the incident, including the date, time, location, and a description of what happened.
4. **Cooperate with the insurer:** The policyholder should cooperate with the insurance provider throughout the claims process, providing any additional information or documentation requested by the insurer.
5. **Review the claim settlement:** Once the insurance provider has evaluated the claim and determined the appropriate settlement, the policyholder should review the settlement offer and seek legal advice if necessary.
6. **Accept or dispute the settlement:** If the policyholder agrees with the settlement offer, they can accept the payment and the claim will be closed. If the policyholder disputes the settlement, they may need to negotiate with the insurer or seek legal action to resolve the claim.

9.6 Emergency risk insurance

9.6.1 Meaning

Emergency risk insurance is a type of insurance policy that provides financial protection in the event of unexpected emergencies or disasters, such as natural disasters, accidents, illness, or death. This type of insurance is designed to cover the costs associated with unexpected events that could potentially result in significant financial losses.

Emergency risk insurance policies typically provide coverage for a range of different types of emergencies, depending on the specific policy and the needs of the policyholder. Some policies may cover the costs associated with emergency medical care, while others may cover the costs of repairing or replacing damaged property.

It's important to carefully review the terms and conditions of any emergency risk insurance policy you're considering, as the coverage and exclusions can vary widely depending on the insurer and the specific policy. Additionally, it's important to ensure that you have adequate coverage to protect you in the event of an emergency, as the costs associated with these events can be substantial.

9.6.2 Features of an emergency risk insurance policy

The features of an emergency risk insurance policy can vary depending on the specific policy and the insurer. However, some common features of emergency risk insurance policies may include:

1. **Coverage for unforeseen events:** Emergency risk insurance provides coverage for unexpected events that could result in significant financial losses, such as natural disasters, accidents, illness, or death.
2. **Financial protection:** Emergency risk insurance provides financial protection by paying out a sum of money to help cover the costs associated with the emergency.

3. **Customizable coverage:** Some emergency risk insurance policies may allow you to customize your coverage to fit your specific needs and budget.
4. **Coverage for multiple emergencies:** Many emergency risk insurance policies provide coverage for a range of different types of emergencies, such as medical emergencies, travel emergencies, or home emergencies.
5. **Flexible payment options:** Some emergency risk insurance policies may offer flexible payment options, such as monthly or annual payments, to make it easier to manage the cost of coverage.
6. **Quick and easy claims process:** In the event of an emergency, emergency risk insurance policies typically provide a quick and easy claims process to help you get the financial support you need as soon as possible.

9.6.3 The procedure for getting a claim of emergency risk insurance

The procedure for getting a claim of emergency risk insurance can vary depending on the specific policy and insurer. However, in general, the following steps are involved in making a claim:

1. **Contact your insurer:** The first step in making a claim is to contact your insurer as soon as possible after the emergency occurs. You may need to provide information about the emergency, such as the type of emergency, the date and time it occurred, and any relevant documentation.
2. **Fill out the claim form:** Once you've contacted your insurer, they will likely provide you with a claim form that you'll need to fill out. This form will require you to provide detailed information about the emergency, including the type of emergency, the date and time it occurred, and any relevant documentation.
3. **Provide supporting documentation:** To support your claim, you'll typically need to provide documentation of the emergency and the costs associated with it. This may include medical reports, police reports, repair bills, or other relevant documentation.
4. **Wait for a decision:** After you've submitted your claim form and supporting documentation, your insurer will review your claim and make a decision about whether to approve or deny it. If your claim is approved, your insurer will provide you with a payout to cover the costs associated with the e

Short Answer Type Questions

- a) Define insurance
- b) IRDA
- c) Deposit insurance
- d) Credit Insurance
- e) Public liability insurance

- f) Emergency risk insurance
- g) Difference between deposit and credit insurance
- h) List any four companies that offer credit and deposit insurance in India.

Long Answer Type Questions

- a) Write a detailed note on Deposit insurance in India.
- b) Explain briefly the procedure for getting a claim of deposit insurance
- c) Write in detail about Terms and Conditions of Deposit Insurance & Credit Insurance
- d) What do you mean by Credit Insurance? Explain the difference between Credit and Deposit Insurance?
- e) Explain briefly the procedure for getting a claim of credit insurance.
- f) What are the modes of recovery in Credit insurance policy?
- g) Highlight the procedure of claim settlement of Public Liability Insurance Policy.
- h) Write a detailed note on Emergency Risk Insurance Policy.

Suggested Readings

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B.COM. (Digital)
SEMESTER-VI
COURSE: FUNDAMENTAL OF INSURANCE

Unit-10: Marine Insurance, Insurance and Information technology, Recent developments in Insurance sector.

