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CENTRE FOR DISTANCE EDUCATION

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Semester - I & II

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Preface

Shivaji University has introduced the Distance Education mode for external students from the year 2007-08. We feel extremely happy to present this book on Insurance for the students of B. Com. Part-I as Self Instructional Material. We hope that we have completed the task quite satisfactorily alloted to us by the University authorities.

The drastic changes began to take place in the Indian Insurance sector from the year 1998. Insurance Business was kept open for private Insurance Companies. The Insurance Regulatory and Development Authority was established to regulate and control the Indian Insurance Industry. With the advent of globalization, various foreign insurance companies entered in this business in collaboration with Indian private companies. As a result, neck to neck vie began, consequentially the customers began to enjoy the benefits of privatization such as improvement in customer services, promotion in employment etc. The objective of this Self-Instructional Material is to provide students knowledge about Insurance sector, the opportunities in Insurance Business and help them build their own careers for self employment. With these objectives in mind, the University has introduced Insurance subject in the syllabi of B.Com. I. While preparing this book for distance mode students as per new syllabus introduced from 2018-19, for self instruction, all the possible care has been taken.

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B. Com. Part-I

SIM IN INSURANCE

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Each Unit begins with the section objectives -

Objectives are directive and indicative of :

1. what has been presented in the unit and
2. what is expected from you
3. what you are expected to know pertaining to the specific unit, once you have completed working on the unit.

The self check exercises with possible answers will help you understand the unit in the right perspective. Go through the possible answers only after you write your answers. These exercises are not to be submitted to us for evaluation. They have been provided to you as study tools to keep you in the right track as you study the unit.

Dear Students

The SIM is simply a supporting material for the study of this paper. It is also advised to see the new syllabus 2018-19 and study the reference books & other related material for the detailed study of the paper.

Unit-1

Introduction to Insurance

Index

1.0 Objectives

- To understand the characteristics of insurance.
- To understand the need of insurance.
- To know the economic and commercial significance.
- To understand the utility of insurance as a tool of social security.
- To acquaint with Principles of Insurance
- To understand the Types of insurance
- To know the Insurance Contract and Wagering Contract

1.1 Introduction

An individual and his family or business may be exposed to different risks in his life. Risk is arises due to uncertainty which can not be avoided. Human being does not have any command on uncertainties. Human being can suffer heavy loss itself or to the property due to unforeseen event e.g. death, illness, accident, fire, earthquake etc. These risks may result into financial loss. He wants to compensate the financial loss caused to the property or to the life. Insurance is the mechanism to reduce the loss to property or to the life which occur due to such risk or perils. It is a co-operative device to spread the loss caused by a particular risk over a number of persons. Thus, insurance can not avert the risk or loss but it can be distributed amongst the insured persons.

The first insurance company was formed in the United States in Charles Town (Charleston), South Carolina, in 1732 which underwrites fire insurance. The modern form of insurance has originated in the last three centuries. The first life insurance policy was insured in England in 1583. Lloyds Association, a leading marine insurance company in the world was founded in 1688 in a Coffee House in London run by Edward Lloyds. However the attention of public were attracted towards the necessity of fire insurance and starting of fire insurance business on commercial basis after great fire in London in 1966 which lasted 4 days and destroyed 13000 buildings. In India the concept of insurance was found in Arya Chanakya's Arthshatra. There after the British started insurance business in the modern form by establishing Life and General Insurance companies in India.

1.2 Subject Matter

1.2.1 The Concept of Insurance

The concept of insurance is as old a man kind. Its origin appears simultaneously with the appearance of human society. From the beginning of society protection has remained an important need of human being. The man has always thought of protection of his life, his family, his assets and his earning capacity. The owner of the asset has to suffer heavy loss. Insurance is an arrangement of indemnify the loss or risk caused by the perils to the property. Fire, flood, earthquake, theft are the probable events and are called as 'perils. Risk means the possibility of loss due to the perils which is unforeseen and loss may occur or not. Uncertainty is an important aspect of risk.

Thus, insurance is contract in which persons exposed to similar risks come together and decide among themselves, that the loss of any person due to such risk shall be shared by all persons on some equitable basis.

The concept of insurance can be understood better with the help of following examples.

Assume that there are 10,000 houses in a city and every year 10 houses destroyed by fire. The amount of loss occurs due to fire is Rs. 1,00,000 per house. It means the total estimated loss will be 1,00,000 x 10 = Rs.10,00,000. If this loss is divided into 10,000 house owners, the amount of share of each house owner will be Rs.100. Thus, by contributing a small amount of Rs.100 every year all the 10,000 house owners get protection against the risk of fire.

Definition :

There various definitions of insurance are given by experts. They can be divided into two groups i.e. functional definition and contractual definition. They are as follows;

Functional Definitions

1. **Ghosh and Agrawal** : Insurance is a cooperative form of distributing a certain risk over a group of persons who are exposed to it.
2. **Rock Fell :**Insurance is source of distribution of loss of few persons into many persons.

3. **A.Z.Mayerson** : Insurance is a device for the transfer to an insurer of certain risks of economic loss that would otherwise come by the insured.

4. **Encyclopedia Britannica** : Insurance may be described as a social device whereby a large group of individuals, through a system of equitable contributions, may reduce or eliminate certain measurable risks of economic loss common to all members of the group.

5. **W. Beverideges** : The collective bearing of risk is Insurance.

6. **D.S.Hancsell :** Insurance may be defined as a social device providing financial compensation for the effects of misfortune, the payments being made from the accumulated contribution of all parties participating in the scheme.

7. **Wherry and Newman** : Insurance by lessening uncertainty, frees the individual from same element of risk .

Contractual Definition

1. **E. W. Patterson** : Insurance is a contract by which one party , for a consideration called premium assumes particular risk of the other party and promises to pay him or his nominee a certain or ascertainable sum of money on specified contingency.

2. **Justice Tindall :** Insurance is a contract in which a sum of money is paid to the assured as consideration of insurers incurring the risk of paying a large sum upon a given contingency.

According to functional definition insurance is a system of transferring the risk from one person to a group of persons and distributing the loss arising out of the risk among all the members of the group.

However, the contractual definition explains the nature of contract between the insurer and insured. According to this definition insurance is a contract to pay certain some of money to the insured or his heirs on happening of certain contingent event in the future.

1.2.2 Characteristics of Insurance

The analysis of above definitions explains the nature of insurance as follows.

1. Insurance is a contract

Insurance is a contract between two parties i.e. insurer and insured by which the insurer, in consideration of insurance premium, agrees to compensate the insured against certain probable risks. Since insurance is a contract the provisions of Indian Contract Act viz. proposal, acceptance, consideration, competency of parties, lawful object etc. are applicable to insurance contracts as well. It is a contract to pay compensation on the happening of a certain event in the case of fire, marine and general insurance. If there is no loss , no compensation is paid and even no premium is returned to policyholder. But in case of life insurance , insurance company pay certain sum of money on the death of the insured person or if insured is alive, paid to them the amount of premium with interest and bonus.

2. Means of mutual help/ Cooperative device

All for one and one for all is the basis for cooperation. The insurance is a strong cooperative device to spread the loss caused by a specific event. Insurance is based on the principle of mutual help. Under this arrangement persons exposed to same risks come together and create a common fund and compensate the person who has actually suffered the loss. People individually can not afford to bear the entire loss. But jointly they can get protection by contributing a small amount each to the common fund.

In other words, insurance is a cooperative mechanism wherein large number of persons comes together. They have similar risk and share the loss by contributing a small amount in the form of premium.

3. Large number of insured person –

The insurance mechanism works on the principle of large number of insured persons. Insurance is spreading of loss over a large number of persons. Larger the number of persons, lower the cost of insurance and amount of premium. On the other hand, lower the number of persons, higher the cost of insurance and amount of premium.

4. Uncertainty of events:

The event to be insured must be uncertain and unforeseen. It may occur or may not occur, e.g. every property insured for fire risk may be not catches fire. Insurance can be taken in case of uncertain events.. In life insurance even though death of insured person is certain its timing is uncertain. Hence life insurance is also a lawful agreement.

5. **Protection of financial risk** :

Insurance is a contract to indemnify the financial loss caused to the insured property due to the specific risk during the period of insurance contract. If the insured suffers no loss during this period he is not entitled to receive any amount from the insurer. In other words, insurance is a contract of indemnity and not a contract of profit. The maximum amount of compensation is limited to the actual loss of the property. Thus, the insured can not make any profit out of the loss incurred. In other words an insurer is protected from financial risks which are measured in terms of monetary values. Life insurance contracts are an exception to the principle of indemnity. He can also take life policies of any amount as the loss of death can not be measured in monetary terms.

6. **Based on certain principles and regulated by law** –

Insurance business is regulated by certain act passed by central or state government in every country. The life insurance is regulated by Life Insurance Corporation of India Act 1956 whereas General Insurance is regulated by General Insurance Business (Nationalization)Act 1972 In India Insurance Regulatory and Development Authority (IRDA) is set up in 1999 to regulate the Insurance business in the country. The insurance business is stands upon certain principles such as insurable interest, utmost good faith, indemnity, subrogation, causa-proxima, contribution etc.

7. Sharing and transfer of risk :

Insurance is a social and economic device. It share the financial loss occurred due to unforeseen events between the public who are exposed to risk. Insurance is a plan to bear the risks and financial losses occurs due to unexpected event. The death of the insured, fire losses, marine perils, burglary, fidelity etc. may cause a tremendous loss to the policy holder. The insurance shared this risk amongst all the insured in the form of premium. That means the risk is transferred from one individual (person) to a group of person.

8. Valuation of risk :

First of all insurance company should evaluate the risk and finalize the amount of premium. Thereafter the insurance company enters into the contract. It is the basis of charging premium which is depends upon the risk. If risk is high the rate of premium becomes high. The risks involved in the subject matter can be evaluated by several methods. The procedure of valuation of risk is different in case of life, fire, marine and accident insurance.

9. Payment of claim at contingency:

The insurance company is liable to pay compensation i.e. claim amount only if certain unforeseen event takes place in case of fire, marine and accident insurance. In other words if the unforeseen event occurs, payment is made to policy holder.If contingency not take place, there is no need to pay any amount of compensation to the insured. In case of life insurance, the contingency i.e. death or the maturity of the policy will certainly happen. In such case insurer is liable to pay the policy amount on the death of the insured or on the expiry of the term whichever is earlier.

10. Insurance is not gambling or wagering :

Insurance is a lawful contract. It transfers the risk of one person to group of person. Under insurance contract policy holder paid consideration in the form of premium. The insurance serves indirectly to increase the productivity and converted the uncertainty into certainty. Therefore insurance contract is not a gambling or wagering contract. Persons involved in gambling or wagering bid and expose themselves to risks of losing. There is no chance to convert risks or losses into gains. In the game of gambling there may be either result into profit or loss.

11. Insurance is not a charity but business :

The insurance is a business which provides protection to the life or property from unforeseen event. However, insurance company collect the amount of premium as a consideration form policy holders for the cost of risk so covered. *Charity i*s a payment without claiming anything in return.

1.2.3 :Need of Insurance

Life insurance is an intangible property and its need may not be realized properly by the people / firms. It is, therefore, rightly said that

"Insurance is a subject matter of solicitation." The need and purpose of insurance is explained below.

1. Provide economic protection :

Insurance provides economic protection to the people and their property. Events like fire, flood, lightening, earthquake, theft, breakdown in machinery may damage the property and cause financial loss. The primary objective of insurance is to provide protection against the financial loss of property due to specific risks. It should however, be remembered that insurance does not protect the property from any risk nor it can avoid the risk. It can also not reduce the loss. It only indemnifies such financial loss. A fire insurance policy can not prevent the occurrence of fire. It pays the amount of loss caused to the property by fire.

2. Investment:

Another important purpose of life insurance is investment for meeting a person's future needs such as education, marriage of children, provision of income for old age etc. The small amount paid regularly as premium for a certain number of years grows into a large investment in the long run besides providing insurance protection. Thus, insurance helps to generate investment through collection of small amount of premium which fulfills the future economic needs of the people.

3. Tax benefit :

Besides providing insurance protection to policyholder it also helpful to get income tax relief in proportion of premium payment made during the financial year. So through insurance savings in income tax can be made. Thus, It gives tax rebate to the insured and his tax liability is reduced.

3. Social security:

In recent years the importance of insurance as a social security device has increased significantly. The state is devising various insurance schemes to provide protection to the economically and socially weaker sections, rural people, farmers, workers and artisans at lower or subsidized premium. The use of insurance as advice of social security has helped the state to maintain social stability and peace reduce the economic burden on the society and discharge its responsibility towards the society.

4. Business needs:

Business also needs insurance protection. Insurance safeguards the investment in business against various risks, ensures continuity of operations, and thus .gives boost to business growth. It indemnifies the loss of factory buildings, machinery, equipment, inventories and other assets caused by fire, flood, earthquake, theft etc.

It also provides protection against the fraudulent acts, dishonesty or misappropriation of money by the employees. Insurance can also be taken for risks in foreign trade, fluctuations in foreign exchange rates, political instability etc. Thus the economic tensions and fear of loss, discontinuity of the business can be reduced.

5. Cover against uncertainty :

By providing financial support insurance system minimizes uncertainties in business and human life. However, it should be noted that, insurance does not protect the property from any peril or risk nor avoid it. But, insurance only indemnifies the financial loss occur due to unforeseen events. Thus, insurance provides coverage against uncertainties.

6. Provision against unexpected death :

The life of person is full of uncertainties and risk. Due to unforeseen incidents like early death life of person becomes end. Sometimes due to accident life of person becomes non functional through partial or total disabilities. Insurance system makes a provision to help dependents in the form of financial compensation.

7. To generate financial resources :

Insurance generate huge funds by collecting small amount from number of persons i.e. policy holders in the form of regular premium. These funds are invested in government securities, bond and stock. It is also gainfully employed in industrial development and utilized for the economic development of the nation. The employment opportunities can be increased through collective investments.

8. To enhance labour welfare :

Insurance provides financial compensation to the employees or workers getting injured if any unforeseen event takes place at the work place, when they are at work. Insurance plays an important role as a tool to increase labour welfare by making provision for payment of financial assistance as compensation.

9. Medical support :

Today pattern of life style is changed rapidly. Due to modernization and industrialization the level of environment pollution is increased tremendously. It increases the health risk. Anyone can be a victim of critical illness. However, medical care has become unaffordable. Medical insurance is one of the ways to fulfill different type of health risk. Insurance provides medical support to policy holder through medical insurance policy.

10. Helpful to business organization:

There are chances of loss of business, factory building, vehicles, computers, machinery, equipment's, raw material, finished goods etc. caused by fire, flood, earthquake, theft etc. In such case business organization needs insurance protection. Insurance provides assurance to the business organizations to safeguard the investment against such risk by indemnifying the loss. It is helpful to business organizations to make attention on only on business activities and to enhance the business.

11. Useful to partnership firm :

In partnership firm , if any partner dies, it is the responsibility of other partners to pay share of expired partner to his legal heirs. It may likely to be close down the business. In such case insurance provides the amount of compensation to the legal heirs of deceased partner.

12. Encourages savings:

Insurance develops a habit of saving among citizens. It encourages to people to make systematic savings through payment of regular premium. The insured get the lump sum amount at the maturity of policy.

1.2.4 The Economic and Commercial Significance of Insurance

The significance of insurance in the life of a person has increased over the years with increase in the risks and uncertainties. The significance of insurance can be discussed through various views like economic, commercial or social. It is as follows;

A) Economic Significance of Insurance

The economic significance of insurance may be explained with the help of following points.

1. Encouragement to saving:

Insurance encourages to people to make systematic savings through payment of regular premium. The regular payment of premium develops a habit of saving among citizens in the country. The small savings of millions of insured persons results into a huge amount of national savings.

2. Generation of employment :

Insurance business has a tremendous capacity of generating employment both directly and indirectly in the country. It provides employment to millions of people in administrative and development department. Insurance business generates direct employment in the form of agents, advisors, surveyors, development officers, administrative staff etc.

Besides these direct employment opportunities, the real estate, information technology and other services are also increased due to protection of insurance which enhanced their employment capacity.

3. Infrastructure development:

The development of economy is mostly depending upon development of basic infrastructure such as electricity, water supply, transportation facilities and communication. Insurance companies provide funds to development of these basic needs in the form of share capital, loans and advances. Thus, the rapid development of infrastructural facilities in the country is the output of insurance.

4. **Promotes economic development :**

The investment policies of insurance companies facilitate the speedy economic development of a country. Insurance accelerate the process of economic development through mobilizing domestic savings. It helps to convert accumulated capital into productive investments. Insurance companies invest in the central and state government's securities, public and private sector companies, co-operative sector, industries, corporations etc. Thus, insurance plays important role in sustainable development of the economy.

5. Facilitates agriculture and rural development:

India is an agriculture country. Indian agriculture is mostly depends upon regularity of monsoon. Therefore, there may be losses caused by heavy rain, drought, flood, wind, pests and diseases. Through crop insurance such losses are compensated by insurance . Besides this they can provide protection to the farmers and their assets as like agriculture, poultry, cattle, horticulture, sericulture, agricultural pump sets, farm equipment's etc. Insurance make available the funds for construction of wells and irrigation schemes. Insurance Regulatory and Development Authority (IRDA) has made it obligatory to the insurance company to conduct insurance business to certain extent every year in rural area. Thus, insurance companies can contribute significantly to the development of rural areas.

6. Increase in foreign exchange reserves:

By doing business in various countries, insurance companies can earn valuable foreign currency to the country. It helps to increase the foreign exchange reserves. It facilitates to meet import requirement of the country.

7. Facilitates the development of capital market:

The contribution of insurance companies in the development of capital market in the country is significant. They can invest large amount of funds in state and central governments securities. The insurance companies have started issuing unit linked insurance policies. These schemes provide more attractive benefits to the policy holders. Thus, insurance helps in development of capital market.

B) Commercial Significance of Insurance:

1. Business continuity :

In a partnership firm, if any partner retires or dies, the continuing partner should repay the dues and share of such partner. Insurance helps to pay the share and other due of such partner and remaining partners may continue their business.

Besides, insurance protects the life of persons and their assets against several risks. Losses occur due to unforeseen incidence can be compensated by insurance. Thus, insurance safeguard the business and ensures business stability.

2. Development of trade and industry:

The huge funds collected by insurance companies in the form of premium are mobilized to the trade and industrial sector. Insurance companies invest these funds in industrial sector in the form of share capital, loans and advance. It is helpful to traders and industrialist to undertake new projects and enter into new business. It accelerates the trade and industrial development. Besides, the uncertainties in business are reduced considerably by the insurance arrangement. It helps to the business people to reduce difficulty or tension in expanding their business. Thus the business activities get encouragement to go further.

3. Encourages development of aids to trade/ service sector:

Basically, the development of trade and industry is depends upon development of aids to trade such as transport facilities, banks, warehouses, communication etc. Today service sector emerged as a pillar of nation building. The growth of service sector increased with simultaneous development of trade and industry. Insurance helps to develop such aids to trade by giving assurance the payment of compensation if loss occurs due to unexpected incidents. In addition to that insurance provides financial helps to develop these services in the country.