10.0 Objective

10.1 Insurance

Meaning

Features

10.2 Marine Insurance

Meaning

Features

Key Parties involved

Subject Matter

Key Provisions of IRDA ACT about Marine Insurance

Principles of Marine Insurance

Procedure of taking Marine Insurance

Lloyds' Associations' Procedure

10.3 Insurance and IT

Meaning

Impact

Importance

Limitations

10.4 Recent Trends in Insurance Sector

Recent trends

Recommendations

Glossary

Long answer type questions

Short answer type questions

Suggested Readings

10.0 Objectives

After studying the Unit, student will be able to understand the

- About Marine Insurance
- Insurance and Information technology
- Recent developments in Insurance sector

10.1 INSURANCE: Insurance is a contract between an individual or an organization (the policyholder) and an insurance company. The purpose of insurance is to protect the policyholder from financial loss or liability that may occur as a result of unforeseen events, such as accidents, natural disasters, theft, and illness. In exchange for a premium, the insurance company agrees to cover the policyholder's losses and provide financial compensation up to a predetermined limit.

There are many different types of insurance policies available; each designed to meet the specific needs of individuals or businesses. Some of the most common types of insurance policies include:

1. **Life Insurance:** Life insurance provides financial support to the policyholder's family in the event of the policyholder's death. There are two types of life insurance policies: term life insurance, which covers a specific period of time, and whole life insurance, which covers the policyholder's entire life.
2. **Health Insurance:** Health insurance provides coverage for medical expenses, including hospitalization, surgery, and prescription drugs. Health insurance policies can be purchased individually or through an employer.
3. **Auto Insurance:** Auto insurance provides financial protection for damages and injuries resulting from a car accident. This can include liability coverage, collision coverage, and comprehensive coverage.
4. **Homeowner's Insurance:** Homeowner's insurance provides coverage for damages or losses to a home and its contents. This can include coverage for natural disasters, theft, and liability claims.
5. **Liability Insurance:** Liability insurance provides protection against legal claims for damages or injuries caused by the policyholder. This can include coverage for professional liability, product liability, and general liability.

When purchasing an insurance policy, it is important to carefully review the terms and conditions of the policy to understand what is covered and what is not covered. Policyholders should also consider the cost of the policy and the amount of coverage provided, as well as any deductibles or exclusions that may apply.

In addition to traditional insurance policies, there are also alternative forms of insurance, such as self-insurance and captive insurance. Self-insurance involves setting aside funds to cover potential losses, while captive insurance involves creating a subsidiary company to provide insurance coverage to the parent company.

Overall, insurance plays a critical role in protecting individuals and businesses from financial loss and liability. By understanding the different types of insurance policies available and choosing the right coverage for their needs, policyholders can ensure that they are adequately protected in the event of an unforeseen event.

Insurance is a financial product designed to protect individuals and businesses against financial loss resulting from various risks.

The features of insurance include:

1. **Risk Transfer:** Insurance is a contract between an individual or a business and an insurance company. The insurance company agrees to compensate the policyholder for losses arising from specified events, such as accidents, theft, or natural disasters. By purchasing insurance, the policyholder transfers the risk of loss to the insurance company.
2. **Premium:** The policyholder pays a premium, which is a fixed amount of money, in exchange for the insurance coverage. The premium can be paid monthly, quarterly, annually or as a lump sum, and the amount of the premium is based on the level of risk involved.
3. **Coverage:** Insurance policies provide coverage for specific types of losses or events. For example, life insurance provides coverage in the event of death, and auto insurance provides coverage for damages or injuries resulting from a car accident. The policyholder can choose the type and amount of coverage they need.
4. **Limitations:** Insurance policies have limitations, such as deductibles, exclusions, and limits. Deductibles are the amount of money that the policyholder is responsible for paying before the insurance coverage kicks in. Exclusions are specific events or losses that are not covered by the policy. Limits are the maximum amount that the insurance company will pay for a loss.
5. **Claims:** When a loss occurs, the policyholder files a claim with the insurance company. The insurance company investigates the claim and, if it is covered under the policy, pays the policyholder the amount of the loss, up to the policy limit.
6. **Actuarial Science:** Insurance companies use actuarial science, which is the use of statistical and mathematical models to assess and manage risk. Actuaries analyze data and develop pricing models to determine the premium amounts and policy limits for different types of insurance policies.

7. **Transfer of Loss:** When an insured event occurs, the loss is transferred from the policyholder to the insurance company. The insurance company is responsible for paying the loss up to the policy limit, relieving the policyholder of the financial burden.
8. **Pooling of Risk:** Insurance companies pool together the risks of many policyholders and use actuarial science to determine the premium amount for each policy. By pooling together the risks of many individuals, insurance companies can spread the risk of loss and provide coverage at a reasonable cost.
9. **Indemnity:** Insurance policies are designed to provide indemnity, which means that the policyholder is compensated for their actual losses, up to the policy limit. This prevents the policyholder from profiting from an insured event.
10. **Legal Contract:** An insurance policy is a legal contract between the policyholder and the insurance company. Both parties have specific rights and responsibilities under the contract, and failure to comply with the terms of the contract can result in legal action.
11. **Insurable Interest:** To purchase an insurance policy, the policyholder must have an insurable interest in the event being insured. This means that the policyholder must stand to suffer a financial loss if the event occurs. For example, a person can only purchase life insurance on themselves or on a close family member.
12. **Underwriting:** Insurance companies use underwriting to evaluate the risk of insuring a particular individual or business. Underwriting involves analyzing the applicant's risk factors, such as age, health status, driving record, or business operations, and determining the appropriate premium amount and policy limits.

In summary, insurance provides a variety of features that can help individuals and businesses manage their financial risks. By transferring risk to the insurance company, pooling risk with other policyholders, providing indemnity, and using underwriting to assess risk, insurance companies can provide coverage at a reasonable cost while protecting policyholders from financial loss.

10.2 Marine insurance

Marine insurance is a type of insurance that provides coverage for ships, cargo, and other types of marine vessels and structures. Marine insurance can provide coverage for a variety of risks, including damage or loss of the vessel or cargo, damage to third-party property, and liability for injuries or accidents. Here are some key features of marine insurance:

1. **Types of Coverage:** There are several types of marine insurance coverage, including hull and machinery coverage, which provides protection for the vessel itself, and cargo coverage, which provides protection for the goods being transported. Other types of

marine insurance coverage can include protection and indemnity (P&I) coverage, which provides protection against liability claims, and freight insurance, which covers loss or damage to the freight being transported.

2. **Marine Perils:** Marine insurance policies are designed to provide coverage for a variety of risks that are specific to the marine industry, including perils of the sea, such as storms, collisions, and sinking, as well as risks associated with transportation, such as piracy, theft, and damage during loading and unloading.
3. **Policy Limits:** Marine insurance policies typically have limits on the amount of coverage that they provide. These limits can vary depending on the type of coverage and the specific terms of the policy.
4. **Premiums:** The cost of marine insurance premiums can depend on a variety of factors, including the value of the vessel or cargo being insured, the level of risk involved, and the type of coverage being provided.
5. **Underwriting:** Like other types of insurance, marine insurance involves underwriting, which is the process of evaluating risk and determining the appropriate premium amount and policy limits. Underwriting for marine insurance can involve assessing the seaworthiness of the vessel, evaluating the cargo being transported, and considering other factors that could impact the risk of loss.
6. **Claims:** In the event of a loss or damage, policyholders can file a claim with the insurance company. The insurance company will investigate the claim and, if it is covered under the policy, will provide compensation to the policyholder up to the policy limits.
7. **Voyage and Time Policies:** There are two main types of marine insurance policies: voyage policies and time policies. Voyage policies provide coverage for a specific voyage or journey, while time policies provide coverage for a set period of time, such as a year.
8. **Institute Clauses:** The Institute Clauses are standard terms and conditions used in marine insurance policies. These clauses provide a standardized framework for marine insurance policies and help ensure that policyholders are provided with consistent coverage across different policies.
9. **General Average:** In the event of a marine loss, the concept of general average may be applied. General average is a legal principle that requires all parties involved in a maritime adventure to contribute to the losses incurred by any one party. This means that if a ship-owner jettisons some cargo to save the ship, all parties involved in the voyage may be required to contribute to the cost of the lost cargo.

- 10. Salvage:** Salvage refers to the process of recovering a vessel or cargo that has been lost or damaged at sea. Marine insurance policies may provide coverage for salvage costs, which can be a significant expense in the event of a marine loss.
- 11. War and Terrorism:** Marine insurance policies may exclude coverage for losses caused by war and terrorism. If a loss is caused by an act of war or terrorism, policyholders may need to rely on specialized insurance products, such as war risk insurance or terrorism insurance, to provide coverage.
- 12. Marine Insurance Market:** The marine insurance market is a specialized market that is dominated by a few large insurance companies. The market is known for its expertise in evaluating marine risks and providing coverage for the unique risks associated with the marine industry.

In summary, marine insurance provides coverage for a variety of risks specific to the marine industry, including damage or loss of the vessel or cargo, liability for injuries or accidents, and other risks associated with marine transportation. By providing standardized terms and conditions, underwriting expertise, and coverage for unique risks, marine insurance plays an important role in supporting the global shipping industry and ensuring that businesses and individuals are protected against financial losses

Key parties in a marine insurance contract

Marine insurance involves several parties, each with specific roles and responsibilities. Here are the key parties in a marine insurance contract:

- 1. Insured:** The insured is the party that purchases the marine insurance policy to protect their interest in the marine vessel or cargo. The insured must pay the insurance premium and comply with the policy's terms and conditions.
- 2. Insurer:** The insurer is the party that provides the marine insurance policy and agrees to indemnify the insured in the event of a covered loss or damage. The insurer assesses the risk associated with ensuring the marine vessel or cargo and determines the premium rate.
- 3. Broker:** The broker is an intermediary between the insured and the insurer. The broker helps the insured to obtain marine insurance coverage that meets their needs and assists with claims processing.
- 4. Underwriter:** The underwriter is an employee of the insurer who assesses the risk associated with ensuring the marine vessel or cargo and determines the terms and conditions of the policy.