4. Promote foreign trade :

Insurance plays important role in developing international trade by promoting foreign trade. Generally foreign trade i.e. export trade carried out through marine voyage. In marine transport tremendous risk is involved such as vessel crash, sinking of vessel, robbery, fire, jettison war perils, cargo or vessel seized by enemy etc.. Huge loss may occur due to such perils. Insurance assures to compensate if los occurs and provide protection from these perils. Thus, insurance helps to promote export i.e. foreign trade.

5. Promotes foreign trade:

Insurance encourages foreign trade in a number of ways. It can provide protection against various marine perils, fluctuation in the exchange rate, export risks and loss in air transport etc. Infact marine insurance has been the oldest form of insurance. Most of the foreign trade is conducted through marine transport and is exposed to marine perils and losses.

6. Insurance of key men/ Key personnel:

Key men of the business are the assets of the organization. The key man is the man whose capital, experience, goodwill, ability to control, devotion etc. make him the most valuable asset of the business. The absence of such key man may reduce the profit considerably. The experience and ability of key men helps to carry out business efficiently and effectively. By insuring the lives of keymen in business the continuity of business operation can be guaranteed If the keyman running the business, especially in case of proprietary business or other key officers on whom the business depends, die unexpectedly or leave the firm the future of business is endangered. In such case, insurance provide the compensation to the dependents and helps to cover the loss by taking out key men insurance policy.

6. Employee welfare and protection of interest:

According to various labour laws, business firms have to provide provident fund, gratuity, pension and other welfare facilities to employees. In addition to that, the employees are motivated by providing bonus and awarding rewards by the organization. Hence, employer has taking out a group insurance policy of all employees by paying premium on behalf of employee. Insurance mechanism facilitates the prompt payment of these liabilities and protects the interest of the worker.

7. Helps to increase business efficiency:

Business entities are full of risks and uncertainties. There may be chances of losses occur to the property due to damages, fire, accident, theft etc. Insurance provide protection to these property by payment of compensation. It enables to rearrange the business organization. Due to this, the owners of the business are free from the worries of business losses. They can concentrate in business activities and maximization of profit. Thus, insurance helps to increase business efficiency.

9. Provision of statutory liabilities:

The business entities imposed number of statutory liabilities under various laws e.g. workmen's compensation liability, product liability, professional liability, consumer protection act, corporate social responsibility etc. Adequate provision of these liabilities can be made by taking respective policies. Thus, the business people are free from the tension of discharging these liabilities

10. Reduction of loss probability:

Insurance can help the insured by suggesting him ways and means of reducing the probability of loss to the assets to be insured. Their technical persons and surveyors inspect the assets before accepting the risk and recommend the precautions to be taken for loss reduction and better functioning. By adopting these measures the insurance premium can be reduced.

11. Increase in the value of assets:

The insurance of assets increases their value as collateral security. Banks and other financial institutes are willing to provide more loans against the security of these assets. Thus, the borrowing capacity of business increases. The risk of loosing money is less in case of these assets.

12. Loss prevention measures:

The insurance not only grants protection against loss of assets due to specific risks but also suggests measures for loss prevention and minimization. In India Loss Prevention Association is set up for this purpose.

1.2.5 Insurance as a Social Security Tool

Insurance is not only a device of individual and business security but also a device of social security. Social insurance is useful for solving various social problems like unemployment, old age, crimes, disability and health care of the aged. Burden of the state to provide relief to unemployment, destitute and aged citizens may be reduced through the insurance arrangement. The large fund of insurance companies can be utilized for society desirable investments, thus, ensuring the utilization of society's fund for social welfare, and wellbeing.

The United Nations Organization's declaration of Human Rights 1948 provides that, "Everyone has a right to a standard of living adequate for the health and well-being of himself and his family". According to this right everyone has entitled to get food, cloth, shelter, medical care and essential social services. They have also right to security in case of unemployment, illness, disability, widowhood and any other causes beyond his control.

The Government of India has also provided article 41 in Indian Constitution regarding social security. Thus, insurance is not only a device of individual and business security but also a device of social security. It works as a social security tool as following.

1. Social Insurance :

The LIC of India has set up Social Security Fund and provided special insurance plans for the benefit of poor and the people having below poverty line. It is also helpful to agriculturist and the persons engaged in unorganized sector. Some of the insurance plans are as,

i. Rural Self Employment Scheme

ii. Rural Group Insurance Scheme

iii. Shiksha Sahyog Yojana

iv. Sarvatrik Aarogya Bima Yojana

v. Crop Insurance

vi. Solatium Scheme etc.

2. Protection to wealth :

General Insurance Corporation of India and other private insurance companies provides protection to properties of the society. Insurance is a mechanism of indemnifying the loss occurs due to fire, flood, earthquake, theft and so many other perils. Due to security provided by insurance against such perils peoples are free from worries and they are getting satisfaction and comfort in life. Life insurance provides protection against loss of human wealth. If human material is strong, well-educated and care free, will generate maximum income. Society will have financial security against old age, death, damage and disappearance of his physical wealth and life wealth. The society protects against degradation through prevention of economic losses with the help of insurance.

3. Economic growth of the nation:

Insurance plays important role in development of nation through development of economy by mobilizing domestic savings. Insurance turns accumulated funds into productive investment which is generated through small amount of premium. Sufficient capital available from insurance companies accelerates the production cycle. Insurance enables financial stability and encourages trade and commerce activity. Thus, by providing strong hand and mind, protection against loss of property and adequate capital to produce more wealth insurance create economic growth of the nation.

4. Reduction in Inflation :

Too much circulation of money can increase the inflation in the economy. Insurance withdraw money from society as a domestic savings through premium which reduces the circulation of money. On the other hand insurance provides funds for production which narrow down the inflation gap. Thus, insurance helps to control the inflation which in turn increases the satisfaction level of the society.

1.2.6 Types of Insurance in brief

The insurance contract is classified in to three main types i.e. Personal Insurance, Property Insurance and Guarantee Insurance.

I) Personal Insurance:

When an individual person takes insurance policy of own life then it is called as personal insurance. In broad sense personal insurance is also called as Life Insurance. Under this policy insurer provides insurance cover against unexpected happenings like death, illness and accident. We cannot measure the loss of insured when he dies; hence the principle of indemnity is applicable to this insurance.

The personal insurance classified into three types such as Life Insurance, Personal Accident Insurance and Health Insurance.

Life Insurance : In life insurance individual can take the insurance of own life. Any person are having unlimited insurable interest in own life, hence principle of indemnity is notapplicable to life insurance. Life insurance again classified in to two types i.e. whole life policy and endowment life policy.

Personal Accident Insurance : Under personal accident insurance insurer has to pay compensation to insured if he disable to do work due to accident or his nominee after death of insured. The compensation is depending upon percentage of impairment.

Health Insurance: Under health insurance individual can make arrangement of medical expenses, expenses of operation and other expenses of hospitalization. Under this policy insurer undertake the responsibility of payment of the entire amount directly to respective hospitals.

II) Property Insurance :

When individual or any organization can take insurance of his property for compensation of future loss then it is called as Property Insurance. Property insurance is a contract of indemnity. Therefore, principle of indemnity is applicable to this insurance contract. The insured must have insurable interest in such property. The insurer promise to pay loss occurs by insured due to damage of property within the limit of policy amount. However, insurance does not protect the property from any peril nor avoid the peril. Insurance only indemnifies the financial loss occur due to uncertain risks. It is the main objective of the insurance to provide protection against the financial loss due to the perils.

A person can take insurance of office building, house, furniture, domestic products, raw material, plant and machinery, motor vehicle, jewelry, precious goods etc.

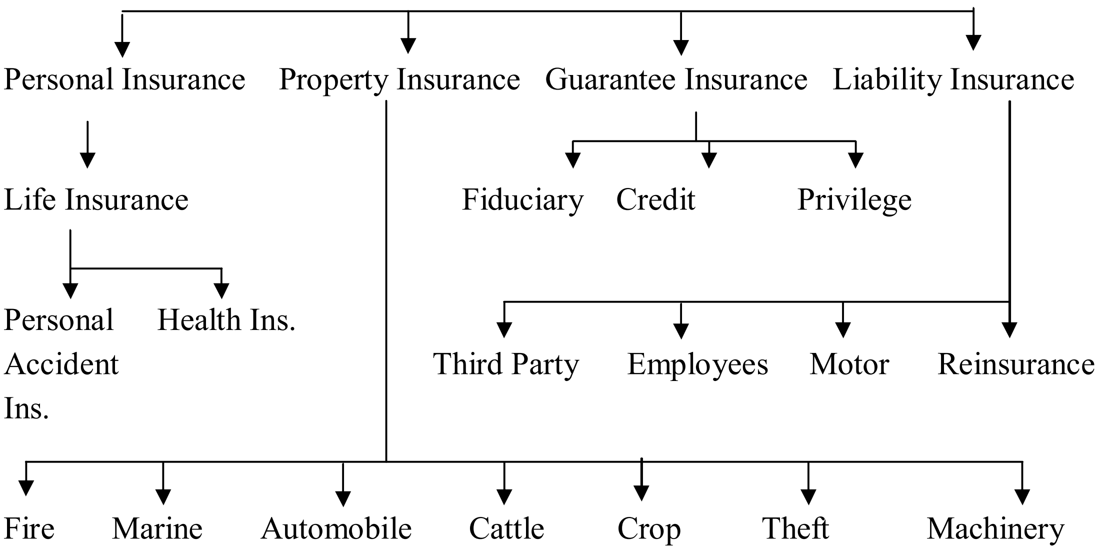
III) Guarantee Insurance:

It is new type of insurance. Guarantee insurance is evolved early in the 20th century. After industrial revolution the scope and volume of business transaction are tremendously increased. Most of the businessmen are rely upon employees of the organization. The two classes such as owner and employees are generated in the society. At the same time risk of fraud and dishonesty is increased. Guarantee insurance is an arrangement whereby the insurer agree to indemnify the insured for a fixed amount against loss arising through dishonesty, fraud or a breach of contract. e.g. If borrower not repaid the loan amount of bank, cashier of bank or any credit society or business has misappropriate the cash in such case insurer agree to pay such loss. The guarantee insurance is not against theft, but against the dishonesty of the employee. Hence these two types are completely different from each other.

4. Liability Insurance :

Under liability insurance, a person is liable to a third person owing to provisions of any law or to his employees under an act. The liability insurance covers the risks of third party, compensation to employees under workmen's compensation insurance, liability of the automobile owners if damage to third party due to motor accident. It also covers reinsurances.

Types of Insurance



I) Check your progress

A) Choose correct alternative from the following

1. Insurance is a ……….form of distributing a certain risk over a group of persons who are exposed to it.

   i) Cooperative ii) Corporate iii) Partnership firm iv) Charitable

2. The insurance mechanism works on the principle of ……….number of insured persons.

   i) large ii) Small iii) Medium iv) None of these

3. The .... declaration of Human Rights 1948 provides that, “Everyone has a right to a standard of living adequate for the health and well-being of himself and his family”.

   i) SUMO ii) UNO iii) UKNOW iv) None of these

B) Fill in the blanks

   1. The collective bearing of ……is Insurance.
   2. Insurance is not a ……….but business
   3. Health Insurance coming under ……….Insurance
   4. Insurance is a device of …………security. True

C) State whether the following statements are True or False.

   1. Insurance is a device for the transfer to an insurer of certain risks of economic loss that would otherwise come by the insured.
   2. Third party insurance is type of guarantee insurance
   3. Insurance provides economic protection to the people and their property.
   4. Insurance can not avoid the perils

1.2.7 Principles of Insurance

The principles of insurance are the set of rules which are applicable to the agreement entered in by insurer and insured. The contract of insurance is based on certain fundamental principles; some of them are common to life, fire, marine and miscellaneous insurance. Fundamental principles of insurance are divided in to two groups i.e. Primary Principles and Secondary Principles. These are discussed as follows.

1.2.7.1 Primary Principles

Primary principles of insurance are the basic principles of insurance. These are the backbone of insurance contract. Generally these principles are existing in all types of insurance contract. These principles are as follows.

1. Principle of Insurable Interest –

Insurable interest means interest of the insured in the subject matter of insurance. Prof. Hansell has defined insurable interest as “a financial involvement in which is able to be insured”. It is the basic condition of insurance contract that insured must possess insurable interest in the subject matter of insurance. The insured should have monetary relationship with the subject matter. This monetary relationship must be legally acceptable.

Insurable interest is the pecuniary interest whereby the insured is benefited by the existence of the subject matter and is prejudiced by the death or damage of the subject matter. In other words policy holder (insured) is economically benefited by the survival or the existence of the subject matter and suffers economic loss vice versa. This principle is applicable to all types of insurance contract.

When insurable interest is exist?

Generally, in life insurance contract the insurable interest should exist at the time of taking insurance, while in marine insurance it should exist at the time of indemnification. In case of fire and accident insurance it should exist both the time.

Who can hold Insurable Interest?

Husband and wife - Husband and wife both have unlimited insurable interest in each other’s life. They can insure each other. For other relatives the right to insure does not arise e.g. father, mother, independent son or daughter etc. unless some economical interest in each other.

Partners - All partners have a mutual insurable interest in each other. The death of any partner may cause an economical loss to other partner.

Debtors and Creditors – A creditor has a right to insure the life of debtor to the extent of his debt.

Trustee’s – Trustee’s, attorney, administrator have a right to insure property entrusted to them.

Owner – Legal owner of the property has insurable interest in the said property.

Landlord and tenant – They have insurable interest to the extent of the rent.

Employers and employees – They have insurable interest in each other. Employer has right to insure the key employees as well as employee can insure the life of employer.

2. Principle of Indemnity –

It is important principle of the insurance contract. It is applicable to all types of insurance contract excluding life insurance. Insurance is a contract of Indemnity. Indemnity means a security against loss or compensation for loss. Such compensation will be equal to the loss to the property. In other words the insured can not earn any profit out of this contract. Indemnity restores the policy holder to the same financial position after a loss as he can enjoy immediately prior to the loss. Once the policy holder is indemnified, he has to surrender all his rights relating to damaged property to insurance company.

Methods of Indemnification:

Usually there are three methods of indemnification. They are as follows.

Cash Payment – It is most suitable and user friendly method of payment of loss of indemnity. Under this method actual loss is evaluated and payment in cash is done to the insured.

Replacement / Reinstatement – Generally this method is used in fire insurance. Both the parties prefer to settle the claim through replacement. The insurance company replaces anew part the whole property. This concerns particularly in fire insurance the rebuilding of premises to their former conditions.

Repairs – Under this method with the consent of the policy holder insurance company repairs the damaged part of the property. Generally it is used for repair the motor vehicles.

3. Principle of Utmost Good Faith –

Insurance contract is based upon the mutual trust and confidence between the policy holder and insurance company. Utmost good faith means faith on each other; this means each party to proposed contract is legally responsible to reveal to the other party all material information relating to subject matter. Material information means the information on which the decision of the other party to enter into contract depends. In other words material fact means a fact that would influence the mind of a prudent underwriter in assessing the risk. The policy holder should disclose and provide all the facts to the insurance company otherwise the contract will become invalid.

The responsibility of disclosing all the material information relating to the subject matter lies with insured. Material fact includes the following.

The fact or information which increases the risk of the insurance company.

In case of life insurance, facts about life and health, family history, habits, hereditary disease, risk increases due to profession etc.

In case of marine insurance, possibility of risk due to improper maintenance of ship.

In case of burglary insurance, past history of burglary if any.

However certain facts are not included in material fact which is as follows.

The fact or information which reduces the risk of the insurance company.

The information which includes in the insurance contract.

The information easily obtained by insurance company etc.

4. Principle of Probability –

The theory of probability is the basis of insurance contract. The principle of Probability means the chances of happenings of event and expected amount of loss. Though the chances of incurring loss to any property are depend upon so many factors and rates of premium are fixed in advance by considering these factors. This theory is helpful for understanding the chances of losses and expected amount of losses. In view point of insurance company the law of large numbers is an important law. Probability of happening of certain event is applicable for large number. But very few insured are suffers loss and they get compensation.

5. Principle of Co-operation –

Professor Hansell define insurance is a social device providing financial compensation for the effects of misfortune and the payment being made from the accumulated contributions of all parties participating in the scheme. In other words insurance is a co-operative measure for providing security against losses. The loss occurs due to unfortunate event is divided into group of people. This concept of insurance is also come into existence from ancient period. The loss is compensated through social fund created by collecting money in the form of premium by way of co-operative efforts. It is systematic mechanism of cooperating each other by a group of persons who are expected to loss and actual loss suffered by anyone of them is shared by all in the form of premium.

1.2.7.2 Secondary Principles of Insurance –

Basically insurance contract is the contract of indemnity. Secondary principles are the outcome of the principle of indemnity. It includes the following.

1. Principles of Subrogation –

Subrogation means to exercise for own benefit, all rights and remedies which insured possess against the third party. In other words for own benefit, the insurance company comes to possess all the rights of the insured against the third person as regards the subject matter can be claimed by the insurer after paying the claim.

According to Elelyn Thomas, “It is the right to which one person has to stand in the place of another and avail himself of all the rights and remedies of that other.”

This principle is outcome of the principle of the indemnity. It is applicable only when loss to the property is fully compensated. The payment of compensation twice to the owner of the property is avoided. e.g. If motor car of the insured is damaged by accident, insurance company may pay full amount of compensation to Mr. A. In such case insurer will become entitle to all the rights of insured subject matter against third party who is responsible to damage. Insured cannot claim amount for damage from third party and insurance company at a time. If he gets excess amount, it should be return to insurance company.

The right of subrogation may take place in any one of the following way.

Right arising out of tort

Right arising out of contract

Right arising out of salvage

Right arising out of contract

2. **Principle of Contribution –**

The principle of contribution is applicable when the policy holder takes the insurance from two or more insurance companies on same risk or subject matter. In such case payment towards compensation to insured by insurance company is to be made proportionately. In other words the insurance company can call other insurance company similarly liable to the same insured to share the cost of payment of compensation. This principle ensures equitable distribution of losses between different insurance companies. Under this principle insured cannot be prohibited from taking more policies of the same property or risk with different insurance companies but he is not allowed to make profit by way of double insurance.

For example, Mr. A has taken insurance of his house valued Rs.6 lakh with two companies amounting to Rs. 600000 and Rs. 300000 respectively. House is fully destroyed by fire in such case both the companies compensate the loss by contributing proportionately as Rs. 400000 and Rs. 200000 (i.e. 2:1) respectively and not in fully.

3. **Principle of Mitigation of Loss –**

The term mitigation means to minimize or take efforts to minimize. This principle place a duty on the policy holder to make every effort and to take all such steps to minimize the loss to the subject matter when unfortunate event take place. In other words under this principle it is the duty of insured to take necessary steps to minimize the loss, as if owner of uninsured property use to take. That means under this principle he is expected to take prudent action to minimize the loss and to save whatever is left. He must to take efforts to save the property from damages in case of accident. If he fails to do so and it is found that he was silent or negligent at the time of unfortunate event, the insurance company can avoid the amount of claim.

4. **Principle of Causa Proxima –**

Causa Proxima is the Latin word. It means Proximate Cause i.e. nearest cause. Thus Proximate Cause of loss is that cause which is nearest in effectiveness and not remote cause. At the time of payment of compensation, insurance company consider the cause for loss which is an active cause that lead for mishap and loss occur to subject matter. Generally this principle is used when actual cause of mishap is not find out or cannot be fixed. If there are more than two causes operated at the same time as a cause of loss and real cause is not found, in such case insurance company is liable to pay loss or compensation by considering nearest cause of loss. Generally this principle is used in marine insurance.