5. **Surveyor:** The surveyor is a professional who inspects the marine vessel or cargo to assess its condition and determine its insurability. The surveyor may also be called upon to investigate and evaluate claims.
6. **Reinsurer:** The reinsurer is a party that provides reinsurance coverage to the insurer. Reinsurance is a mechanism by which the insurer transfers some or all of the risk associated with a marine insurance policy to another party.
7. **Salvor:** The salvor is a professional who provides salvage services in the event of a marine incident or accident. Salvage services may include rescuing the vessel or cargo, preventing pollution, and mitigating the effects of the incident on the environment.

Overall, these parties work together to ensure that marine insurance policies are structured fairly, claims are processed efficiently, and losses and damages are compensated appropriately.

Subject matter of marine insurance

The Subject matter of marine insurance is the marine vessels, cargo, and related operations that are involved in maritime transportation or commerce. Here are some examples of the subject matter of marine insurance:

1. **Marine Vessels:** Marine insurance may cover a wide range of vessels, including cargo ships, tankers, passenger ships, fishing vessels, and pleasure boats.
2. **Cargo:** Marine insurance may cover the goods that are being transported by sea, including raw materials, finished products, and consumer goods. Cargo insurance may protect against damage or loss caused by perils such as fire, theft, piracy, or natural disasters.
3. **Related Operations:** Marine insurance may also cover the operations that are associated with maritime transportation, such as loading and unloading cargo, stowing cargo, and providing port services.
4. **Liability:** Marine insurance may also provide liability coverage for the owner or operator of the vessel, including protection against claims for injury or property damage caused by the vessel.

The subject matter of marine insurance is typically defined by the terms and conditions of the insurance policy, which may include specific exclusions and limitations on coverage. It is important for policyholders to carefully review their marine insurance policies to ensure that they understand the scope of coverage provided.

The key provisions of marine insurance with respect to the IRDA Act in India:

The Insurance Regulatory and Development Authority (IRDA) in India is the regulatory body that oversees the insurance industry in the country. The IRDA regulates all types of insurance policies, including marine insurance, to ensure that policyholders are

protected and that insurance companies are operating in compliance with the law. Here are some of the key provisions of marine insurance with respect to the IRDA Act in India:

1. **Mandatory Licensing:** Insurance companies that offer marine insurance policies in India must be licensed by the IRDA. The licensing process involves a thorough evaluation of the company's financial stability, business practices, and compliance with regulatory requirements.
2. **Underwriting Standards:** The IRDA sets underwriting standards that insurance companies must follow when issuing marine insurance policies. These standards are designed to ensure that policyholders are provided with adequate coverage and that insurance companies are able to manage their risk exposure.
3. **Solvency Requirements:** Insurance companies are required to maintain a certain level of solvency to ensure that they are able to meet their obligations to policyholders. The IRDA sets solvency requirements for insurance companies to ensure that they have sufficient financial resources to pay claims.
4. **Policy Wordings:** The IRDA reviews and approves the standard policy wordings used in marine insurance policies to ensure that they comply with regulatory requirements and provide adequate coverage to policyholders.
5. **Consumer Protection:** The IRDA is responsible for protecting the interests of policyholders and ensuring that they are treated fairly by insurance companies. The IRDA has established a grievance redressal mechanism to address complaints and disputes related to marine insurance policies.
6. **Minimum Capital Requirements:** Insurance companies that offer marine insurance policies are required to meet minimum capital requirements set by the IRDA. This is to ensure that the company has sufficient financial resources to cover potential losses and to maintain financial stability.
7. **Disclosure Requirements:** Insurance companies must disclose all relevant information to policyholders before issuing a marine insurance policy. This includes information about the policy's terms and conditions, coverage limits, exclusions, and other important details.
8. **Premium Rates:** The IRDA regulates premium rates for marine insurance policies to ensure that they are fair and reasonable. The IRDA sets guidelines for determining premium rates, taking into account factors such as the value of the cargo or vessel, the risk of loss or damage, and other relevant factors.
9. **Reinsurance:** Insurance companies that offer marine insurance policies are required to maintain adequate reinsurance coverage to protect against catastrophic losses. The

IRDA sets guidelines for the amount of reinsurance coverage that is required based on the size and risk exposure of the company

- 10. Compliance Requirements:** Insurance companies that offer marine insurance policies must comply with all regulatory requirements set by the IRDA. Failure to comply with these requirements can result in penalties, fines, or even revocation of the company's license to operate in India.

Overall, the IRDA plays a critical role in regulating the marine insurance industry in India. By setting standards for underwriting, solvency, consumer protection, and other key areas, the IRDA helps ensure that policyholders are protected and that insurance companies operate in compliance

Key principles of marine insurance:

Marine insurance is governed by several principles that guide how insurance policies are structured and how claims are evaluated and paid. Here are some of the key principles of marine insurance:

1. **Utmost Good Faith:** Marine insurance policies are based on the principle of utmost good faith, which requires both the insurer and the policyholder to act with honesty and transparency. This means that the policyholder must provide accurate and complete information about the risks involved in the marine transportation or commerce, and the insurer must provide clear and accurate information about the policy's terms and conditions.
2. **Insurable Interest:** In order to purchase a marine insurance policy, the policyholder must have an insurable interest in the marine vessel, cargo, or related operations. Insurable interest means that the policyholder must have a financial stake in the property or operation being insured, such as ownership, possession, or a legal obligation to protect the property.
3. **Indemnity:** Marine insurance policies are designed to provide indemnity, which means that the policyholder will be compensated for any loss or damage that occurs to the insured property or operation. However, the amount of compensation will not exceed the value of the insured property or operation, and the policyholder will not be able to profit from a loss.
4. **Subrogation:** In the event that the insurer pays a claim to the policyholder, the insurer may become subrogated to the policyholder's rights and remedies against any third party that may be liable for the loss or damage. This allows the insurer to recover some or all of the money it paid out on the claim
5. **Contribution:** If the insured property or operation is insured by multiple policies, each insurer will be responsible for paying a proportionate share of any losses or damages.

This is known as contribution, and it helps to ensure that policyholders do not receive more compensation than the actual value of the insured property or operation.

- 6. Proximate Cause:** In order for a claim to be covered by a marine insurance policy, the loss or damage must be caused by a covered peril. The proximate cause of the loss or damage must be a covered peril, rather than an excluded peril or a non-covered event. Overall, these principles help to ensure that marine insurance policies are structured fairly and that claims are evaluated and paid in a consistent and transparent manner..

The procedure for taking a marine insurance

The procedure for taking a marine insurance policy may vary depending on the insurer and the specific policy being sought. However, here are some general steps that may be involved in the process:

- 1. Assess your needs:** Determine the type and amount of coverage that you require for your marine vessel or cargo. This may involve evaluating the value of the vessel or cargo, the risks associated with the voyage or transport, and the legal requirements for insurance coverage.
- 2. Contact insurance providers:** Research and contact insurance providers that offer marine insurance policies. This may involve obtaining quotes, comparing coverage options, and evaluating the reputation and financial stability of the insurers.
- 3. Provide information:** Provide the insurer with accurate and detailed information about the subject matter of the insurance policy, including the vessel or cargo to be insured, the voyage or transport, and any relevant risk factors.
- 4. Obtain a quote:** Based on the information provided, the insurer will provide a quote for the cost of the marine insurance policy. The quote may be negotiable, and the insured may have the opportunity to adjust the coverage options or terms to better meet their needs.
- 5. Agree to terms and conditions:** If the insured agrees to the terms and conditions of the policy and the premium cost, they can accept the policy by signing a written agreement with the insurer. The insurer will provide a policy document that outlines the coverage, exclusions, limitations, and other terms of the policy.
- 6. Pay premium:** The insured must pay the insurance premium in full or according to the agreed-upon payment schedule. Failure to pay premiums may result in the policy being cancelled or coverage being denied.
- 7. Maintain the policy:** The insured must comply with the terms and conditions of the policy, including any reporting requirements or restrictions on the use of the insured vessel or cargo. The insured must also maintain the policy by paying premiums on time and renewing the policy as required.

Lloyd's of London Association

Lloyd's of London is an insurance market that specializes in various types of insurance, including marine insurance. Lloyd's is not an insurance company, but rather a market where multiple insurance providers (known as syndicates) can participate and underwrite insurance policies.

Lloyd's has a long history of providing marine insurance and is considered one of the world's leading providers of this type of insurance. Lloyd's has expertise in a range of marine insurance products, including hull and machinery insurance, cargo insurance, liability insurance, and marine trade insurance.

The Lloyd's market has a unique structure that allows it to underwrite large and complex marine risks. Lloyd's syndicates can specialize in particular types of marine insurance, and they can pool their resources and expertise to underwrite risks that would be too large or complex for any one insurer to handle alone.

Lloyd's is also known for its expertise in marine claims handling, and it has a team of specialists who are experienced in handling complex marine claims. The Lloyd's Claims Scheme provides a framework for handling claims and resolving disputes, and it is designed to be flexible and responsive to the needs of policyholders.

Overall, Lloyd's association plays an important role in the marine insurance industry by providing a marketplace for underwriting marine risks and by leveraging the expertise of multiple insurers to provide comprehensive coverage for marine vessels, cargo, and related operations.

The procedure for obtaining marine insurance through Lloyd's of London involves a few general steps:

- 1. Contact a Lloyd's broker:** As a marketplace for insurance, Lloyd's does not sell insurance policies directly to individuals or businesses. Instead, you will need to contact a Lloyd's broker who can help you obtain coverage through the Lloyd's market. Lloyd's brokers are authorized to work with multiple syndicates at Lloyd's and can help you find the coverage you need.
- 2. Provide information:** The broker will ask you for information about the subject matter of the insurance, which may include the vessel, cargo, or operations that you need to insure. You will need to provide accurate and detailed information about the risks involved, such as the value of the cargo, the voyage route, and any relevant risk factors.
- 3. Obtain quotes:** Based on the information you provide; the broker will obtain quotes from multiple syndicates at Lloyd's. The quotes may vary in terms of coverage, premium cost, and other factors.