Check your progress

A) Choose correct alternative from the following

1. The principle of ……….means the chances of happenings of event and expected amount of loss.

   i) Fife   ii) contribution   iii) Probability   iv) cooperation

2. Under principle of……….insured cannot be prohibited from taking more policies of the same property or risk with different insurance companies but he is not allowed to make profit by way of double insurance.

   i) contribution   ii) insurable interest

   iii) Both   iv) None of these

3. ………information means the information on which the decision of the other party to enter into contract depends.

   i) Immaterial   ii) Fraudulent   iii) Material   iv) None of these

B) Fill in the blanks

1. ……….Cause of loss is that cause which is nearest in effectiveness and not remote cause..

2. Principle of mitigation of loss place a duty on the policy holder to make every effort and to take all such steps to ………the loss to the subject matter

C) State whether the following statements are True or False.

1. Cash Payment is most suitable and user friendly method of payment of loss of indemnity.

2. A creditor has a right to insure the life of debtor without any limitation

1.2.8 Insurance Contract and Wagering Contract

Meaning of Insurance Contract:

Insurance is a contract between two parties i.e. insurer and insured. In this contract one party (insurer) agree to compensate loss occurred due to perils to other party (Insured) by taking consideration in the form of insurance premium.

Definition – "Insurance is a contract in which a sum of money is paid to the insured person on happening of certain event in case of fire, marine and general insurance. And in case of life insurance to pay certain amount either on death of insured person or on expiry of contract period in consideration of premium".

Nature of Insurance Contract

Insurance is a contract; hence all the provisions of section 10 of Indian Contract Act are applicable to them. Indian Contract Act determines the nature of Insurance is a contract which is as follows.

1. **Two Parties -** In insurance contracts there are two parties i.e. one is insurer (Insurance Company) and another is insured (Policy holder).
2. **Written Agreement** – Any contract is legal when it is in written form. Insurance contract is a written agreement between insurer and insured. The printed proposal form provided by insurer to insured.
3. **Consideration** – Consideration means contract price. In insurance contract, insured person to pay consideration to insurer in the form of premium and insure can accept risk against premium.
4. **Eligibility for contract** – The contract is legal only when the parties involved in the contract are eligible for contract. The insurance company is legal organization and hence it is eligible for contract. That means the insured must be major and not mad or insolvent.
5. **Free Consent** – According Indian Contract Act consent for any contract should be free. It cannot given by forcibly, if to do so, contract may be illegal.
6. **Object of Contract** – The object of the contract must be legal. If object of any contract is illegal then automatically the contract will be illegal.

7. **Recognition by Law** – For recognition of law the contract should be fulfill all the legal formalities which is given in the law.

Difference between Insurance Contract and Wagering Contract:

The difference between insurance contract and wagering contract can be brought out with the help of following points.

1. **Meaning –**

Insurance is a contract in which a sum of money is paid to the insured person on happening of certain event in case of fire, marine and general insurance .And in case of life insurance to pay certain amount either on death of insured person or on expiry of contract period in consideration of premium.

A wagering contract is a contract between two parties in which one party promise to pay money or worth of money on the happening of uncertain event in consideration of the other parties `to pay him if the event does not happen.

2. **Insurable Interest** –

Insurable interest means interest of the policy holder in the subject matter of the insurance. It is mandatory that policy holder (insured) must possess insurable interest in the subject matter of insurance.

In case of wagering contract insurable interest is not present in the subject matter because the happening of the event is uncertain.

3. **Utmost Good Faith** –

Insurance contract is depend upon good faith of insurer and insured. That means utmost good faith is existing in insurance contract.

In wagering contract principle of Utmost Good Faith is not arise.

4. **Consideration** –

The insurance contract is made on the basis of consideration. Here, insured person to pay premium to insurance company as a consideration and company accept the risk.

There is no consideration exists in the wagering contract.

5. **Risk** – In insurance contract risk involved and risk is distributed among so many peoples.

In wagering contract risk is existed because they are based on uncertain events.

6. **Enforcement by law** –

Insurance contracts are lawful and hence they are enforceable by law. In case of any dispute among insurer and insured, they make sure that it is obeyed.

A wagering contract is illegal and it can not enforceable by law.

7. **Indemnity** –

Insurance Company paid compensation after happening of certain event.

In wagering contract there is no risk or loss hence question of indemnity is not arise.

1.3 Summary

An individual and his business is exposed to several risks in their life. e.g. premature death, accident, sickness, fire, flood, earthquake, theft etc. His income capacity may come to end or reduce for a certain period of time. His business assets and other property may be adversely affected and their working life and income generation capacity is reduced. No amount of precaution can avoid these risks. However, some arrangement can be made to recover the loss arising from their occurrence. Insurance is one of such arrangements and the insurance business has flourished over the years. Insurance business plays a vital role in the economic development of a country. The business significance of insurance also can not be ignored. It also educates the businessmen about loss prevention. Thus, insurance is indispensable for the business.

Insurance is a contract between the insurer and insured by which the insurer in consideration of premium received from the insured, agrees to indemnify the insured against the financial loss caused to the subject matter insured by specific risks during the period of the insurance contract. The provisions of Indian Contract Act are applicable to the insurance contracts. Besides these provisions, some special principles, such as utmost good faith, indemnity and insurable interest apply to insurance contracts.

For getting insurance protection, the risk must be uncertain in nature. If the risk is certain it can not be insured. Insured should not be allowed to make profit from insurance. Insurance is a contract of indemnity and not a contract of wager / gambling. Insurance business is based upon the dual theories i.e. theory of probability and the theory of large numbers which facilitate insurer to estimate the probable loss as accurately as possible. It is a business and not a charitable or philanthropic activity.

Check your progress

A) Choose correct alternative from the following

1. Principle of indemnity is applicable to all types of insurance contract excluding …………….

   i) Life insurance ii) Fire insurance

   iii) Marine insurance iv) Property insurance

2. Any contract is legal when it is in ………..form.

   i) Oral ii) written iii) Both iv) None of these

3. All partners have a mutual ……….interest in each other

   i) Fund ii) Bank iii) Insurable iv) None of these

B) Fill in the blanks

1. In broad sense personal insurance is also called as ……Insurance.
2. The principle of ………..is applicable when the policy holder takes the insurance from two or more insurance companies on same risk or subject matter.
3. …………means a security against loss or compensation for loss.

C) State whether the following statements are True or False.

1. Insurable interest means interest of the insured in the subject matter of insurance.

2. When individual or any organization can take insurance of his property for compensation of future loss then it is called as Property Insurance.

3. Insurance is a contract of Wagering

4. In insurance contracts there are two parties i.e. one is insurer (Insurance Company) and another is insured (Policy holder).

1.4 Key Words

Insurer – Insurance Company

Insured – Policy holder

Insurable interest - Interest of the insured in the subject matter of insurance.

Subject Matter – Insured Property

Indemnity – Security from loss

Utmost good faith - Faith on each other

Causa Proxima - Proximate Cause, nearest cause

1.5 Answer to self study questions

I) Check your progress

A) Choose correct alternative from the following

1. Cooperative 2. large 3. UNO

B) Fill in the blanks

1. risk 2. charity 3. Personal 4.social

C) State whether the following statements are True or False.

1. True 2. False 3.True 4.True

II) Check your progress

A) Choose correct alternative from the following

1. Probability 2. contribution 3. Material

B) Fill in the blanks

1. Proximate 2. minimize

C) State whether the following statements are True or False.

1. True 2. False

III) Check your progress

A) Choose correct alternative from the following

1. Life insurance 2. written 3. Insurable

B) Fill in the blanks

1. Life 2. contribution 3. Indemnity

C) State whether the following statements are True or False.

1. True 2. True 3. False 4. True

1.6 Exercise

A) Write short Notes

1. Nature of insurance contract
2. Types of insurance contract
3. Difference between insurance contract and wagering contract
4. Principle of Insurable Interest
5. Principle of Indemnity

B) Essay Type Question

1. What is meant by Insurance contract? Explain the nature of insurance contract.
2. Insurance contract is different from wagering contract. Discuss
3. State the Primary Principles of Insurance.
4. Explain the Secondary principles of Insurance.
5. What is meant by Insurance? Explain the types of Insurance contract.

1.7 Books for further reading:

1. M. Arif Khan -Theory and Practice of Insurance'
2. Kothari and Bahl - 'Principles and Practice of Insurance'
3. Insurance Institute of India - 'Ayurvima'
4. Dr. Patil V.S. and Dr. Shaha N.V. - 'Insurance'
5. M.N.Mishra, Insurance Principles and Practice, S. Chand & company ltd., New Delhi.
6. C.J.Joshi, Insurance, Phadake Prakashan, Kolhapur.
7. B.N.Belegali, Insurance, Phadake Prakashan, Kolhapur.
8. B.V.Valgadde, Dr. Girigosavi, Dr. S.R.Pawar – Insurance, Phadake Prakashan, Kolhapur
9. Dr. Shaha N.V. - 'Insurance', Shivaji University, Kolhapur

Unit-2

Life Insurance

Index

2.0 Objectives

The objectives of this Chapter are to help the students to understand.

- The meaning and nature of Life Insurance
- The information regarding the whole Life Policy and the Endowment Policy
- The information regarding the Term Plans and the Pension and Annuity
- The meaning and concept of ULIP

2.1 Introduction:

Life Insurance is one of the most popular and important forms of insurance. Life insurance is insurance on human Life. Man's life being uncertain, he is prone to meet immature death, accident, disability, old age etc. In such conditions life insurance provides the best source to the family by providing funds to lessen the economic uncertainty. The life insurance is taken out with double purposes - protection against the risk and investment. Life Insurance being a contract for a long period, it provides protection and acts as a sure investment. Life Insurance is a contract for payment of a sum of money to theperson on the happening of the event insured against. Usually the insurance contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or at the unfortunate death if it occurs earlier. In other words, it is the civilized world's partial solution to the problems caused by death. In short, life insurance helps in two ways: premature death, which leaves dependent families to fend for itself and old age without visible means of support.

The present unit attempts to introduce the concept of Life Insurance, nature of life insurance and various products of the life insurance.

2.2 Subject Matter

2.2.1 Meaning and Nature Life Insurance

The concept of life insurance is based on two fundamental elements of 1) 'Death Cover' and 2) 'Survival Benefits'. According to the former element, in the event of the death of an insured within the specific period, his family members are liable to get the promised amount by the insurance company and according to the later element, if the insured survives after the specific period the insurance company undertakes to pay him amount of Insurance. Though, life insurance can not avoid one's death, at least it tries to minimize the economic burden, to some extent, of the family members by taking risk of the insured.

Definitions

Insurance Act 1938 - "Life Insurance business means the business of effecting contracts of insurance upon human life, including any contract whereby the payment of money is assured on death (except death by accident only) or the happening of any contingency dependent upon human life and any contract which is subject to payment of premiums for a term dependent on human life."

J.H. Magee - "Life insurance contract embodies an agreement in which broadly stated, the insurer undertakes to pay a stipulated sum of money upon the death of the insured' or at some designated time to a designated beneficiary"

R.S. Sharma – " Life insurance contract may be defined whereby the insurer, in consideration of a premium paid either in lump sum or in periodical installments , undertakes to pay an annuity or a certain sum of money either on death of the insured or on the expiry of certain number of years."

"A contract of life insurance is that in which one party agree to pay a given sum of money upon the happening of a particular event contingent upon duration of human life in consideration of the immediate payment of a smaller sum or certain equivalent periodical payments by another. "

1.2.2 Nature of Life Insurance

The analysis of above definitions explains the nature of insurance as follows.

1. Life Insurance is a Contract

Life Insurance is a contract between two parties i.e. insurer and insured by which the insurer, in consideration of insurance premium, agrees to pay the certain amount to the insured against certain probable unexpected incidence. In life insurance, insurance company pay certain sum of money on the death of the insured person or if insured is alive, paid to them the amount of premium with interest and bonus.

2. Cooperative device

All for one and one for all is the basis for cooperation. A life insurance is a good example of cooperative device to spread the loss caused by a specific event. Insurance is based on the principle of mutual help. Under this arrangement persons exposed to same risks come together and create a common fund and compensate the person who has actually suffered the loss. In other words, life insurance is a cooperative mechanism wherein large number of persons comes together. They have similar risk and share the loss by contributing a small amount in the form of premium. Thus, it is cooperative device which is helpful to society to protect the family, if the policy holder dies before maturity date of the policy.

3. Large number of Person –

Life insurance mechanism works on the principle of large number of insured persons. Insurance is spreading of loss over a large number of persons. The persons involved in life insurance collect the amount in the form of premium and such amount is paid to persons who actually suffer the risk.

4. Sharing of risk :

Life insurance is a social and economic device. It share the financial loss occurred caused by unexpected incidence between the public who are exposed to risk. The death of the insured, illness, disable due to accident etc. may cause a tremendous loss to the insured. Under life insurance mechanism this risk shared amongst all the insured in the form of premium. Life insurance provides financial help to dependents of insured, if he dies before the maturity date.

5. Uncertainty:

The event to be insured must be uncertain and unforeseen. However, In life insurance even though death of insured person is certain its timing is uncertain. Hence life insurance is also a legal contract.

6. Payment of claim:

In case of life insurance, the contingency i.e. death or the maturity of the policy will certainly happen. In such case insurer is liable to pay the policy amount on the death of the insured or on the expiry of the term whichever is earlier. If insured dies before date of maturity of the life policy, sum assured will receive by the legal heir or nominee of the policy holder.

7. Insurable interest –

The interest of the insured in the subject matter of insurance is called as insurable interest. In the life insurance the life of the person is the subject matter. In life insurance contract the insurable interest should exist at the time of taking insurance. Husband and wife, other relatives e.g. father, mother, independent son or daughter etc., partners, Debtors and Creditors, trustee etc. can hold Insurable Interest.

8. Life insurance is not an Indemnity contract-

Though life insurance is a contract, it is not a contract of indemnity. Because the loss caused by the death cannot be calculated in terms of money nor money is a compensation for loss of one's life. Life insurance contracts are an exception to the principle of indemnity. He can also take life policies of any amount as the loss of death can not be measured in monetary terms.

9. Protection to family :

Life insurance protects the families from the economic hardship, if insured dies before the maturity of policy. It is the basic principle of the life insurance to save a person from uncertain future incidents such as premature death, old age, accident etc.

10. Life Insurance is not a charity but business :

Life insurance is a business which provides financial protection to the life of insured from unforeseen event. However, insurance company collect the amount of premium as a consideration form insured for the cost of risk so covered. Charityis a payment without claiming anything in return.

11. Investment of saving –

It is the differential characteristic of the life insurance. Life insurance combines the element of protection and investment. There is no any other mechanism or device, which involves both the elements of protection and investment. Though the insured is interested in protecting his life against risk of premature death, he also wants to save or invest some amount for fulfillment of future needs. Life insurance provides assurance to meet future financial needs particularly arises due to old age, premature death or accident or any unforeseen events.

Check Your Progress I

A) Choose the right alternative from the following and fill in the blanks.

1. Life Insurance can ………… the death risk.

   a) avoid b) not avoid c) remove d) postpone

2. …...... Insurance business means the business of effecting contracts of insurance upon human life

a) Life b) Fire c) Marine d) Crop

3. Life insurance combines the element of ………and investment.

   a) Accident b) Protection c) Death d) Loss

B) Fill in the blanks

1. Life Insurance is not a ……….. but business
2. Life Insurance is a contract between two parties i.e. ………. and insured
3. The interest of the insured in the subject matter of insurance is called as …………… interest.

C) State true or false

1. Life insurance protects the families from the economic hardship.
2. Life insurance mechanism works on the principle of small number of insured persons.
3. A life insurance is a good example of cooperative device to spread the loss caused by a specific event.

2.2.2 Life Insurance Products:

The life insurance companies have introduced different policies to meet different needs of different people. The social and economical conditions of different classes of the society are never equal or same. The occupations, risks in occupations, income, economical needs, expectations, priorities and difficulties are relatively different by person to person. Hence, the different schemes need to be introduced.

A person who wants to buy an insurance product has to consider the various factors such as the amount of sum assured, amount of premium, source of income, type of risk, maturity time and circumstances at the time of maturity etc. He can select one of best product from life insurance products available in the market. Therefore, insurance companies offer various types of life insurance products by considering different needs and situation of the insured.

There are five basic types of life insurance products are offered by insurance companies such as Whole Life Policy, Endowment Life Insurance policy, Term Insurance Policies, Pension and Annuities and Unit Linked Insurance Plans.

However, in actual practice, some of the kinds are brought together to make more attractive schemes. As well, by charging extra premiums, supplementary benefits are extended. In addition to these basic products, various plans are available suiting the requirement of the society.

The following chart shows the various types of life insurance policies or products offer by the insurance companies

Sr. No.	Types of Life Insurance Policies/ Products	
1	Whole Life Policies	The policies by which sum assured is paid to the family members of the insured after his death. The premiums are to paid during the whole life of insured.
2	Endowment Policies	The policies that offer sum assured to the insured if he survives a particular term and if he dies before that term to his legal heirs.
3	Term Policies	The policies that offer sum assured on the death of the insured during the specified period.
4	Pension and Annuities	Policies that promise to pay a given amount periodically to the annuitant, during his life time, starting immediately or from a future date.
5	Unit linked Insurance Plans	A combination of insurance plan & investment plan

2.2.2.1 Whole Life Policies

It is clear from the name of this policy is issued for whole life of insured. In whole life policy the assured is covered for his entire life and the sum assured becomes payable to the beneficiary on the death of the assured. The amount of policy i.e. sum assured is paid to the nominee or legal heir, only after the event of insured's death. Thus, the insured can not get the amount of policy during his life time. However, in exceptional case some insurers pay the sum assured when the insured completes say 100 years. While some other insurers waive further payment of premium after say 35 years or when the assured attains a certain age like 75.

This type of life insurance product is most suitable for persons of all age groups who want to protect their families from financial setback, if it occurs due to premature death of the insured.

Whole Life Plan

Particular	Minimum	Maximum
Entry age	18 Years (18 Last birth day)	60
Sum assured	30000	No limit
Term	Not applicable	Not applicable

Mode of Payment	Monthly, Quarterly, Half yearly or Yearly (Salary Saving Scheme also available)
Maximum premium payment	80 years or 40 years from date of commencement whichever is later

Benefits:

i) Survival benefits: Nil

ii) Death benefits : Sum assured + Accrued Bonus+ Terminal Bonus (if policy in force minimum 15 years before death of the insured)

Features of Whole Life Policy

1. The whole life policy covers the whole life of the assured. It means the term of the policy is not fixed.
2. The sum assured is payable only on death of the policy holder and not during his life-time.
3. The premiums are required to be paid until the death of the policy holder.
4. Some insurance companies waive further payment of premium after 35 or 40 years or after the policy holder reaching the age of 75 or 80 years.
5. The premiums, as are to be paid for a long term, the rate of premium is low, hence, this is supposed to be the cheapest kind of policy.

6. When the assured pays premiums at least for three years and discontinues paying further premiums, the policy automatically becomes paid-up and after his death, paid-up value is paid to his legal heirs.
7. Mode of payment of premium is monthly, quarterly, half yearly or yearly (Salary saving scheme also available)
8. Loan facility on policy is not available

Advantages of Whole Life Policy

1. Whole Life policy is convenient and useful for the person who wants to make provisions for his dependent family members after his death.
2. One can take out this policy of large amount at low premium.
3. The beginners of job / occupation can beneficially avail of this kind of policy.

   The beginning their income being low they can not afford policies of higher premiums.
4. This plan is helpful to make provision of payment of estate duty on the property after death of insured person.

Disadvantages of Whole Life Policy

1. Premiums are to be paid for life time.
2. Paying premiums in old age becomes difficult.
3. Insured has not paid sum assured in his life time. So, generally, people are not interested to take whole life policies.
4. This kind of policy is not useful, to meet the needs, such as, education or marriage expenditure of children,
5. This plan fails to consider the old age and reduction in earning capacity of insured.

2.2.2.2 Endowment Policies

This is the most popular kind of life insurance policy. By taking endowment policies, the assured enjoys the benefit of obtaining sum assured after expiry of certain period in his life time or if he dies before the expiry of endowment period. In other words, it is the type of life insurance contract under which the sum assured to be paid either at death or after maturity of the policy whichever is earlier. The premium under endowment policy is higher than whole life policy. The mode of payment of premium is same as like whole life policy i.e. yearly, half yearly, quarterly and monthly. However, single premium policies also available.

Endowment life insurance product is an ideal combination of both the family protection and investment for future life. It is suitable for all peoples who want to protect their families from a financial risk as well as to make provision for old age. Under this policy holder paid the premium throughout the policy term or the death of the insured whichever is earlier. Insured taken out the policy for a specific term and the sum assured is paid insured if he is survival at the date of maturity of policy or paid to the legal heirs if insured dies before date of maturity.

Endowment policy may issued with profits or without profits. The policy may paid up if at least three years premium have been paid.

Benefits:

i) Survival benefits : Sum assured + Fixed Assured Bonus + Bonus

ii) Death benefits : Sum assured + Accrued Bonus

Endowment Plan

Particular	**Minimum**	**Maximum**
Entry age	18 Years (18 Last birth day)	60
Sum assured	500	No limit
Term	Not applicable	30 to 35 yeras

Mode of Payment	Monthly, Quarterly, Half yearly or Yearly (Salary Saving Scheme also available)
Maximum premium payment	60 years from date of commencement
Policy loan available	No

Features of Endowment Policy

1. The policy holder decides the insurance amount and term of the policy, e.g. insurance policy for Rs.10 lakh for a period of 25 years. This period is called as endowment period.

2. The premium is to be paid upto the endowment period or upto the death of the assured whichever is earlier.

3. The term of paying premiums can be selected lesser than the term of the policy.

4. At the time of expiry of the policy, if the assured survives, he can receive the full amount of sum assured together with assured bonus.

5. If insured dies before the expiry of endowment period the insurance amount is paid to his heirs.

6. After payment of premiums at least for three years and then discontinuing, payment of further premiums, the policy automatically becomes paid up for less amount.

7. Endowment plan is the combination of investment and protection.

Advantages of Endowment Policy

1. It is more beneficial to the persons belongs to middle class and salary earners, as payment of premium can be linked with salary.

2. Regular and compulsory savings is the main advantage of endowment policy. When the assured pays the premiums for the selected period, he gets this amount after the completion of this period. With the help of this amount he can meet his various needs.

3. With savings, the insured can make provision for his family. If the assured dies before the selected period, the insurance amount is paid to his heirs.

4. In consideration with his present age and age at the time of retirement, the assured can select the period of his policy and thus can make provision for his retirement.

5. By purchasing this kind of policy, one can make provision for education and marriage of his children, construction of house, etc.

6. The assured does not require to pay the premiums for "life time as in case of the whole life policy. Therefore, there is no burden of paying premiums in old age.

Disadvantages of Endowment Policy

1. The premium is to be paid at higher rate than that for Whole Life Policy.

2. The insurance amount received after the completion of endowment period may not be utilized for proper purpose.

3. The insurance amount as is obtained during life time, economical protection for family may not be provided. The assured will have to make different provision for it.

2.2.2.3 Term Insurance Plans:

Term insurance is a short term plan. Under this plan the sum assured is payable only on the death of the life assured. That means if the insured person alive till the completion of date of specific policy term, nothing is payable to insured. Thereafter the contract of term insurance automatically comes to the end. The premium is paid through out the term or till the death of the insured whichever is earlier. It is the cheapest type of insurance product. Generally the persons who want to protect his family for a short duration by paying fewer amounts as a premium is prefer such type of plans. This policy can not entitle surrender value nor will any loan be granted. In the following cases term insurance plans are useful.

1. The person who needs extra protection for a short period
2. Key men or key persons insurance for a specific period
3. Young businessman or industrialist who wants to sustain from unforeseen events during early period of the business.
4. Parents can take such policy for education or marriage of son and daughter

Benefits :

i) Survival benefit : Not applicable

ii) Death Benefit : Total sum assured

Term Insurance Plan

Particular	**Minimum**	**Maximum**
Entry age	18 Years (18 Last birth day)	60 Years
Sum assured	50,000	10,00,000
Term	6 , 12 , 18 months	NA
Mode of Payment	single premium	
Maximum maturity age,	62 years	
Policy loan available	No	

Features :

1. The sum assured is payable only in the event of death of a insured
2. This plan not covers the principle of investment. It provides only protection to family
3. It is the cheapest type of insurance
4. It is a non medical plan. Any person with in the limit of 62 years age can take policy without any medical examination
5. This policy is always without profit.

Advantages :

1. It is useful to individuals who specially require insurance cover against risk for a specific term
2. Term insurance accomplish aim of protection
3. If death occurs before maturity of term, the sum assured paid to the nominee or legal heirs of the insured
4. Big amount of policy can be taken in low amount of premium

Disadvantages :

1. This plan not covers the principle of investment. It provides only protection to family
2. There is no any survival benefit. If the insured is alive at the time of maturity of the term plan the sum assured will not give to the insured

2.2.2.4 Pension and Annuity Plans:

An annuity and pension is a long term investment contract that is issued by an insurance company. It is designed to help protect you from the risk of outliving your income. Through annuitization, your purchase payments (what you contribute) are converted into periodic payments that can last for life. It is a contract, which provides regular and periodical payments for a specific period or for the remaining period of the life. For this purpose annuitant exchange the lump sum payment of money to the insurer. In pension or annuity plan the insurance company assures to pay certain amount periodically up to the death or maturity of the term. The payment of annuity or pension is generally continues up to the life. Hence the rate of premium is determined on the basis of longevity.

Annuity is a system of assured payment from insurance company to annuitant periodically till death of the annuitant or expiry of the policy period. It is most useful to retiring person, who wants to earn fixed sum with less risk. It is also helpful to those who desire to enjoy his investment during his life time and not leave for others.

It is said that when regular life insurance plans stops to serve, the annuity plan start to serve. In other words this plan is opposite to insurance plans.

Nationwide's annuities are flexible so you can choose one that enables you to:

- Invest a lump sum or invest over a period of time
- Start receiving payments immediately or at some later date
- Select a fixed, variable or indexed rate of return

An annuity is a contract between annuitant (insured person) and an insurance company in which annuitant make a lump sum payment or series of payments and in return obtain regular disbursements beginning either immediately or at some point in the future. The goal of annuities is to provide a steady stream of income during retirement. An annuity that begins paying out immediately is referred to as an immediate annuity, while those that start at a preset date in the future are called deferred annuity.

Definitions:

1. D.S.Hansell : " Annuities are a form of person, whereby in return for a certain sum of money the insurer agrees to pay the annuitant an annual amount for a specified period or for the remainder of the annuitant's life."
2. Joseph B. Maclean : "Any contract providing for regular periodic payments for a specified period is an annuity."
3. R.S.Sharma, " A Life annuity may be defined as a contract payment or payments, to pay to the beneficiary , a fixed regular income during a given period."
4. W.A. Dinsdale, "Annuity may be defined as the payment of amounts periodically during the life time of the annuitant in consideration of the payment of an agreed sum to the insurance company."

Types of Annuity :

Annuities are divided in to three main varieties viz., fixed, variable and indexed - that each have their own level of risk and payout potential.

1. **Fixed annuities** : It pay out a guaranteed amount based on the balance of your account. The downside of this predictability is a modest annual return.
2. **Variable annuity**: In this case, you can choose from a list of mutual funds that comprise your personal "subaccount." Here, your payments in retirement are based on the performance of investments in your subaccount. You have the opportunity for a higher return, accompanied by greater risk, with a variable annuity.
3. **Indexed annuities** : Indexed annuities are somewhere in between when it comes to risk and potential reward. You receive a guaranteed minimum payout, although a portion of your disbursements is tied to the performance of a market index.

Features of Annuity:

1. The goal of annuities is to provide a steady stream of income during retirement

2. When regular life insurance plans stops to serve, the annuity plan start to serve
3. Annuitant deposits a lump sum in one or more installments
4. This contract is generally entered for own benefit of the annuitant
5. The rate of premium for annuity is calculated on the basis of longevity of the annuitant
6. It is just opposite to insurance plans

Advantages:

1. It is most useful to retiring person, who wants to earn fixed sum with less risk.
2. It is also helpful to those who desire to enjoy his investment during his life time and not leave for others.
3. Generally this plan is preferred by persons those who have no dependents
4. Annuity is a guaranteed periodic sum of money till the survival of the annuitant
5. The payment of annuity is being made yearly, half yearly, quarterly or monthly
6. It does not require medical examination. It means annuity is a non-medical plan
7. When life insurance plans stops to serve, the annuity plan start to help the annuitant up to his survival
8. It gives protection against living for longer period

Disadvantages :

1. It is not beneficial to the persons who have loving dependents
2. It is not helpful to the dependents after the death of the annuitant
3. It means the person who dies earlier not get much benefit
4. It does not give protection against early death of the annuitant as insurance plans

2.2.2.5 Unit linked Insurance Plans (ULIPs)

Under Unit linked Insurance Plan the investment is made subject to risk associated with capital market. Such investment risk is borne by the policy holder hence; insured should make investment choice by considering his risk attitude and need. In order to make life insurance products more attractive and popular among the public the insurance companies have launched unit-linked policies.

In India the Unit Trust of India, was the first to introduce a unit-linked Insurance Plan in 1971. Birla Sun Life was the first private company to launch a unit linked insurance products. Then it was followed by a number of other private companies like Om Kotak Mahindra, ICICI Prudential, SBI Life Insurance etc. Under public sector LIC launched its first unit linked offer 'Bima Plus.'

Unit linked insurance policies are not a pure insurance product but they are a hybrid product combining the insurance cover and capital market instrument. It is a life policy which provides risk cover as well as investment option to policy holder such as stocks, bonds or mutual funds. Under ULIP plan the premium paid by insured is invested in equity, debt or money market.

The policy holder will receive the assured benefits or the value of unit linked investment whichever is higher at the time of maturity of the UIP plan. The amount received under ULIP plan is exempt from Income Tax. ULIP have a minimum lock-in-period of five years. Within lock-in-period policy holder can not withdrawal any amount from this plan, however, after completion of five years he make partial withdrawal.

Definition of ULIPs :

"A Unit Linked Insurance plan (ULIP) is a product offered by insurance companies that unlike a pure insurance policy gives investors the benefits of both insurance and investment under a single integrated plan."

Features of ULIPs

1. **Hybrid product** : An ULIP is a combination of Insurance Product and Mutual Fund Product. Hence, it is called as hybrid product.

2. **Flexibility :** ULIPs provide flexibility to choose the sum assured amount of premium, mode of payment, type of fund, switch over the fund, etc.

3. **Deductions**: As like other insurance plans, premium invested in ULIP plan is considered for deduction u/s 80 C of the Income Tax Act.

4. **Transparency** : ULIPs are transfurent plans because the customer knows the type of fund in which his money shall be invested and the charges to be deducted.
5. **Liquidity** : ULIPs provide an option of withdrawing from plan after a few years and liquidate the investment. Alternatively they also allow partial withdraw after completion of lock-in-period. .
6. **Lock-in-period** : As compared to the tradition insurance plan the term of ULIPs is short. However, minimum lock-in-period is five years.
7. **Fund allocation** : A part of the premium is invested in capital market installments like equities and debts according to the fund selected by the policy holder; and remaining part is used for providing insurance cover.

Merits of ULIPs

1. **Multiple benefits**: ULIPs provide multiple benefits to investors like risk cover; long term investment, investment growth etc. integrated in one product.
2. **Saving habit**: ULIPscreate disciplined and regular saving habit among people through investing small amount.
3. **Spread the investment risk**: ULIPs spread the investment risk over a large group of investors. They are liable to investor who wishes to avail of the benefit of market linked growth without actually participating in the stock market.
4. **Flexibility**: ULIPs offer a high degree of flexibility to the plan holders e.g. option to change the plan, top-up the amount of premium/sum assured etc. This flexibility is not available in traditional insurance plans.
5. **Partially withdraw facility** :In case of emergency the ULIP holder can partially withdraw the amount from his ULIP or quite the plan. Thus investment in ULIPs has liquidity.
6. **Income tax deduction**: Payment of premium on ULIPs enjoys income tax benefits. The amount received at the time of maturity of ULIP is also tax free.
7. **Market linked returns**: ULIP gives investors an opportunity to earn market linked returns. The part of the premiums is invested in market linked funds.

8. **Mortality cover:** as like life insurance plans ULIP also provides mortality cover to the ULIP holder. If policy holder dies before maturity the nominee can claim the amount.

9. **Best for long term investment**: ULIP is beneficial to the investors who want to invest their amount in long term.

Demerits of ULIPs

1. Less Insurance Cover:ULIP combines insurance plan with investment plan. It gives a small insurance and only average rate of returns. ULIPs are not preferred by those who wish more insurance covers because it gives very less insurance cover.

2. Expensive : The high rate of commission paid to the agents , advisors and due to other heavy charges such as mortality charges, administration charges ULIPs is quite expensive as compared to other insurance policies and investment plans.

3. Less Return :Mutual funds and investment plans give more returns as compared to ULIPs during a period of 15 years.

4. Not beneficial for short term : ULIPs are not beneficial for short term period. Their lock in period is 3-15 years. However, in some cases the lock in period is 3 to 5 years.

5. Risky Investment: The amount invested in ULIP is basically related with capital market. Therefore the return on ULIP is depend upon the performance of capital market. Hence the investor should know the risk absorption capacity before deciding to invest in ULIPs.

6. Loan facility: Loan facility is not available on ULIPs.

7. Complicated plan: ULIPs are complicated plan and the common people are not able to understand the nature and terms of these plans.

Guidelines of IRDA

Insurance Regulatory and Development Authority (IRDA) have issued certain guidelines to control the insurance companies in respect of issue of ULIPs. Some of the guidelines and mentioned below.

1. ULIP plans are designed according to life insurance instruments

2. The term of ULIP should not be less than five years.

3. In case of single premium unit linked plan, the sum assured payable on death of the policy holder should be 125 per cent of the single premium.

4. In case of non-single premium plans the sum assured on death should be five times the annualized premium or half the annualized premium multiplied by the term of the policy. However, ULIP holder free to choose whichever is beneficial.

5. The insurance companies should invest 75 per cent of the funds collected under unit-linked plans in approved securities and not more than 25 per cent in other securities.

Check Your Progress II

A) Choose the right alternative from the following and fill in the blanks.

1. The rate of premium on a whole life insurance policy is …………

   a) higher b) lesser c) equal d) none of these

2. The policy plans whose benefits are based on the performance of funds are called ………… plans.

   a) Term b) Endorsement c) Unit linked d) Whole life

3. Any contract providing for regular periodic payments for a specified period is an……………

   a) Annuity b) Charity c) Ambiguity d) None

4. In ………..life policy the assured is covered for his entire life and the sum assured becomes payable to the beneficiary on the death of the assured.

   a) Endowment b) Term c) whole d) None

B) Fill in the blanks

1. The term of ULIP should not be less than …… years.
2. ………. combines insurance plan with investment plan.
3. Term insurance is a ……….term plan.

C) Whether the following statements are true or false.

1. Endowment policies are the most popular ones.
2. All insurance policies are eligible for obtaining bonus.

3. There are five basic types of life insurance products are offered by insurance companies

2.3 Summary

Life Insurance is one of the most popular and important forms of insurance. Life insurance is insurance on human Life. Life Insurance is a contract for payment of a sum of money to the person on the happening of the event insured against. Usually the insurance contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or at the unfortunate death if it occurs earlier. Though, life insurance can not avoid one's death, at least it tries to minimize the economic burden, to some extent, of the family members by taking risk of the insured.

According to Insurance Act 1938 - "Life Insurance business means the business of effecting contracts of insurance upon human life, including any contract whereby the payment of money is assured on death (except death by accident only) or the happening of any contingency dependent upon human life and any contract which is subject to payment of premiums for a term dependent on human life."

Life insurance is contract. It is a cooperative devise. It stands on the principle of large number of person i.e. law of large number. Life Insurance is not a charity but business.

There are five basic types of life insurance products are offered by insurance companies such as Whole Life Policy, Endowment Life Insurance policy, Term Insurance Policies, Pension and Annuities and Unit Linked Insurance Plans. However, in actual practice, some of the kinds are brought together to make more attractive schemes. As well, by charging extra premiums, supplementary benefits are extended. In addition to these basic products, various plans are available suiting the requirement of the society.

2.4 Key words

Life Insurance : An insurance that promises to pay a specific amount on the occurrence of certain event contingent on the life of a policy holder.

Whole Life Policy : A life insurance policy that promises to pay sum assured to the legal heirs / dependents of the assured after his death.

Endowment Policy : A life insurance policy that promises to pay at the end of the specific term or if the assured dies before the term, to his dependents.

Bonus : A specific share distributed out of the surplus made by the life insurance company to the policyholders.

Insurable interest – The interest of the insured in the subject matter of insurance is called as insurable interest.

Charity- Charity is a payment without claiming anything in return

Annuity -An annuity and pension is a long term investment contract that is issued by an insurance company.

ULIP -Unit linked Insurance Plan under which the investment is made subject to risk associated with capital market

2.5 Answer to check your progress:

Check Your Progress I

A)	1. Not avoid	2. Life	3. Protection
B)	1. Charity	2. ULIP	3. Insurable
C)	1. True	2. False	3. True

Check Your Progress II

A)	1. Lesser	2. Unit Linked	3. Annuity	4. Whole
B)	1. Five	2. Insurer (Insurance Company)	3.	
C)	1. True	2. False	3. True	

2.6 Exercise

A) Short Answer type questions

1. State the Nature of Life Insurance
2. What is an ULIP?
3. What is the Whole Life Insurance?
4. Explain the merits of endowment policies
5. Explain the merits and demerits of Whole Life Insurance
6. Explain the merits and demerits of Term Plans

B) Broad questions

1. Explain the meaning and Nature of Life Insurance
2. What is the Whole Life Insurance? What are its features, merits and demerits?
3. What is an ULIP? State its merits and demerits.
4. Explain the features , merits and demerits of endowment policies.
5. Explain the merits and demerits of Term Insurance

C) Write short notes

1. Endowment Life Insurance Policy
2. ULIP
3. Whole Life Policy
4. Endowment Life Policy
5. Annuity
6. Term Plans

2.7 Books for additional reading

1. M. Arif Khan - Theory and Practice of Insurance'
2. Kothari and Bahl - 'Principles and Practice of Insurance'
3. Insurance Institute of India - 'Ayurvima'
4. Dr. Patil V.S. and Dr. Shaha N.V. - 'Insurance'
5. M.N.Mishra, Insurance Principles and Practice, S.Chand & company ltd., New Delhi.
6. C.J.Joshi, Insurance, Phadake Prakashan, Kolhapur.
7. B.N.Belegali, Insurance, Phadake Prakashan, Kolhapur.
8. Dr. Shaha N.V. - 'Insurance', SIM., Shivaji University, Kolhapur.
9. B.V.Valgadde, Dr. Girigosavi, Dr. S.R.Pawar – Insurance, Phadake Prakashan, Kolhapur.