4. **Review and select coverage:** The broker will present you with the quotes and help you review and compare the coverage options. You will need to select the coverage that best meets your needs and budget.
5. **Complete underwriting process:** Once you have selected coverage, the syndicate(s) will underwrite the policy. This may involve additional information requests, such as surveys of the vessel or cargo, or additional risk assessments.
6. **Pay premium:** You will need to pay the premium for the policy. This may involve paying a deposit and then making additional payments as the policy period progresses.
7. **Receive policy:** Once the policy is underwritten and the premium is paid, you will receive a policy document that outlines the coverage, exclusions, limitations, and other terms of the policy.
8. **Maintain coverage:** You will need to comply with the terms and conditions of the policy, such as reporting requirements, safety regulations, and restrictions on the use of the insured vessel or cargo. You will also need to maintain the policy by paying premiums on time and renewing the policy as required.

10.3 Insurance and IT

Insurance and IT are closely connected in today's world. The insurance industry relies heavily on IT systems to manage policy data, claims processing, underwriting, and customer service. IT has revolutionized the insurance industry by making it possible to automate many of the traditional manual processes involved in insurance operations.

Here are a few ways in which IT has impacted the insurance industry:

1. **Policy management:** IT systems enable insurance companies to manage policy data, including customer information, premiums, and coverage details. This information can be accessed by insurance agents, underwriters, and claims adjusters, allowing for faster and more accurate decision-making.
2. **Claims processing:** IT has made it possible for insurance companies to automate many aspects of the claims process, including data collection, processing, and payment. This can speed up the claims process and reduce errors.
3. **Risk assessment:** IT systems can help insurance companies assess risk more accurately by analyzing data from a variety of sources, including social media, credit scores, and other public records.
4. **Customer service:** IT systems can be used to provide customers with real-time information about their policies, claims, and coverage. This can help to improve customer satisfaction and reduce the workload of customer service representatives.

5. **Fraud detection:** IT systems can help insurance companies detect fraud by analyzing claims data and identifying patterns that may indicate fraudulent activity.
6. **Data analytics:** With the help of big data analytics and machine learning algorithms, insurance companies can analyze large amounts of data to identify trends and patterns, which can help them to make more informed business decisions.
7. **Mobile technology:** Mobile apps and online portals make it easier for customers to manage their policies, file claims, and access important information on-the-go.
8. **Digital marketing:** Digital marketing tools, such as social media and targeted advertising, can help insurance companies reach new customers and improve their overall marketing strategy.
9. **Cyber security:** As the insurance industry becomes increasingly reliant on IT systems and data, cyber security has become a top concern. Insurance companies must invest in robust cyber security measures to protect their sensitive data from cyber threats.

In summary, IT has had a significant impact on the insurance industry, transforming the way insurance companies do business and interact with their customers. As technology continues to evolve, we can expect to see even more innovation and growth in the insurance industry, driven by IT.

The importance of IT in the insurance sector

The importance of IT in the insurance sector cannot be overstated. IT has revolutionized the way insurance companies operate, enabling them to improve efficiency, reduce costs, and provide better customer service. Here are some key reasons why IT is so important in the insurance sector:

1. **Streamlining processes:** IT systems enable insurance companies to streamline their processes and automate many of the manual tasks involved in insurance operations. This leads to greater efficiency, reduced errors, and lower costs.
2. **Improved customer service:** IT systems enable insurers to provide better customer service, by making it easier for customers to access policy information, file claims, and communicate with customer service representatives. This can improve customer satisfaction and loyalty.
3. **Faster claims processing:** IT systems enable insurers to process claims more quickly and accurately. Claims management software can automate the claims process, reducing processing time and errors.
4. **Better risk assessment:** IT systems enable insurers to assess risk more accurately, by analyzing data from a variety of sources, including social media, credit scores, and other public records. This can help insurers to price policies more accurately and reduce risk.

5. **Data analytics:** IT systems enable insurers to analyze large amounts of data and identify trends and patterns. This can help insurers to make more informed business decisions and improve their overall performance.
 6. **Fraud detection:** IT systems are used to detect fraudulent claims and identify potential fraudsters. This can help insurers to reduce fraud losses and improve profitability.
 7. **Cyber security:** IT systems are vulnerable to cyber attacks, so cyber security is critical for insurers. Insurers must invest in robust cyber security measures to protect their sensitive data from cyber threats.
 8. **Improved data management:** With the help of IT systems, insurers can better manage their data and make it more accessible to employees across the organization. This can help to improve collaboration and decision-making.
 9. **Enhanced underwriting:** IT systems can help insurers to underwrite policies more accurately, by analyzing data from a variety of sources and identifying risks that may have previously been overlooked.
 10. **Personalization:** IT systems enable insurers to provide more personalized products and services to their customers, based on their individual needs and preferences. This can improve customer satisfaction and retention.
 11. **Mobility:** IT systems enable insurers to offer mobile solutions, such as mobile apps and online portals that allow customers to access policy information and file claims from their mobile devices. This can improve customer convenience and satisfaction.
 12. **Automation:** IT systems enable insurers to automate many routine tasks, such as data entry and processing, freeing up employees to focus on more value-added tasks. This can improve efficiency and productivity.
 13. **Improved compliance:** IT systems can help insurers to comply with regulatory requirements more easily and efficiently, by automating compliance processes and providing real-time monitoring and reporting.
- In summary, IT is essential to the success and growth of the insurance sector. IT systems and technologies enable insurers to improve their operations, reduce costs, and provide better service to their customers. As technology continues to evolve, we can expect to see even more innovation and growth in the insurance sector, driven by IT.