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Unit-3

Life Insurance Policy

Index

3.0 Objectives

The objectives of this Chapter are to help the students understand.

- The concept and meaning of Life Insurance
- The importance of Life Insurance from the perspective of an individual, business, and economy
- The procedure of Taking out Life insurance
- The conditions / terms of Life Insurance
- How the claims of Life Insurance are settled.

3.2 Subject Matter

3.2.1 The features or characteristics of the Life Insurance

1) The life insurance is a contract between the insured and the insurer (Insurance Company). Hence, all the provisions of Indian Contract Act are applicable to it.
2) The life insurance promises to pay a certain amount on occurence of death, physical disability and such event related human life.
3) Life insurance is a contract that promises to pay certain, assured amount. Because no one can evaluate human life, this is not contract of indemnity.
4) It is taken out with two objectives - of protection and investment.
5) By purchasing life insurance, one can make provisions for higher education of his sons and daughters or their marriages.
6) It could be purchased to meet some special needs, such as expenditure incurred on medical treatment, compensation for loss of Income due to illness, physical disability and accident.
7) By purchasing a life insurance policy, one can make provisions for repayment of bank loan or other loans after one's death, saving one's family members from the burden of repaying it.
8) Along with the provisions of Indian Contract Act, the principle of utmost good faith and the principle of insurable interest are also applicable to Life Insurance Contract.
9) Life insurance policy being a personal property of an insured, it can be sold or mortgaged or gifted out.
10) It has a facility of nominating the insured's heir. It is to decide to whom the insurance amount be given after the death of the policyholder. The nomination can be done at the time of submitting proposal form or any time the during currency of the policy.

3.2.2 Importance of Life Insurance

The fast growing industrial development and the revolution in transport and communication system, no doubt have brought in prosperity, but at the same time, these advancements have endangered human life tremendously, have created tensions and uncertainty unprecedentally. The activities of the terrorists and extremists, industrial accidents, transport accidents etc have reduced the security in human life. In addition to the above, the floods, earthquakes, hurricanes and such natural calamities and environmental / ecological imbalance have made life much more uncertain. On one hand, the per capital income is rising, but on the other hand, man's income making capacity is getting reduced. A solution on all these, the life insurance has achieved great importance. The importance of Life Insurance can be explained from the individual's, economy's and in general, the social point of view.

A) From the Individual Person's Point of View

Life Insurance is extremely important from the individual person's point of view. No one today can continue one's life free from anxieties without taking life insurance. It is cent percent true that life insurance has no substitute. By discussing some of the distinct advantages of life insurance, its importance in man's life is enumerated in the following ways.

i) Family protection

The life of a family is dependent on the bread - earner, the head of the family. Unfortunately, if he dies at an early age, the very support of the family disappears and the surviving dependents have to face many financial difficulties. At such occasions, life insurance provides funds to them immediately after the death of a policy holder, life insurance therefore, is much superior as compared to any ordinary investment, because it offers full protection to the family members after the death of a policyholder.

ii) Old age relief

A person by taking a life insurance policy can make provisions for his old age and may lead a life of comfort and happiness. In the nuclear family system today, there is no certainty about that the sons would take care of their old parents. But, the amount of insurance received in old age will certainly prove a great relief. That would make a person self - reliant.

iii) Compulsory savings

Taking Life Insurance encourages one to economize and save one's hard-earned money compulsorily. When the income is limited and dependents are many, it becomes very difficult to save regularly. Somehow, if some money is saved, it could be expended by momentary inducement. But when a person purchases a life insurance policy, he can easily continue a long term saving plan, by regular payments of premiums. He gets habituated to control his expenditure by force. This kind of saving is unique one, because it provides security against the risk to life.

iv) Provision to meet children's needs

The life insurance companies issue some schemes by which policy holder can make provisions for meeting the needs of his children, like expenditure of their higher education or marriages etc, In a sense, life insurance provides assistance to a policy holder to educate his children and make their bright careers. The marriage expenditure can be met easily.

v) Provision for special needs

In case of emergency needs of the family, the loans can be obtained on the basis of the security of life insurance policy. For instance, if a person, unfortunately becomes physically disable or meets an accident or falls seriously ill, he will have to be admitted to a hospital where he will have to incur a lot of money on medical treatment. During the time, his earning gets reduced for some time or stops permanently. To meet such huge expenditures, buying a life insurance policy is an ideal way of making provisions for.

vi) Tax relief

On payment of life insurance premium at certain tax relief is given in the assessment of income tax. For computing income tax, the premiums of life insurance are allowed to be deducted from taxable income. When this tax relief is taken into account, it will be found that the insured actually pays much less than what he has to pay against premiums.

vii) Protection against creditors

By effecting a valid assignment of the policy, the sum assured can be protected against the claims of the creditors of the policyholder. In the event of his death, the person who nominated is entitled to the benefits of the policy, as also a Married Women's Property Act Policy, which protects the interests of the wife and children.

viii) Nomination facility

By this facility the policyholder obtains a right to decide to whom the insurance amount be paid after his death. Hence, the nominee can get the insurance amount very easily.

ix) Provision of repaying debts

The loan borrowed for the purpose of constructing a house or some other purpose would be burdensome for the dependents if a person dies before repaying it. In such condition, he can select the amount of insurance policy equal to loans and by pledging it as security with insurance company / bank can reduce the burden of his dependents.

B) From the Business Point of View

Life Insurance serves the business community, like the individual persons, in a various ways.

1) Business continuation

Life Insurance helps the traders and business partners to avoid possible interruption due to accident and death of one of partners / proprietor or key men and continue their business or before. A sole trader can leave sufficient funds for his business so that after his death his heirs may continue his business without any anxiety. In the same manner, at time of death of a partner, the firm has to pay back his capital, share of goodwill, profit etc. By taking a joint policy on lives of the partners, the problem is solved without putting financial burden on the firm.

2) Insurance of key man

The existence of every business firm depends on some very important persons, technicians, managers, executive directors, etc. Such key-men are responsible, by virtue of their expertise, skill and experience, for the prosperity and development of the firm. Unfortunately, if such a key person dies, it disrupts the work or sometimes the entire business may collapse. Insurance helps the businessman to insure the lives of such key employees and avoid the risks. In case such key employee leaves the business firm, the other able employee could be appointed out of the insurance amount received from the company.

3) Employee welfare plans

The business firms have to discharge some responsibilities towards their employees. For example, they have to pay compensation if they met accidents while on work. These are integral parts of social security and labour welfare. The employers can take advantage of life insurance schemes. Usually, group insurance policies are taken, by which the responsibility of paying compensation/other benefits to the employees, is automatically transferred to the insurance company. As the employees are covered under the policies from the risks of death, illness, accident, etc, their sense of gratitude towards the firm increases and they develop respect for it.

4) The enhancement in credit worthiness

When the business firms purchase life insurance policies on the lives of their key - employees, their credit worthiness in banks and other finance institutes enhances. Because, in the event of the death of such employees or their leaving the organizations, the financial Institutes, banks etc. feel secure, due to the protection provided by life insurance. It does not affect the stability or the economic conditions of the organizations.

5) Facilitates economic growth

The role performed by life insurance in the economic growth of a country has been extremely significant. By providing huge funds, the life insurance companies can accelerate the process of economic growth. The mobilization of huge resources and their investment in various productive activities leads to industrialization, creation of better infrastructure, provision of funds to companies in private sector etc. In addition to this, by buying shares and debentures of various companies, the growth of share market also can be accomplished.

6) Social Security

The various schemes implemented by the life insurance companies providing protection to weaker sections of the society, the artisans, farmers, landless labours etc. takes care of some of the social problems such as unemployment, old age, disability, premature death and medical care for the aged. In the absence of life insurance, the victims of these calamities would have become burden on the society. Thus, life insurance helps maintain social security and stability.

3.2.3 Procedure of taking Life Insurance Policy

A person who desires to effect a life insurance policy, must follow certain procedure set by the life insurance company. Following are the various stages of this procedure

i) Selection of insurance company

The business of life insurance, at present, has been opened to private sector. Therefore, alongwith Life Insurance Corporation of India, some private companies like HDFC Standard Life, ICICI Prudential, Max New York, Om Kotak Mahindra, Birla Sunlite, SBI Life, ING Vaisya, Bajaj Allianz, Tata AIG, etc, have entered into market. A person desirous of taking a life insurance policy, at first, must select one of these companies.

ii) Filling in a proposal form

Once an Insurance company is selected, the proposer is required to fill in the proposal form. It is a printed document and can be obtained free of cost from the agent or the company. Some companies make such forms available on internet. This proposal form being the basis of insurance contract, the utmost good faith and great care must be taken while filling in the form. The information filled in must be absolutely true and accurate. Any kind of misrepresentation or concealment of relevant information may lead to the cancellation of the contract. The Declaration Form attached in the end of this form is also required to be filled in, which states that the information furnished in the proposal form is true and complete. If the insurance company finds some statement false and irrelevant it can cancel the contract and forfeit all the amount paid on the policy.

In short, the proposal form for taking insurance is an application form to be submitted by the proposer furnishing all the required information in regard to the risk the insurance company is likely to cover.

Such proposal forms generally contain the following details.

- The name of the proposer and his address
- Object of Insurance
- Date of birth, birth place, age, proof of age.
- Sex, nationality.

- Father's name,
- Name of nominee, his address and age, proposer's name,
- In case of minor nominee, the name, address of appointee, proposers' name
- Table and terms of assurance, sum to be insured, whether premiums are payable yearly, half yearly, quarterly or monthly, amount of deposit,
- Present occupation and its nature,
- Name of the present employer, length of service,
- Educational Qualifications,
- Annual income, the sources of income,
- Whether the proposer pays income tax,
- Information regarding previous policies,
- Family background, personal history,
- Information regarding any hereditary, disease, admission to hospital,
- Physical disability, accident, injury, operations etc.
- Health condition
- Addiction to liquor, tobacco, drugs etc.
- Whether treatments on Hepatitis or AIDS are in continuation,
- The height and weight of the proposer (For non-medical insurance)

If the proposer is a female, she has to furnish extra information such as husband's name, occupation, annual income, details of his policies, delivery, abortion, caesarian, the date of last menstruation etc.

Declaration by the proposer

After furnishing the above stated information, the proposer has to make a declaration which includes the following details.

1) That the information filled in the proposal form is true and complete and no relevant information is concealed. If some statement is found false or incorrect, the contract of insurance be held void and the amount paid be forfeited to the insurance company of which the proposer is aware.

ii) The proposer also declares that the insurance company is fully free to make inquiries into information regarding his health or employment from the person or institute, it desires.

iii) The proposer further agrees that if some changes in his occupation or financial position take place, some adverse incident takes place in regard to his health, from the date of submission of proposal to the time before the issue of first premium receipt, he will inform same to the Insurance company in writing, so that the company may reconsider the terms of acceptance. If such information is not furnished the insurance contract shall be void.

Care to be Taken While Filling in the Proposal Form

1) The proposer, after filling in the proposal form, must sign it in the presence of a witness.

2) When the proposer is illiterate, the thumb impression of his left hand is to be attested by a third person, he should declare that he explained the meaning of the questions in proposal form to the proposer in his mother tongue, and the answers given by him are filled in truthfully, that the answers were read for him and understood by him.

3) Proof of Age

The proposer has to submit a proof of his age along with the proposal form, because the premium is computed according to the age. The following proofs of age are acceptable by the insurance company.

Sr. No.	Standard Proofs of Age	Non Standard Proofs
1.	An extract from the Register Book of Gram Panchayat, Municipal Council, Municipal Corporation, made at the time of birth.	The Proofs such as horoscope, the elder's declaration, self -declaration.
2	Certificate of Baptism or certified extract from family Bible if it contains age or date of birth.	

3	A copy of certificate from college, University or School records	
4	Certified copy of the first page of service book of an employee of Government or semi-government institutes and reputed commercial & educational institution.	
5	Proof of Residence, Passport	
6	A marriage certificate issued by Roman Catholic Church	
7	In case of Defence Personnel, the identity card issued by Defence department	

4) Medical Examination

After submitting the proposal form and the proof of age, the proposer is required to undergo a medical examination through one of the approved doctors of the insurance company. The doctor examines the proposer with particular reference to heart and lungs, measures his height, chest, abdomen, weight, examines his teeth, tongue, eyes, ears, throat, blood pressure, physical structure, the present health condition, habits etc. and prepares his report. The doctor has to verify the information filled in by the proposer in relation to previous illness, accident or surgery etc. In case of female proposer, the doctor makes note on certain points, like, breast cancer, pregnancy, uterus / overy conditions, caesarian, etc. The medical examination is necessary for assessment of the proposer's physical risk. In certain cases, a special medical examination is also necessitated.

5) Confidential Report of Agent

After the medical examination, the agent's confidential report is submitted to the company. The report contains details relating to the personal history of the proposer, indicating how long and how well the agent knows the proposer. He has to state any unfavourable information regarding the proposer's health, character, habits etc. If he does not have the first hand information, he must get it from some reliable source. The business of life insurance involves the moral risk which is greater. Hence, it is to be ascertained, whether the proposer has proposed for insurance of large amount beyond his financial ability, whether his age allows him to take such insurance of large sum, though the previous policy is in continuation and proposal for another insurance of large sum is made. In such cases, it is the duty of an agent to submit a confidential report stating all the information in regard to the above points.

6) Scrutiny of the Proposal

The insurance company, scrutinizes the information furnished by the proposer in the proposal form, the agent's, confidential report and the medical report and then decides whether to accept the proposal or not. It ascertains whether the details stated regarding proposer's age, health condition, income, habits are true and correct and do not contradict with noted in the agent's report and the medical report. If the proposer is found having caught some serious disease, if need be, an expert opinion of some senior doctor is invited. In case of a female proposer, information regarding her marital and maternal status is scrutinized. Then the proposal is classified as standard, sub-standard and rejected proposal. The standard proposals are accepted at the regular rates of premium and the substandard proposals are accepted at increased rate. The substandard proposals are accepted with due changes. The changes suggested are-proposal be accepted for less amount than proposed, for lower term, for different scheme, at higher rate of premium, by deleting a specific risk or by laying some specific conditions etc.

7) Proposal sanction, Registration and Acceptance letter

The proposer is required to be informed by the company on what conditions his proposal is accepted. His consent to enter the contract of insurance with revised conditions is necessary. Then, the proposal for insurance is recorded in the register book.

8) Payment of Premium

Gene rally, a proposer sends certain amount to the insurance company along with his proposal form. If this amount is sufficient for the first premium, it is transferred towards the first premium. After this payment of the first premium, the risk commences and the proposer becomes insured. The rates of premium differ for different kinds of risks. In case of sub - standard lives, the insurance company charges an extra premium. After completion of all the required, the first premium is adjusted and the receipt against the first premium is sent to the insured. Thus, the contract of insurance is completed and the risk commences.

9) Issue of Policy

This is the last stage in the procedure of effecting a life insurance contract. It is a written document prepared as an evidence of contract of insurance. It contains all the terms and conditions of the insurance contract and is properly stamped according to the sum assured. The policy document is given a specific number which invariably has to be referred to in future correspondence. It bears the seal of insurance company and signature of its officer

3.2.4 Terms, Conditions and Privileges of Life Insurance Policy

The life insurance policy is an evidence of a written contract between insurer and insured. Hence, the terms, conditions and the subject of insurance are stated in it, by which on what conditions the contract is agreed upon, what benefits and concessions the insured is going to obtain, becomes clear. The terms, conditions and privileges, generally, are classified in the following four categories.

a) Conditions / Terms explaining the nature of insurance contract and its legal consequences

These are - Payment of premium, nomination and assignment, notice, proof of age, commencement of risk, forfeiture of insurance contract, incontestable clause.

b) Terms / Conditions Limitating of scope of insurance. (Restrictive Conditions)

They are -suicide, hazardous occupation, travel, residence and occupation.

c) Conditions and Privileges adding to the benefits of insurance

They are : Days of grace, revival of lapsed policies, non-forfeiture regulations, paid up policies, surrender value, loans, anti-dating, alteration in policy.

d) Conditions / Terms providing extended benefits or supplementary benefits

These include - accident, disability, bonus benefits etc.

a) Conditions/Terms explaining the nature of Insurance contract and its legal consequences

These terms / conditions in the first category are intented for the information of the insured.

These terms / conditions clarify the provisions made in the schedule of the policy. They are as follows.

1) Payment of Premium

As consideration of insurance contract the first premium is to paid. Afterwards, the regular payment of the premium before due date or within the grace period is to be made for the continuation of the policy. Paying premium in time is the duty of the policyholder. The Insurance Company does not need to intimate him in this regard. Yet, the companies send the policyholder a notice, before hand in writing. The premium can be paid in one lump-sum, yearly, half yearly, quarterly or monthly. As well, the premium can be deducted from the salaries. Concession to some extent can be obtained if the premium is paid yearly, half yearly. In the same way, if the sum assured is a large one, some concession in premium is granted. Generally, the premium is to be paid at the branch where the policy is taken from, either in cash or by cheque. It could be paid to the agent also. At present, due to internet facility, some Insurance companies allow to pay the premium at any branch of the company.

2) Commencement of the Risk

The risk commences from the date of the payment of the first premium or the date of acceptance of Insurance contract, which ever is later. If the policy is issued on certain specific conditions, then the risk begins from the date the condition is fulfilled.

3) Forfeiture in certain events

If the policyholder fails to pay the premiums in time or violates any of the conditions laid down in the document or some statements made in proposal form, personal statement, declaration and other related documents are discovered as false and incorrect, then in accordance with the provisions of law, the insurance policy shall stands cancelled and all claims to any benefit under the policy shall cease and all money if already collected shall be refunded to the insurance company.

4) Proof of Age

The premium of Insurance is charged according to the age stated in proposal form. In case, the actual age is found higher than it was stated in the proposal form, then the premium is computed according to the actual age and the difference between the original premium and the premium for the correct age shall be paid with the half yearly compounded interest. If the policyholder does not pay this amount with interest, it is deducted at the time of final payment of insurance amount and the remaining amount is paid to him or to his heirs. Contrary to this, if the age is found lesser than stated in the proposal form, the excess amount paid by the insured is refunded by the company without interest. In if due to the difference in the correct age and that mentioned in the proposal the proposer stands ineligible for taking certain policy, then the company reserves its rights either to change the scheme of policy or the conditions of it.

Life insurance requires age to be admitted otherwise the claim can not be settled. Hence, the proposer must submit the proof of age along with his proposal for insurance.

5) Nomination

The provision for nomination has been made in Section 39 of Insurance Act 1938. By this, the insured can nominate any person to receive the sum assured, in case he dies before the expiry of the policy.

The following points are to be kept in mind in regard to nomination -

- Nomination can be made at the beginning while filling in the proposal form. The proposer has to name of the person to whom the policy money be paid after his death, his relation to the nominee, the age etc, which, the Insurance company records in the schedule / appendix of the document.
- If the nomination is not made at the time of making proposal for insurance, it can be made any time after issue of policy. At such time the company records it by endorsement or by attaching a separate piece of paper to the policy.
- The insured person only can nominate. If some one buys insurance in some one's name, that other person has the right to nominate for example, when 'A' buys insurance for 'B' only 'B[1] can nominate, not 'A'.
- This nominee is entitled to obtain the insurance amount after the death of policy holder.
- When the nominee is minor, then an appointee should be appointed. Such appointee must give consent for his appointment, by signing the proposal form

or on the endorsement on the policy. He can obtain the amount of insurance on behalf of the minor. If this minor becomes major at the time of death of the insured, the appointment of the appointee gets cancelled. If the nominee is minor and yet, the representative is not appointed, then, the insurance amount is paid to the legal heirs of the deceased insured.

- The policy holder has the right to cancel the nomination made before and make another by endorsement.
- When the policy is assigned nomination automatically stands cancelled.
- When the nominees are more than one, the policy amount is payable to them jointly or to the survivor or survivors of them but no specific share for each nominee can be mentioned.
- If the nominee dies after the death of the policyholder, but before the death claim settlement, then the insurance amount becomes the part of policy holder property and goes to his heirs. If the nominee dies before the death of policy holder, then the nomination comes to an end. At such time, another nomination can be made.

6) Assignment of Policy

An insurance Policy is the policyholder's property. Hence, he can transfer the ownership rights of it to some one else. Assignment of insurance policy means transferring all ownership rights and interests in it. Section 38 of the Insurance Act. 1938 deals with the transfer or assignment of life insurance policies. The provisions in this section are.

1) The assignor must be major and otherwise competent to make contract.
2) He must be an absolute owner of the policy
3) Assignment can be made with or without consideration.
4) It can be made by endorsement on the policy itself or by a separate Instrument.
5) The assignor must execute the assignment papers in presence of at least one witness.
6) The endorsement or separate deed of assignment must state the facts of transfer or assignment.

7) The assignor must give a notice of assignment to the insurance company in writing along with endorsement or transfer Instrument.

8) After receiving the notice of instrument, the insurance company records it in its documents and acknowledges in writing.

9) After assignment, the ownership rights, title, and interests are transfered to the assignee.

10) Assignment of policy should not be contrary to any prevailing law.

11) Assignment can be absolute or conditional. By absolute assignment the assignor loses all his rights, title and interest in the policy and the assignee can deal with the policy in any manner he likes. It can not be cancelled. In case of conditional assignment, in specific situation, the rights to ownership and interests revoke to the assigning person. For example, if the assignor survives after repaying the debts or after the expiry date or the assignee dies before the assignor person the ownership and interests of policy return to the policyholder.

12) If the assignee dies before the receipt of insurance money, but after the death of assignor, then, the amount of insurance is payable to the heirs of assignee.

7) The Incontestable Clause

The dictionary meaning of 'incontestable' is "that can not be disputed. "According to Section 45 Insurance Act 1938, Section 45, even if the company finds two years after the commencement of the insurance contract that the policy holder had made some untrue and incorrect statements or certain important information had been concealed, the company can not cancell the policy on such ground. The provision of this Act has been made with the purpose of protecting policy holder and his heirs from unnecessary trouble intended by insurance company. Because, many years after the commencement of the policy the insured or his heirs would not be able to explain satisfactorily about the truthfulness and correctness of the statement objected by the company. Nevertheless, if the company succeeded in proving that the policy holder deliberately, with an intention of deception, had done so, then only it can take such action against the policy. In such condition, this Section of the Act will not be applicable

b) Terms / Conditions Limiting / Restricting the Scope of insurance (Restrictive Conditions)

Terms/conditions falling under this category limit or restrict the scope of insurance. They are designed to eliminate certain risks. In other words, the risks which are impossible to be covered by the company are excluded. If some of these risks arise, the company returns the surrender value or specific share from the insurance amount or the amount of premiums paid. The following terms / conditions mainly are included in this category.

1) Suicide

If the policy holder commits suicide within one year after the commencement of policy, the company cancels the contract and no money is paid. However, it does not affect the interest of third party. That's if some other person or institute, by paying due consideration acquires bonfire interest in the policy and completes the assignment papers and the policy holder commits suicide, then the company has to pay to the assignee person / institute. For example, 'K' purchased insurance for Rs. 1,00,000 and four months after, he mortgaged it to a bank and borrowed Rs.20,000and the very next month he committed suicide. When the bank submits that policy, the insurance company has to pay the bank Rs.20,000. In suicide cases, accident benefits are never extended. If the women having no self-income, commits suicide three years after the commencement of policy, the company does not pay any money.

2) Hazardous Occupation

Some occupations or professions are hazardous, hence, the persons engaged in such occupations are prone to meet dangers. For example, employees working on machines in industry, labours at construction of tall buildings, scientists handling chemicals, labours making explosives, jockey in a horse-race etc. Generally, no restrictions are imposed on account of hazardous occupation but extra premium is charged for the extra risk. The air passenger, if dies in air-crash, then only double benefits of accident and disability are available. No other persons are eligible to such benefits. When some person is engaged in hazardous occupation at the time of taking policy, he has to pay the premium at the increased rate right from the beginning. If a person is not in hazardous occupation at the time of taking policy, but later on he enters, then he has to intimate to the company in this regard. Some companies require that change of occupation to be notified. Otherwise, the policy holder will not be held eligible to obtain accident or other benefits.

3) Travel, Residence and Occupation

To certain extent, the policy holder can be restricted from making journey and stay in foreign countries. However, Life Insurance Corporation of India does not restrict on foreign travel, residence or occupation, doing business in foreign lands. Except for the hazardous occupation, the policy holder is at the liberty of doing any job or business.

4) War and Air-Flight Risk

The Life Insurance Corporation of India does not lay any restriction in its policy on war risk. In case of air-flight, it covers the risk by charging extra premium. If the policy holder does not wish to pay extra premium, then only he is restricted from air-travel and policy is issued.

C) Conditions / Terms or Privileges adding to the Insurance benefits

If all the terms / conditions and provisions of an insurance contract were decided to be implemented strictly, the policy holder would feel the contract as oppressive and unnecessary. Hence, some terms / conditions are laid down which may offer some concession or privilege to him. They are as follows.

1) Days of Grace

For obtaining protection and for continuation of the policy, the policy holder requires to pay the premiums regularly before the due date. But, he is given some day's concession for payments even after the due date. This period is called ' Grace Period ' and is of 15 days for monthly mode of payment and for other modes of payment, it is of 30 days. Even if the premium is not paid in the grace period, the Insurance risk continues. If a policyholder dies in this grace period, the company deducts the unpaid premium and the remaining amount is paid. In case of the schemes where premiums are deducted from salaries, the days of grace clause is not enforced. It is assumed that if the employer has deducted the premium from salaries it is as good as paid up. That's the employer is allowed to pay the collected premium late.

2) Revival of Lapsed Policies

When the premiums of the policy are not paid within the due dates, the policy lapses. Such lapsed / discontinued policy can be revived during the life time of the policy holder. But the condition is that the premiums unpaid must be paid before the expiry of the policy within the five years, with the due interest. Generally, when the unpaid premiums are paid and the policy is revived within six months from the last premium paid, the medical examination of the policy holder is not necessary. However, if the period exceeds six months, it becomes obligatory. If the health risk of the policy holder is increased, the company holds the right whether to revive the policy or not. When the company agrees to revive, it can make some changes in the terms/ conditions or can apply some new conditions. At such occasion, the policy holder, either has to pay the outstanding premiums with interest in lump sum or the company allows him to pay the equated amount adding it to the premiums payable in the next two years. As well, a concession is given to extend the term of the insurance, instead of paying the outstanding premiums. The Life Insurance Corporation of India has made various schemes of revival of lapsed policies such as, General Revival Scheme, Special Revival Scheme, Revival by Installment Scheme and Loan - cum Revival Scheme.

3) Non - Forfeiture regulation

The insurance companies allow the policy holders enjoy a special concession of saving their policies from forfeiture, even though they have stopped paying premiums. By this, if the premiums for three years are paid and the latter premiums have remained outstanding, the policy stands paid - up and the insurance amount is reduced equal to the paid up amount. Hence, afterwards, the premiums are not required to be paid and the policy holder can obtain accumulated bonus upto the paid - up date, but not after that date.

By another concession, if the premiums are paid at least for three years and the premiums after wards have remained outstanding and the policy holder dies with in six months from the last outstanding- premium, then the company pays all the payable amount, deducting the amount of unpaid premiums. This is known as claim concession. If the premiums are paid for five years, the six month's concession is increased upto one year.

4) Paid-up Value

When the insured discontinues paying premiums, but does not claim for the surrender value, then the policy continues for less amount. The original insurance amount, in such case, is reduced in proportion to the total premiums payable and the premiums paid. This value is called as paid-up value and is paid at the end of the policy term or after the death of a policy holder. The bonus already vested in the policy is added to this paid-up value. The following formula is used for calculating the paid-up value.

$$\textbf{Paid-up Value} = \frac{\textbf{No. of Premiums paid}}{\textbf{No. of Premiums Payable}} \textbf{ X Sum Assured Total}$$

For example, the sum assured is Rs.1,00,000 and the total number of premiums payable is 20, while premiums paid are 10. Then, the paid-up value will be -10/20 X1,00,000 = Rs. 50,000. The amount of bonus also is added to the paid-up value. When a policy is paid-up no future premiums are required to be paid.

For making the policy paid-up at least three years' premiums are to be paid. The paid-up value can be obtained after the expiry date or in case the policy holder dies before the term, then after his death.

5) Surrender Value

Any time before the claim for settlement is made, the policy can be surrendered. The amount received on such surrender is called as surrender or cash value. In this connection, the following provisions are to be considered.

1) When the policy-holder is unable to pay the premiums, he can surrender the policy to the company, get his policy cancelled, and obtain the money immediately in cash.

2) Any policy, on which the three years' premiums are paid, is entitled to obtain surrender value. After surrendering the policy, the surrender value is paid immediately.

3) The surrender value paid is in specific percentage of paid-up value. According to Section 113 of the Insurance Act, 1938, each Insurance company is liable to pay the guaranteed surrender value. This value should not be less than 30% of the premiums paid (excluding the premiums paid in the first year and the extra

premiums charged for additional benefits guaranteed.) Some insurance companies offer special surrender value, which is higher than the guaranted surrender value.

6) Anti-dating

Anti-dating of an insurance policy can be effected, i.e., the date of risk can be taken back. It is done, so that the 'proposer should pay lower premium taking advantage of his low age. For this, the date of risk can be taken back upto three months. For instance a person born on 10th March 1976 bought insurance policy on 10th Nov. 2006, his age at the nearest birthday, i.e. on 10th March 2006, will be of 31 years and he will have to pay the premium accordingly. But if the date of risk is taken three months back, it would be 14th Aug. 2006 and his age at the nearest birthday (10th March 2006) would be 30 years. Due to this facility, the amount of premium would be lower. At such times, the insured has to pay all the premiums of the months dated back. As well, if the anti-dating is to be effected for more than three months, the insured has to pay the interest on the premiums payable of the back dated period. The Life Insurance Corporation of India has provided this facility.

7) Loans

Life Insurance being a contract for long term, the policy holder can not get money for a long time. In the mean time, if the policy holder felt some need for money, the insurance companies can offer loans on the policies. He can take loan either from the insurance company or from a bank by pledging his policy as security. The following are the conditions for getting loan -

1) It is necessary to pay the premiums for atleast for three years. This facility is not available on ail insurance schemes.

2) Generally, loan sanctioned is 90% of the surrender value.

3) The interest on loan is charged at the rate fixed by the company. This interest is to be paid after six months. In case of non-payment of interest, compound interest is charged.

4) The policy holder has to assign his policy absolutely to the company. The company keeps the policy as security for the repayment of loan and the interest there on.

5) The loan, within the term of the policy, can be repaid fully or partially. Otherwise, the company deducts the outstanding amount with interest from the insurance amount at the end and the remaining amount is paid to the insured / nominee.

6) Loans of small amount are not granted. An insured can borrow loan many times within the term of the policy. While sanctioning additional loan, the outstanding interest, if any is deducted from the loan amount.

7) The method of borrowing loan is simple. One can make an application on plain paper. Loan can be sanctioned in a day.

8) The insurance companies do not demand for recovery. Hence, the policy holder should repay cautiously the loan and interest amount in time.

8) Alterations in Policy

The life insurance policy document contains the terms of the contract and these terms continue to operate throughout the currency of the policy unless modified by mutual consent of the insured and insurer. The insurer can request for the following kinds of alterations in the policy. Sometimes it is necessary to alter the terms of the contract to suit the changed circumstances.

Alteration in insurance scheme / term	Removal of extra premiums
Reduction in sum assured.	Splitting up of policy into two / more policies.
Change in mode of payment of premium	Alteration from without profit policy to with profit policy or vice versa
Alteration in name	Grant for accident benefits.
Change of nominee	Settlement option-obtaining insurance amount in installment
Corrections in policies	

The following points are to be considered in connection with alterations in policy.

1) The policy must be force for the full sum assured.

2) If certain alteration is likely to increase the risk, the company does not agree for. For instance, extension of term, extension of period for payment of premium, getting the scheme transformed into increased risk scheme etc.

3) Alterations are not normally allowed in the first year of the policy unless they do not affect the basic insurance contract like change in address, change in nomination etc.

4) Some alterations are effected by way of endorsement on the policy. If the alternatives are of substantial nature, the old policy is cancelled and a fresh policy is issued. Certain fees are charged, but for making correction of mistakes, no fees are charged.

D) Terms / Conditions extending extra / Supplementary benefits

By these conditions, when the insured pays an extra premium, he is entitled to receive extra benefits along with the original risk cover, which include accident benefits, disability benefits, bonus, etc.

1) Accident benefits

This is one of the important benefits the policy holder can enjoy. In case he happens to die in an accident, the company pays, generally double the insurance amount. The extra premium payable for this is low. **The conditions for obtaining accident benefits are**

- The death should be caused by outward, violent and visible means.
- The death should be caused solely and directly and independently of all other causes from the accident.
- The death should be caused within 180 days or such other period as may have been stipulated in the policy.

The accident benefit would not be payable in the following circumstances.

- When death is caused by intentional self-injury, attempted suicide, insanity, immorality or under the influence of liquor, drugs etc.
- When death is caused due to accident in aviation or aeronautics other than a bonafide air passanger.

When death is caused by injuries resulting from riot, civil commotion, rebellion, war, racing, hunting, mountaineering etc.

- When death is caused due to commiting any breach of law.

- When death is caused by an accident while working in military service, police duty. The LIC pays the accident benefit upto a maximum of Rs.5 lakhs, on all policies taken together on a single life. Some companies have maximum limit of upto Rs.10 lakhs.

2) Disability Benefits

The Life Insurance Corporation of India without charging extra premium offers the disability benefits. When a policy holder sustains serious injury and becomes permanently disable, this benefit is offered. Accordingly, the payment of rest of the premiums is waived. Both, male and female can get this benefit. However, if the policy holders are in hazardous occupation have physical deformity or have adverse personal background, they can not enjoy this benefit. The nature, limitations and the conditions to be fulfilled to be entitled to obtain this benefits are as follows.

1) When the policy holder after meeting an accident turns disable and is unable to earn his bread, the premiums payable from the date of disability are waived.
2) This benefit can be enjoyed by only one life on the first insurance of Rs.20,000
3) The policy must be in force for full amount at the time of disability.
4) This benefit can be obtained upto the age of 70 years.
5) The policy holder must submit an evidence regarding disability, to LIC within 180 days from the event.
6) If the claim for disability benefits is proved to have admitted wrongly, the policy holder has to pay the premiums from the date the LIC intimates and the all the waived premiums with prevailing interest rate.

3) Extra disability benefits

When the policy holder, due to the accident sustains permanent disability, then by paying extra premium, he can obtain additional amount equal to sum assured, in installments. Moreover the payment of future premiums is waived. LIC of India has made the following provisions for extra disability benefit.

i) An additional sum equal to the original sum assured shall be paid, in installments over a specified period of years say 10 years.
ii) On the life of a single person, insurance amount eligible to be paid by all companies along with extra amount should not exceed Rs. 50 lakhs.
iii) Premiums payable after disability shall be waived.

iv) Disability should be caused by accident and it should be permanent and absolute. Due to such disability, the policy holder should be in no position then and hence forward to work for making his living, get any remuneration or benefits from any job or work etc.

v) Within 180 days from the date of accident only due to accident (not by any incidental causes) the policy holder should sustain the permanent disability either of the following nature loss of entire sight of both eyes, or in the amputation of both hands at or above the wrists, or in the amputation of both feet at or above ankles, or in the amputation of one hand at or above the wrist and one foot at or above the ankles, shall also be deemed to constitute such disability.

vi) All the details, with satisfactory evidences should be provided within 180 days from sustaining disability and allow for medical examination by the medical officer appointed by the LIC, in any manner and any times the LIC wishes, before and after admitting the claim.

4) Bonus

The insurance company declares every year bonus on with profit polices. The amount distributed to the policyholders from surplus earned by the company is called as bonus. For enjoying this benefit of bonus, the policy holder has to pay some extra premium. The rate of bonus is declared every year. But instead of paying the amount of bonus in cash, it is credited on the policy and is paid with the insurance claim. There are various ways of paying bonus.

5) Provision of Waiver of premium

According to this benefit the policyholder is not required to pay the further premiums if certain event occurs. This extra benefit is allowed on various policies. However for receiving this benefit some extra premium should be paid, In case the policyholder becomes permanently disable, the payment of further premium is waived immediately. Moreover he gets the full sum assured along with bonus on maturity of the policy. In case of children's deferred plan if the proposer dies during the deferment period no further premiums are required to be paid. The policy contains a privilege of waiver of future premiums if life assured is permanently disabled as a result of accident.

6) **Critical Illness Benefit Rider**

This a most important and essential rider to be taken by each insured person. This covers critical illness such as heart attack, stroke, cancer, kidney failure, paralysis, loss of sight of both eyes, transplantation of limbs etc. The critical illness benefit is given if the insured survives for more than 28 days from the diagnosis of the illness. It is paid for one serious illness caused during the policy period there are certain terms and conditions applicable for this rider.

3.2.5 Settlement of Claims

Settlement of claim means completion of the contract of life insurance. It is regarded as the most important after-sale service in insurance industry. The insurance being a service the settlement ratio becomes the acid test of its good performance. Under life insurance, the policy amount is paid on either occasion, i.e. either on maturity of policy term or on death of insured before expiry of the term. The payment of claim in earlier case is known as *Maturity* or *Survival Claim* and that in latter case is known as *Death Claim* or *Pre-mature Claim.* The different procedures are followed for both of these claims.

Procedure of Settlement of Life Insurance Claim

(I) **Maturity Claim:** It is also known as survival claim because the assured is alive till the policy term expires. In such a case the LIC pays the policy amount to the assured. The claim need not be paid to the nominee. However, if the policy is assigned to the third party, the claim is paid to that third party i.e. assignee. The procedure of settling maturity claims is simple and straightforward as described here below.