Limitations

While there are many benefits of IT in the insurance sector, there are also some limitations that need to be considered. Here are some potential limitations of IT in the insurance sector:

1. **Cost:** Implementing and maintaining IT systems can be expensive for insurers, particularly for smaller companies. The costs of upgrading and maintaining systems can also be high.
2. **Cyber security risks:** IT systems are vulnerable to cyber-attacks, and insurers must invest in robust cyber security measures to protect their sensitive data. However, even with strong cyber security measures in place, there is still a risk of cyber breaches.
3. **Lack of standardization:** There is a lack of standardization in the insurance industry, which can make it difficult to integrate IT systems across different companies and platforms. This can lead to compatibility issues and inefficiencies.
4. **Complexity:** IT systems can be complex and require specialized expertise to implement and maintain. This can make it difficult for smaller insurers with limited resources to take advantage of IT innovations.
5. **Data quality:** IT systems rely on accurate and high-quality data to be effective. If the data is incomplete, inaccurate, or outdated, it can lead to errors and inefficiencies.
6. **Lack of personalization:** While IT systems enable insurers to provide more personalized products and services, there is a risk of losing the personal touch that is so important in the insurance industry. This can lead to a loss of customer loyalty and trust.
7. **Resistance to change:** IT systems can require significant changes in business processes and culture, which can be difficult for employees to adapt to. Resistance to change can be a significant barrier to implementing IT innovations.
8. **Dependence on technology:** Insurers may become overly dependent on IT systems and technologies, which can make them vulnerable to outages, system failures, and other technical issues. This can lead to disruptions in service and damage to the insurer's reputation.
9. **Data privacy concerns:** IT systems enable insurers to collect and analyze vast amounts of data, which can raise concerns about privacy and data protection. Insurers must take steps to protect their customers' data and ensure that it is used in accordance with applicable laws and regulations.
10. **Legal and regulatory barriers:** The insurance industry is heavily regulated, and there may be legal and regulatory barriers to implementing certain IT systems and technologies. Insurers must ensure that their IT systems comply with applicable laws and regulations.
11. **Digital divide:** While IT systems can provide many benefits to insurers, there may be a digital divide between insurers that have the resources and expertise to implement advanced IT systems and those that do not. This can lead to unequal access to technology and innovation in the insurance industry.

12. Human error: Despite the automation provided by IT systems, there is still a risk of human error in the insurance industry. Employees may make mistakes when entering data, processing claims, or making underwriting decisions, which can lead to errors and inefficiencies.

13. Lack of customer trust: While IT systems can improve efficiency and reduce costs, they can also erode customer trust if customers perceive that their needs are being depersonalized or if there are breaches in data privacy or security.

In summary, while IT systems offer many advantages to the insurance sector, there are also limitations and challenges that must be addressed. Insurers must carefully consider the costs and benefits of implementing IT systems and technologies, and take steps to address potential challenges and risks.

10.4 Recent Trends in Insurance Sector

The insurance sector in India has undergone significant changes and transformations in recent years. Some of the major trends in the Indian insurance sector are:

- 1. Digitalization:** The insurance industry in India is increasingly adopting digitalization to enhance customer experience, reduce turnaround time, and increase efficiency. This includes digitization of insurance products, customer onboarding, and claims processing.
- 2. Insurance Technology (Insurtech):** The use of Insurtech has gained popularity in India, with startups and traditional insurers embracing digital technologies to improve their product offerings and distribution channels. This includes the use of artificial intelligence, chatbots, and blockchain technology.
- 3. Microinsurance:** The Indian insurance industry is also witnessing a growing demand for microinsurance, which provides insurance coverage to low-income and underserved populations. This trend is being driven by government schemes and initiatives such as Pradhan Mantri Fasal Bima Yojana and Ayushman Bharat.
- 4. Health insurance:** The COVID-19 pandemic has highlighted the need for health insurance, and the demand for health insurance in India has grown significantly. This has led to the launch of new products and services by insurers and the expansion of their distribution networks.
- 5. Regulatory reforms:** The Insurance Regulatory and Development Authority of India (IRDAI) has implemented several reforms to improve the functioning of the insurance sector. These reforms include the introduction of standard health insurance products and the removal of restrictions on foreign investment in insurance companies.
- 6. Customization and personalization:** In recent years, insurers in India are offering customized and personalized insurance policies that meet the specific needs of the

customers. This trend is being driven by the increasing awareness and demand for tailored insurance policies that cater to the individual requirements of customers.