1. **Intimation of Maturity by LIC:** Usually, the LIC sends intimation to the policyholder one month before the date of maturity for early disposal of the claim. LIC intimates that the date on which the policy matures and the requests the assured to return the original policy along with the discharge forms.

2. **Submission of Original Policy and Discharge Forms:** Accordingly, the policyholder submits the original policy, the discharge form and advance stamped receipt along with proof of age (if not already admitted) to the LIC's Divisional Office.

3. Payment: On receiving the above documents, the LIC sends the crossed cheque of policy amount. Generally, the care is taken that the policy amount is paid exactly on the date of maturity itself.

(II) Death Claim or Pre-mature Claim: If the insured dies before the expiry of the policy term, the policy amount is paid to his/her nominee/s. It is known as death claim or pre-mature claim. If the policy is assigned to the third party, the claim is paid to that third party. It is to be noted here that if a policy results into claim by death within two years from the date of last revival effected on the basis of short medical report or a declaration of good health, the company will do a thorough and strictly confidential enquiry into the exact cause of death. Generally, for settlement of death claim, the following procedure is followed.

1. Intimation of death: The person entitled to get the proceeds of the policy (nominee or assignee) has to send a letter intimating the death of policy holder to the Divisional Office of the Life Insurance Corporation of India. The letter must contain the date and cause of death along with the policy number. In order to accelerate the settlement of claim, the insurance policy together with the deed of assignment, if any, should be submitted to the LIC. The claimant has to mention under which capacity (nominee or assignee), he/she is claiming the policy money.

2. Proof of death: The beneficiary must produce proof of death in the forms made available by the LIC. This proof includes the submission of the claimant's statement, a certificate by the medical attendant who attended the deceased during the last illness, certificate of burial or cremation, certificate of identity, certificate of employer and confidential report by the agent. All these forms must be fully and correctly completed and must be countersigned by a person of known character and responsibility, such as a doctor, a bank manager, a head post master, a gazetted officer, a magistrate, a notary public, a head master, an advocate, president of a village panchayat, etc. Generally, the following documents are submitted as proof of death of policy holder.

(a) Claimant's Statement: The person who is legally entitled to the policy moneys will have to complete the claimant's statement which contains his name, profession, age, address, relationship to the deceased, details pertaining to the deceased, nature of his illness, complete details of medical consultation or treatment obtained by the deceased during the three years preceding death such as name and address of doctors or hospitals, nature of complaint, dates of consultation or treatment. Finally, the claimant has to declare that the answers to each and all the above questions are full and true in each and every respect.

(b) Medical Attendant's Certificate: This certificate is to be completed by the medical attendant of the deceased policy holder in his last illness. It includes questions relating to the name, address, occupation, and age of the deceased. Along with the primary and secondary causes of death, history of the disease, date when the disease first observed, by whom treated and reported, habits of the deceased (sober and temperate), his treatment by other medical practitioners, medical attendant's association with the deceased, treatment, post-mortem examination report, if any. Further, if the death is due to any unnatural cause such as murder or suicide or drowning or any accident, a certified copy of the Police Inquest Report, The Coroner's Report or a copy of *Panchanama* is required to be submitted. Besides, a certified extract from the Register of Death maintained by the Municipality, Local Board, *Police Patil* has to be submitted

(c) Certificate of Burial or Cremation: The dead body is buried or cremated as per the deceased policy holder's religion. The certificate of burial or cremation is to be completed and signed by a person of known character and responsibility who was present at the burial or cremation of body of the deceased. The details like the name of deceased, his/her father's name, occupation and employment, residence, religion, etc. Apart from this, the particulars of burial or cremation have to be furnished such as name and address of place of burial, cremation and the certification that the body which was buried or cremated was that of the policy holder.

(d) Certificate of Identity: This certificate is to be completed and signed by a person of known character and responsibility, who was acquainted with but not related neither to the deceased policy holder nor the claimant. Such person must have seen the dead body of the policy holder with his own eyes.

(e) Certificate by Employer: This certificate is to be completed by the deceased's last employer. He has to furnish the particulars of deceased policy holder, details of services and information relating to death, such as date of last attended duties, first complain of illness, record of absence from duty during last three years of service, nature of leave availed of (casual, privilege, sick), the name of the person who informed him of deceased's death.

3. Agent's Confidential Report: After receiving the above five forms, the agent is requested to make careful inquiries into the matter at once and to submit the report. Agent's confidential report is intended to provide a confirmation of the death of the assured, date and place of death, cause of death, circumstances of death, source of information etc. Agent's report is essential to prove that the claim is *bonafide.*

4. Proof of Age: If the age of the assured has not been admitted earlier, one of the standard proofs of age has to be provided. The following proofs of age are generally accepted by LIC: (i) Certified extract from municipal or other records made at the time of birth. (ii) Certificate of Baptism or certified extract from family Bible if it contains age or date of birth. (iii) Certified extract from School or College records if age or date of birth is stated therein (iv) Certified extract from Service Book in the case of government employees (v) Horoscope prepared at the time of birth or soon thereafter.

5. Proof of Title: No proof of title is necessary, if a nominee is designated in the policy or if the policy is validity assigned. However, the proof of title is required only when the policy has not been duly assigned or no nominee was appointed by the deceased during his life time. Under these circumstances, the claimant will be required to produce satisfactory evidence of title to the property in the insurance policy of the deceased from a competent court of law. It may be--(i) A probate of the Will, if the deceased has left a Will (ii) Letter of Administration, or (iii) A Succession Certificate, issued under Indian Succession Act of 1925. When there are conflicting claims, the LIC may, under Section 47 of the Insurance Act, pay the amount of the claim to the Court and the claimant may obtain the payment by directly applying to the Court.

6. Discharge Form: Immediately after complying with all the formalities, the insurance company issues a discharge form, which is to be filed and signed by the claimant.

7. Payment: On receiving the form of discharge, the LIC makes payment by a crossed and order cheque on any of its bankers nearest to the claimant's station. In certain cases, payments can be made through M.O., at the risk and account of the beneficiary, but in no case, payment is made in cash.

3.3 Summary

The life Insurance is associated with man's life. By life insurance contract, the insured is entitled to obtain the sum assured after the specific term or if he dies before that, his dependents obtain it. Hence, after his death, his dependent family receives a financial security. If he survives after the maturity of the policy, he is at the advantage in old age, children's education, marriages etc. By paying some extra premiums, he can avail of the extra benefits like accident benefit etc. Due to this, the scope of life insurance widens. Life insurance being a contract for a long term, it involves risk cover, as well as investment, too.

'Life Insurance has acquired a very vital important place in man's life. It provides economical protection for old age, saves money compulsorily, becomes a means of investment, gives tax reliefs, enables to fulfil one's duty towards children, cares for illness, accidents, disabilities, etc. It arranges for repayment of loans, facilitates with loans in the times of necessities. Hence, it is rightly said -"Life Insurance has no substitute." The world of commerce and business feels it important, because it helps them to sustain and continue their business, welfare and employees, insurance on keymen’s lives etc. Life Insurance has performed a very spectacular role in the development of economy. It has greatly contributed by increasing capital supply, financing Infrastructure, giving impetus to industrialization etc. It has fulfilled its social responsibility by providing social security at concessional rates to the weaker sections, socially and economically, such as farmers, landless labours, workers, artisans etc. It has provided social stability and security to the society.

Every person who desires to take an insurance policy must know how the company works. At present in our country, LIC of India and other private companies are in the business. The procedure of effecting insurance contract may differ a little from company to company. However, generally it comprises of selection of the company, filling in of a proposal form, presenting proof of age, medical examination, if needed, confidential report by agent, scrutinee of documents, decision on the proposal, informing the proposer, payment of first premium and issuance of policy- are the main stages. While taking an insurance, a desirous person must select the proper plan after, comparatively studying various plans of the companies, extra benefits, amount of premium etc, should get information regarding the conditions of policies from the agent, which are classified into four categories. Recently, the insurance companies have offered many riders for enhancing the usefulness of policies. But for this, little extra premium is to be paid. Under life insurance, along with personal insurance a group insurance also can be effected. Many people working together in a company / institute can take a single policy, which offers equal cover to all. The premiums of such insurance are paid either by the employer or the group, employees or group members.

The life insurance contract comes to an end after the claim is settled. In life insurance, maturity claim and death claim occur. The maturity claim is made after the expiry of term of the policy while death claim is made in the event of death of a policy holder, before the terms. The settlement of maturity claims is very simple, but for death claims, many documents are required. The insurance company scrutinizes severely, ascertains every matter and then the claims are settled.

3.4 Key words

- **Life Insurance** : An insurance that promises to pay a specific amount on the occurrence of certain event contingent on the life of a policy holder.
- **Maturity Claim** : A claim made by the assured for obtaining the sum assured after the expiry of term of the policy.
- **Death Claim** : A claim made for receiving sum assured after the death of assured.
- **Surrender Value** : Amount obtained from the insurance company in cash on surrendering the policy before the expiry of its term.
- **Paid-up Value** : It is the reduced sum assured on discontinuation of payment of premiums. Paid-up value is paid on maturity of the policy.
- **Nomination** : A facility to name a person to whom the policy money should be paid after the death of a policyholder.
- **Assignment** : The process of transferring the rights, title and interest of the policyholder in the policy by taking consideration to other person.
- **Rider** : Extra benefits / cover received by a policyholder by paying extra premium.
- **Anti-Dating** : A facility of dating the policy back for requiring to pay less premium.

- **Loyalty Addition** : Extra amount paid along with sum assured for continuation of policy for specific period.
- **Bonus** : A specific share distributed out of the surplus made by the life insurance company to the policyholders.

Check your progress

A) Choose the right alternative from the following and fill in the blanks.

i) Life Insurance can _________ the death risk.

a) avoid b) not avoid c) remove d) postpone

ii) When the policy is surrendered before the completion of term, the amount received in cash is _________

a) Premium b) Surrender Value c) insurance amount d) bonus

iii) The grace period allowed to pay the monthly premium is of ______ days.

a) 7 b)15 c) 30 d) 5

iv) For making a policy paid-up premiums are to be paid for _____ _ _ years.

a) 2 b) 4 c) 3 d) 5

v) The claim made after the end of the policy term is called ________

a) maturity claim b) death claim

c) accident claim d) disability claim

vi) ________ is a condition that restricts the risk cover.

a) Hazardous occupation b) Accidental death

c) Disability benefit d) Grace period

B) Say, whether the following statements are true or false.

i) Life insurance is a contract of indemnity.

ii) By making nomination, an insured loses his rights on insurance policy.

iii) For availing of rider, extra premium is to be paid.

iv) Surrender value of a policy is paid after the end of the term.

v) For getting disability benefits, the policyholder must sustain permanent disability.

vi) The insurance policy on sub-standard life is issued by charging extra premium.

vii) All insurance policies are eligible for obtaining bonus.

viii) A life insurance can be taken on any person's life.

ix) A procedure of setting death claims is very simple.

3.5 Answer to check your progress

A)	i) – b	ii) – b	iii) – b	iv) – c	
	v) – a	vi) – a			
B)	i) false	ii) false	iii) true	iv) false	
	v) true	vi) true	vii) false	viii) false	ix) true

3.6 Exercise

A) Essay type questions

i) Explain the meaning and importance of life insurance.

ii) Describe the procedure of taking a life insurance policy.

iii) Discuss the conditions which explain the nature of life insurance contract.

iv) What is the procedure of settlement of claims in life insurance? Explain.

B) Write short notes

i) Proof of age

ii) Assignment of a life insurance policy

iii) Accident benefits

iv) Disability benefits

v) Days of grace

vi) Revival of discontinued policies

vii) Surrender Value

viii) Paid-up Value

ix) Alterations in insurance policy

3.7 Books for additional reading

1. M. Arif Khan - Theory and Practice of Insurance'
2. Kothari and Bahl - 'Principles and Practice of Insurance'
3. Insurance Institute of India - 'Ayurvima'
4. Dr. Patil V.S. and Dr. Shaha N.V. - 'Insurance'
5. M.N.Mishra, Insurance Principles and Practice, S.Chand & company ltd., New Delhi.
6. C.J.Joshi, Insurance, Phadake Prakashan, Kolhapur.
7. B.N.Belegali, Insurance, Phadake Prakashan, Kolhapur.
8. Dr. Shaha N.V. - 'Insurance', SIM., Shivaji University, Kolhapur
9. B.V.Valgadde, Dr. Girigosavi, Dr. S.R.Pawar – Insurance, Phadake Prakashan, Kolhapur

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Unit-4

Life Insurance Business In India

Index

4.0 Objectives

After studying this unit, students should be able to understand -

- Growth of Life Insurance business after privatization.
- Performance of LIC and private life insurance companies in India
- Structure, organization setup and functions of IRDA

4.1 Introduction

The year 1991 was pathbraking year in the history of independent India. The policy of liberalization, privatization and globalization was adopted since 1991 in India. Life Insurance business also experienced huge change after 1991 in India. Life Insurance Corporation of India (LIC) was the only life insurance company in India.

In 1956, it was nationalized and till the last decade of 20^{th} century, LIC dominated the life insurance business in India. Naturally, there was a dominance of LIC of India in India's life insurance sector. After 1991, slowly the insurance sector was opened for private players. Further, foreign companies also entered in India insurance sector by joining hands with Indian Insurance Company.

The compensation in insurance sector was increased because of entry of private sector. That resulted in quality of service and variety of products in insurance sector. As on today there are 23 private sector insurance companies and only one public sector company i.e. LIC of India. With this, the need of regulation was also felt seriously to monitor the performance and working of these insurance companies. Hence, Insurance Regulatory and Development Authority of India (IRDA) was set up to look after development and regulation in India insurance sector. As the sector is now well regulated, the people also have participated in growth of insurance business in India.

4.2 Presentation of Subject Matter

4.2.1 Growth of Life Insurance business after privatization.

India, privatization as a policy was accepted in the last decade of 2th century. Due to opening of insurance sector to private as well as foreign companies, the competition in this field increased to a great extent.

1) The companies Registered :

The growth of insurance business can be known with the help of new companies registered after 1991. Following table gives the clear idea about this –

Table No. 4.1
Life Insurance Companies in India

Companies formed Before 1991	Companies formed After 1991	Total
01 (LIC)	23 (All private sector companies	24

Source : IRDA Reports

This table clarifies that, there is enormous growth in private sector life insurance business in India though there is still dominance of LIC, lot of new companies are also attracting in customers in insurance sector. These 23 companies are mostly the joint ventures of one India Company and one foreign company. The list of these 23 companies is as follows -

Bajaj Allianz Life Insurance Co. Ltd.,

Birla Sun Life Insurance Co. Ltd.,

HDFC Life Insurance Co. Ltd.,

ICICI Prudential Life Insurance Co. Ltd.,

Exide Life Insurance Co. Ltd.,

Max New York Life Insurance Co. Ltd.,

PNB Met Life Insurance Co. Ltd.,

Kotak Life Insurance Co. Ltd.,

SBI Life Insurance Co. Ltd.,

Tata AIA Life Insurance Co. Ltd.,

Reliance Life Insurance Co. Ltd.,

Aviva Life Insurance Co. Ltd.,

Shriram Life Insurance Co. Ltd.,

Bharati Axa Life Insurance Co. Ltd.,

Future Generali Life Insurance Co. Ltd.,

IDBI Federal Life Insurance Co. Ltd.,

Canara HSBC OBC Life Insurance Co. Ltd.,

Ageon Life Insurance Co. Ltd.,

DHFL Prameric Life Insurance Co. Ltd.,

Star Union Dai-ichi Life Insurance Co. Ltd.,

India First Life Insurance Co. Ltd.,

Edeweiss Tokyo Life Insurance Co. Ltd.,

Sahara India Life Insurance Co. Ltd.,

2) New Agents / Advisors Recruited :

It is said that insurance is sold, not bought. Thus, most of the life insurance business is done through the agents / advisors which are appointed by the insurance companies.

Table No. 4.2

No. of Agents / Advisors

Year	LIC of India	Private Life Insurance Companies	Total
2001-02	4,42,680	34,222	4,76,902
2005-06	10,52,293	3,70,846	14,23,839
2010-11	13,37,064	13,02,328	26,39,392
2016-17	11,31,181	9,57,341	20,88,522

Source : IRDA Handbook.

From table No. 4.2, it is clear that there is huge insurance in the number of agents particularly after the year 2001-02. Comparatively this increase is more in private companies. It means that agents / advisors are appointed by private insurance companies on a large scale. However, in the year 2016-17, the number is decreased in both public as well as private sector.

3) Opening of branches :

Another criteria to understand the growth of the business of any sector is the number of branches. When the number of branches increases, it means that there is a potential of the growth of the business in respective area. More business can be generated by opening of new branches.

Table No. 4.3

No. of Branches established by Life Insurance

Year	LIC of India	Private Life Insurance Companies	Total
2001-02	2,190	116	2,306

2005-06	2,220	1,645	3,865
2010-11	3,371	8,175	11,546
2016-17	4,897	6,057	10,954

Source : IRDA Handbook.

From table No. 4.3, it can be seen that no of branches of LIC are almost doubled in 15 years i.e. 2190 to 4897. But at the same time, private life insurance companies registered huge growth in not of branches form 116 to 6057. The total no. of branches during 2001 to 2017 are increased form 2306 to 10,954 though there is slight decrease in the number of branches in the year 2016-17.

4) Issue of new policies :

The growth of insurance can be truly judged on the basis of new policies issleed to the customers. Increase in new policies also results into increased premium received by the insurance companies.

Table No. 4.4

New policies Issued by Life Insurance Companies

(Fig. in lakhs)

Year	LIC of India	Private Life Insurance Companies	Total
2001-02	221.98	1.01	222.99
2005-06	315.91	38.71	354.62
2010-11	370.38	111.14	481.52
2016-17	201.32	63.24	264.56

Source : IRDA Handbook.

From table No. 4.4 shows the new policies issued by life insurance companies in India. This number also shows increasing trend. In the year 2001-02, the new policies issued were 2.23 crores which were largely comprised by LIC of India. The number increased from 2.23 crores to 2.65 crores in total. The number of LIC of India increased from 2.22 crores to 3.70 crores in 2010-11 but later on it declined to 2.01

crores. Increase of private life insurance companies, the number increased from 1 lakh to 1.11 crores in 2010-11, though later on it declined to 63.24 lakhs in 2016-17. Though the number of declined, the business in terms of policies issued earlier and their premium continued to increase over the two decades.

5) Gross premium collected :

The actual performance of the life insurance companies can be understood with the help of premium collected by the insurance companies.

Table No. 4.5

Gross Premium collected by Life Insurance Companies in India

(Amt. Rs. in crores)

Year	LIC of India	Private Life Insurance Companies	Total
2001-02	49,822	278	50,100
2005-06	90,792	15,084	1,05,876
2010-11	2,03,473	88,165	2,91,638
2016-17	3,00,487	1,17,989	4,18,476

Source : IRDA Handbook.

This table clearly shows the enormous growth in life insurance business in India. Total premium collected grew from Rs. 50,100 crores to Rs. 4,18,476 crores from 2001 to 2017. Initially the share of LIC in the same was almost 99% which came down to almost 70% in 2017. The premium collection of LIC increased from Rs. 49,822 crores to Rs. 3,00,487 crores during 2001 to 2017 while the same increased from Rs. 278 crores to 1,17,989 crores in case of private insurance companies. This clearly indicates that, there is a huge increase in insurance business in the last almost two decades.