7. **Usage-based insurance:** Usage-based insurance is a growing trend in the Indian market, especially in the motor insurance sector. Insurers are leveraging telematics and other technologies to offer policies that charge premiums based on the usage of the insured vehicle, thereby incentivizing safe driving behavior
8. **Partnerships and collaborations:** Insurers in India are forming partnerships and collaborations with various stakeholders, including banks, fintech companies, and non-banking financial companies, to expand their reach and distribution channels. This trend is aimed at enhancing the customer experience and driving growth.
9. **Rural and semi-urban expansion:** The Indian insurance industry is expanding its reach to rural and semi-urban areas to tap into the underserved market. Insurers are leveraging technology, innovative distribution channels, and strategic partnerships to reach out to customers in these areas.
10. **Insurers focusing on profitability:** Insurers in India are increasingly focusing on profitability and underwriting discipline to improve their financial performance. This trend is being driven by the need to maintain profitability in a highly competitive market and comply with regulatory norms.

Recommendations for the insurance sector in India

Here are some recommendations for the insurance sector in India:

1. **Embrace digitization:** Insurers in India should embrace digital technologies to improve customer experience, reduce costs, and increase efficiency. This includes the digitization of insurance products, customer onboarding, and claims processing.
2. **Invest in Insurtech:** The use of Insurtech is gaining popularity in India, and insurers should invest in innovative technologies such as artificial intelligence, chatbots, and blockchain to improve their product offerings and distribution channels.
3. **Expand reach:** Insurers should focus on expanding their reach to rural and semi-urban areas to tap into the underserved market. This can be achieved through innovative distribution channels and strategic partnerships.
4. **Customize and personalize:** Insurers should offer customized and personalized insurance policies that meet the specific needs of customers. This will help them differentiate their offerings and improve customer loyalty
5. **Focus on profitability:** Insurers should focus on profitability and underwriting discipline to improve their financial performance. This includes managing their costs, pricing their products appropriately, and diversifying their portfolios.

6. **Enhance customer experience:** Insurers should focus on enhancing the customer experience by offering seamless and hassle-free services, simplifying their products, and providing value-added services.
7. **Collaborate with stakeholders:** Insurers should form partnerships and collaborations with various stakeholders, including banks, fintech companies, and non-banking financial companies, to expand their reach and distribution channels.
8. **Develop new and innovative products:** Insurers should focus on developing new and innovative products that cater to the evolving needs of customers. This includes products such as microinsurance, usage-based insurance, and parametric insurance.
9. **Enhance risk management:** Insurers should focus on enhancing their risk management practices to better manage their risks and ensure the sustainability of their business. This includes managing their underwriting risks, investment risks, and operational risks.
10. **Enhance regulatory compliance:** Insurers should focus on enhancing their regulatory compliance to ensure that they comply with the relevant laws, regulations, and guidelines. This includes compliance with the Insurance Regulatory and Development Authority of India (IRDAI) guidelines, anti-money laundering regulations, and data privacy laws.
11. **Develop a strong talent pool:** Insurers should focus on developing a strong talent pool to ensure that they have the necessary skills and capabilities to drive their business forward. This includes investing in employee training and development, attracting and retaining top talent, and creating a culture of innovation.

Overall, insurers in India should focus on enhancing their offerings, expanding their reach, and improving their risk management and regulatory compliance to ensure the long-term sustainability of their business. They should also focus on educating customers, developing new and innovative products, and creating a strong talent pool to drive their business forward.

Glossary

Insurance is a contract between an individual or an organization (the policyholder) and an insurance company. The purpose of insurance is to protect the policyholder from financial loss or liability that may occur as a result of unforeseen events, such as accidents, natural disasters, theft, and illness. In exchange for a premium, the insurance company agrees to cover the policyholder's losses and provide financial compensation up to a predetermined limit.

Marine insurance is a type of insurance that provides coverage for ships, cargo, and other types of marine vessels and structures. Marine insurance can provide coverage for a variety

of risks, including damage or loss of the vessel or cargo, damage to third-party property, and liability for injuries or accidents.

- **Long Answer Type Questions**

- a) Write a detailed note on Marine insurance in India.
- b) Explain briefly the procedure for taking Marine insurance.
- c) Write in detail about Key provisions of Marine Insurance in context to IRDA Act.
- d) What do you mean by Lloyds Association? Explain briefly the process of taking marine insurance from them?
- e) Explain briefly the principles of Marine insurance.
- f) What is the role of information technology in Insurance Sector? Explain its impact.
- g) Write a detailed note on recent trends in Insurance Sector in India.
- h) “Despite of many benefits, IT has many drawbacks in regard to Insurance Sector”
Comment.
- i) Evaluate the role of IT in Insurance Sector.
- j) Suggest some recommendations to be followed by Insurance Sector for the growing trends in the industry.

- **Short Answer Type Questions**

- a) Define insurance
- b) IRDA
- c) Types of Insurance
- d) Marine Insurance
- e) Parties involved in Marine Insurance
- f) Subject Matter of Marine Insurance
- g) Cargo Insurance
- h) Lloyd’s association
- i) Insurance and IT
- j) Any four principles of marine insurance
- k) List any four companies that offer marine insurance in India.

Suggested Readings

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