6) Issue of share capital of Life Insurance Companies :

When the growth of insurance business is to be calculated, issue of share capital also has important considerations. If share capital increases, it means more investment in fixed assets which results in more business.

Table No. 4.6

Equity share Capital of Life Insurance Companies

(Rs. In crores)

Year	LIC of India	Private sector Insurance Companies	Total
2001-02	5.00	1.664.00	1,669.00
2005-06	5.00	5,887.05	5,892.05
2010-11	5.00	23,656.85	23,661.85
2016-17	100.00	26,856.94	26,956.94

Source : IRDA Handbook.

From table No. 4.6 gives an idea about how there is increase in share capital of life insurance companies in India. Initially, as per requirement share capital of LIC was Rs. 5 crores which, as per IRDA guidelines, increased to Rs. 100 crores in 2016-17. Private sector insurance companies were limited during 2001-02, hence their capital was Rs. 1,664 crores. But after 2005-06, due to increase in the number of companies and IRDA's capital requirements, the total share capital of all private sector companies was increased to Rs. 26,856 crores in he year 2016-17.

7) Expenditure incurred by Life Insurance Companies :

The premium received as income for life insurance companies on the other hand, the major expenses of life insurance companies include commission and other operating expenses.

Table No. 4.7

Expenditure incurred by Life Insurance Companies

(Rs. In crores)

Year	Commission		Operating Exp.	
	LIC	Private Co.	LIC	Private Co's
2001-02	4519	49	4260	419
2005-06	7100	1543	6042	3569

2010-11	13,347	4,982	16,980	15,692
2016-17	16,590	5,483	28,952	17,189

Source : IRDA Handbook.

From table No. 4.7 states the expenditure of operating expenses and commission incurred. Commission paid by LIC increased from Rs. 4519 crores to Rs. 16,590 crores from the year 2001-02 to 2016-17. During the same period commission expenses of private life insurance companies increased from Rs. 49 cores to Rs. 5483 crores operating expenses of LIC increased from Rs. 4260 crores to Rs. 28,592 crores during the same period while these expenses in case of private life insurance companies increased from Rs. 419 crores to Rs. 17,187 crores. The figures of private companies were law as the no of companies was small initially.

8) Net Profit of Life Insurance Companies :

The growth of Insurance or any business can be underlined with the help of net profit or loss of companies.

Table No. 4.8

Net Profit of Lice Insurance Companies

(Rs. In crores)

Year	LIC of India	Private sector Insurance Companies	Total
2001-02	821.79	-227.81	593.98
2005-06	12,733.00	-13105.90	-452.42
2010-11	1,171.80	1,485.24	2,657.04
2016-17	2200.33	5349.70	7,550.03

Source : IRDA Handbook.

From table No. 4.8 shows that total profit of all life insurance companies in India in increased form Rs. 593.98 crores to Rs. 7,750.03 crores. Private insurance companies registered loss in the year 2005-06 as there were new establishments and large capital expenditure. Lateron, profitability of private sector companies increased to a large extent.

The above discussion state that the growth in the life insurance business in India is largely due to opening up of insurance sector for private companies. The compensation increased due to the new companies which came out with new and diversified products. Therefore, LIC which is the only public sector undertaking, also hand to change its strategies. Ultimately the customers are now getting various options and thereby quality of services is also increased.

4.2.2 Performance of Life Insurance Companies in India :

This section discusses the performance of life insurance companies in India. This is divided into two categories. One is the public sector undertaking i.e. LIC of India and its performance. The second is the private sector companies in India and their performance.

A) Performance of LIC of India :

Some of the parameters of performance evaluation like no of branches, no. of new polities, premium collected, expenses incurred and profitability have already be discussed in the earlier section. Therefore, the other important factors have been discussed in the section.

1) Total Assets Acquired :

The performance of a company can be evaluated on the basis of total assets acquired. These assets are useful in producing the business and yielding profitability in the future.

Table No. 4.9

Total Assets of LIC of India

(Rs. In crores)

Year	Value of Assets	(% increase from …….. years
2001-02	2,38,450	+
2005-06	5,31,391	123
2010-11	12,82,129	438
2016-17	25,29,540	960

Source : Annual Reports of LIC

Table No. 4.9 shows the value of total assets held by LIC. In the year 2001-02, total assets of LIC were Rs. 238,450 crores which rose to Rs. 25,28,540 crores in the year 2016-17. This is 96% increase over more than 15 years. Huge increase in assets during the period also suggests positives indication in performance LIC of India.

2) Claims settled :

The most important aspects of efficiency measurement of insurance company is its claim settlement. Attracting the new customers is possible of claim settlement is higher.

Table No. 4.10

No. of claims and amount of claim paid by LIC of India

Year	No. of claims (in lakhs)	Amt. of claims (in crores)
2001-02	87.67	14,519.25
2005-06	120.85	28,472.98
2010-11	189.56	57.490.29
2016-17	769.38	1,10,058.60

Source : Annual Reports of LIC

Table No. 4.10 gives in sights about claims settled (in number as well as value) by LIC during 2001-02 to 2016-17. The number of claims increased from 87.67 lakhs to 769.38 lakhs during that period. This is almost 9 times increase in the number of claims. Similarly amount of claims settled was Rs. 14,519/- crores in 2001-02 which increased to Rs. 110,058.60 crores in 2016-17. As the business grows, the claims also grow in number as well as in amount. The increased number of claims is an indication of growth of business. Though it is payment obligation for life insurance companies, higher the claim settlement, better is the quality of service of the company which leads to attracting more and more customers.

3) Investment Made by LIC :

A part form assets, investment is also an important element particularly in financial sector. This investment may also yield some revenue to the company in long run.

Table No. 4.11

Investment made by LIC

(Rs. In crores)

Year	Amt. of Investment	(% increase from ………. Years)
2001-02	2,45,771	--
2005-06	4,63,771	89
2010-11	10,94,718	346
2016-17	24,69,125	906

Source : Annual Reports of LIC

Table No. 4.10 shows the investment made by LIC of India during 2001-02 to 2016-17. Initially, in 2001-02 he investment made by LIC was Rs. 2,45,388 crores while in the year 2016-17, it was Rs. 24,69,125 crores. It has increased by over 900% over the last 15 years. In all these years, every year there is increase in investment. It means that there is investible surplus with LIC of India. It also means that LIC has earned income from these investment which adds to its profitability. Investment made also leads to economic development of a nation.

4) Market share of LIC of India :

In market share of a company gives an idea about progress made by the company. Growth in absolute numbers can mislead sometimes if all other companies also indicate the growth. Hence market share is important to note.

Table No. 4.12

Market share of LIC

Year	Market share of (New Policies)	LI (in %) (Premium)
2001-02	87.67	14,519.25
2005-06	120.85	28,472.98
2010-11	189.56	57.490.29
2016-17	769.38	1,10,058.60

Source : IRDA handbook.

Table No. 4.12 shows the market share of LIC of India in total life insurance business in India. In terms of issue of new policies LIC's share came down from 96.75% to 76.09% from the year 2001-02 to 2016-17. In terms of premium collection, market share of LIC came down from 99% in the year 2001-02 to 71.81% in the year 2016-17. Due to the increase in private sector companies, especially after 2005-06, this share has declined. It shows decline of monopoly of LIC though it is still dominant market leader.

B) Performance of Private Life Insurance Companies of India :

Performance evaluation of private life insurance companies can be done with various parameters. Some of these parameters like share capital, profitability, establishment of new branches, expenses have already been discussed in the earlier section. The other parameters of performance evaluation are discussed herewith. Further few top performing private life insurance companies are specifically analysed with reference to their performance evaluation.

On the recommendations of Malhotra Committee (1994), Insurance Regulation and Development Authority (IRDA) was established in the year 1999. It ended the monopoly of LIC of India and gave way towards privatization of life insurance business in India. IRDA allowed private sector companies to start life insurance business in India with a minimum paid up capital of Rs. 100 crore. Similarly the products are also regulated by IRDA. Appointment of advisors / agents, working of companies etc. are regulated and controlled by IRDA. As discussed earlier, there are in all 24 life insurance companies in India. One of them is public sector undertaking. i.e. LIC of India while 24 other companies are from private sector. Most of these private sector companies are joint ventures. One Indian company collaborating with another foreign company has formed an entity to run insurance business in India. Thus, 23 companies are registered in private sector which are listed as follows –

Table 4.13

Private Sector Life Insurance Companies in India

S.No.	Name of the company	Foreign company	Date of Registration	Year of Establishment
01.	HDFC Standard Life Insurance Co. Ltd.	Standard Life Ltd., (UK)	23-10-2000	2000-01

02.	Max New York Life Insurance Co. Ltd.	Mitsui Sumitomo Co Ltd., Japan	15-11-2000	2000-01
03.	ICICI Prudential Life Insurance Co. Ltd.	Prudential Corporation (UK)	24-11-2000	2000-01
04.	Kotak Mahindra Life Insurance Co. Ltd.	Old Mutual PLC (UK)	10-01-2001	2000-01
05.	Birla Sun Life Insurance Co. Ltd.	Sun Life Financial Inc. Canada	31-01-2001	2001-02
06.	Tata ALG Life Insurance Co. Ltd.	American International Assurance Ltd. (USA)	12-02-2001	2001-02
07.	SBI Life Insurance Co. Ltd.	BNT Paribas (Francese)	29-03-2001	2001-02
08.	Exide Life Insurance Co. Ltd.	--	02-08-2001	2001-02
09.	Bajaj Allianz Life Insurance Co. Ltd.	Allianz SE Germany	03-08-2001	2001-02
10.	Met Life Insurance Co. Ltd.	Met Life Internation, USA	06-08-2001	2001-02
11.	Reliance Life Insurance Co. Ltd.	Nippo Life Insurance Co. Ltd. Japan	03-01-2002	2001-02
12.	Aviva Life Insurance Co. Ltd.	Aviva International Holdings Ltd (UK)	14-05-2002	2002-03
13.	Sahara Life Insurance Co. Ltd.	--	06-02-2004	2004-05
14.	Shriram Life Insurance Co. Ltd.	--	17-11-2005	2005-06
15.	Bharati Axt Life Insurance Co. Ltd.	AXA India Holding, France	14-07-2006	2006-07

16.	Future Generali Life Insurance Co. Ltd.	Meatschapij Grafss Chup, Holland	04-09-2007	2007-08
17.	IDBI Fortis Life Insurance Co. Ltd.	Aegis Insurance International Holland	19-12-2007	2007-08
18.	Aegon Religare Life Insurance Co. Ltd.	Aegon India Holdings, Holland	27-06-2008	2008-09
19.	DHFC Premarica Life Insurance Co. Ltd.	Prodential International Insurance Ltd. USA	27-06-2008	2008-09
20.	India Fist Life Insurance Co. Ltd.	Legal and General Middle East Ltd	05-11-2009	2009-10
21.	Star Union Bai. Chi Life Insurance Co. Ltd.	Dai-chi Life Insurance Ltd., Japan	09-07-2010	2010-11
22.	CAnara HSBC OBC Life Insurance Co. Ltd.	HSBC Insurance Holdings Ltd, UK	16-01-2011	2011-12
23.	Edelweiss Tokyo Life Insurance Co. Ltd	Tokyo Marine and Nichido Fire Insurance Co Ltd. Japan	10-05-2011	2011-12

Source : Handbook of IRDA

It can be understood that though India adopted LPG Policy since 1991, the private life insurance companies were established after 2000. IRDA started regulating these companies and also started working on development of insurance business in India.

1) Equity Share Capital :

Performance of private life insurance companies can be judged on the basis of equity share capital issued.

Table No. 4.14

Equity Share Capital

(Rs. In Crores)

Year	Birla	ICICI	HDFC	Max Life	Reliance	Tata	Met Life	SBI	Bajaj	Kotak
2001-02	150	190	168	250	125	185	110	125	150	101
2005-06	460	1185	620	557	331	447	235	425	150	245
2010-11	1969	1428	1995	1841	1165	1954	1970	1000	151	510
2016-17	1901	1435	1998	1918	1196	1954	2013	1000	151	510

Source : IRDA – Annual Reports

Table No. 4.14 gives the amount of share capital issued by top 10 private sector life insurance companies. All the companies have increased their share capital since 2001-02. Only Bajaj Allianz has kept the same capital over the years while highest equity capital is registered by Met Life Insurance Co. Ltd.,

2) Branch Offices :

Establishment of new branches is an indication of growth in the business. Therefore the branch offices opened by private life need to be known to analyse the growth of insurance business in India.

Table No. 4.15

Branch Offices

Year	Birla	ICICI	HDFC	Max Life	Reliance	Tata	Met Life	SBI	Bajaj	Kotak
2001-02	19	14	4	15	17	6	3	5	17	--
2005-06	97	175	150	84	457	72	43	46	567	43
2010-11	617	1402	498	504	1248	363	270	629	1092	215
2016-17	452	510	414	210	746	164	115	801	638	235

Source : Annual Report of IRDA

Table No. 4.15 shows the number of branches of private life insurance companies in India. In the year 2001-02 most of the companies just standard the business hence the number was less. There was huge increase till the year 2010-11 in respect of branch offices but in the year 2016-17, the numbers came down by almost 40 to 50% in case if most of the companies.

3) Number of Agents / Advisors

Insurance is the business which is sold through agent / advisors. Normally, nobody goes to the insurance company to buy insurance. Hence increase in number agents denotes increase in business.

Table No. 4.16

Number of Advisors / Agents

Year	Birla	ICICI	HDFC	Max Life	Reliance	Tata	Met Life	SBI	Bajaj	Kotak
2001-02	2009	10861	3214	2620	--	7038	417	719	4377	1398
2005-06	11913	44489	16717	12549	--	19348	8343	5112	80217	7374
2010-11	144573	190407	136009	43542	189433	87223	28840	79628	189667	269
2016-17	82018	136114	54516	54283	162276	25704	6248	95355	77097	729

Source : Annual Report of IRDA

Table No. 4.16 shows the number of advisors working with private life insurance companies. Initially as the number of branches were less, the number of advisors / agents was also les. The year 2010-11 experience huge growth in number of agents in all the companies. However in 2016-17, the number declined by 30 to 50% in most of the cases. Only Max Life, Kotak and SBI Life registered increase in number of agents. Reliance life has highest number of agents till 2016-17.

4) Gross Premium :

Amount of premium collected by insurance companies denotes the performance of these companies Increase in premium is necessary to also understand whether new business in generated or not.

Table No. 4.17

Gross Premium Collected

(Rs. In crores)

Year	Birla	ICICI	HDFC	Max Life	Reliance	Tata	Met Life	SBI	Bajaj	Kotak
2001-02	28	116	33	39	01	21	01	15	7	7
2005-06	130	4261	1570	788	224	880	206	1075	3134	630
2010-11	5677	17881	9042	5813	6571	3985	2508	12912	9610	2976
2016-17	5724	22354	19445	10780	4027	3171	3236	21015	6183	5140

Source : Annual Report of IRDA

Table No. 4.17 gross premium collected by private sector insurance companies can be known. Inititally, the premium of all companies was low as lot of companies were just started during that year. ICICI continued to be leader through the period from 2001-2 to 2016-17 in terms of premium collected. Most of the companies have shown consistent increase in collection of premium. Only Tata and Bajaj have registered negative trend during the last year in gross premium collection.

5) Commission Expenses :

Insurance business largely depends upon agent through whom the customers are attracted. Therefore commission expenditure is a major amount. Commission also indicates the new business as commission and sales are correlated with each other.

Table No. 4.18

Commission Expended

Year	Birla	ICICI	HDFC	Max Life	Reliance	Tata	Met Life	SBI	Bajaj	Kotak
2001-02	04	14	07	12	00	06	00	00	02	01
2005-06	160	284	120	135	14	138	41	70	342	80
2010-11	381	561	477	540	515	246	87	671	616	130
2016-17	255	758	792	936	195	264	180	783	146	325

Source : Annual Report of IRDA

Table No. 4.18 gives the details of expenses of commission paid to the agents. Initially the amounts of commission are minor. The year 2005-06 experience huge increase in commission in respect of all the companies. Same trend continued till 2010-11 also. But in 2016-17, some of the companies registered decline in commission paid. Max Life registered the highest amount of commission while Reliance and Bajaj showed highest decline in commission. This also indicates that even of premium increases, commission has not increased. It may because of lack of new business by market leaders.

6) Operating Expenses :

Operating expenses indicate the trend of expenses. In case of insurance companies, operating expenses may not directly be correlated with revenue.

Table No. 4.19

Operating Expenses

(Rs. In crores)

Year	Birla	ICICI	HDFC	Max Life	Reliance	Tata	Met Life	SBI	Bajaj	Kotak
2001-02	48	85	41	85	11	40	07	11	25	37
2005-06	244	725	398	339	116	291	162	190	487	134
2010-11	1203	2187	1495	1440	1563	939	564	883	1607	580
2016-17	770	2357	2385	1511	780	735	746	1647	4056	938

Source : Annual Report of IRDA

Table No. 4.19 shows the operating expenses incurred by private life insurance companies in India till 2016-17. As seen earlier in all criterions, operating expenses are less in 2001-02. In the year 2005-06, there was considerable increase in operating expenses. Similar trend continued till 2010-11. But in the year 2016-17, few of the companies registered decline in operating expenses. HDFC standard Life was among high expending companies while operating expenses of Birla, Reliance, Tata and Bajaj declined significantly in the year 2016-17. These expenses are not corrected with revenue / premium hence cannot say that high operating expenses results in higher business. It may lead to reduction in profit or sometimes loss also.

7) Income from Investment :

Investment income may be treated as supplementary income for insurance companies. The major source of income is premium collected. But the investible surplus needs to be used effectively so that it can generate additional income for insurance companies.

Table No. 4.20

Income from Investment

(Rs. In crores)

Year	Birla	ICICI	HDFC	Max Life	Reliance	Tata	Met Life	SBI	Bajaj	Kotak
2001-02	06	11	15	13	02	08	06	11	08	14
2005-06	11	17	14	06	08	12	06	20	11	07
2010-11	37	93	40	75	27	24	22	55	76	22
2016-17	136	374	183	136	94	125	57	314	606	124

Source : Annual Report of IRDA

Table No. 4.20 states about income from investment earned by private life insurance companies in India. It can be concluded that there is a consistent growth in income from investment in case of all of these companies, particularly after 2005-06 when these companies had investible surplus. Bajaj has the highest income from investment followed by ICICI and Bajaj. It is important market leader, but increase of investment income, it is market leader for the year 2010-11 as well as 2016-17.

8) Net Profit :

Performance of any commercial organization is well judged on the basis of net profit it earns. Net profits is straightway an indicator of profitability and performance of insurance or any other company.

Table No. 4.21

Net Profit (Rs. In crores)

Year	Birla	ICICI	HDFC	Max Life	Reliance	Tata	Met Life	SBI	Bajaj	Kotak
2001-02	-36	-105	-25	11	02	-25	-3	-1	-16	--

2005-06	-61	-188	-129	-60	-98	-53	-79	2	-98	-44
2010-11	305	808	-99	194	-129	50	25	351	1057	102
2016-17	528	1682	892	660	61	113	63	955	836	303

Source : Annual Report of IRDA

Table No. 4.21 gives the figures of profitearned by private life insurance companies in India. In the year 2001-02, only Max Life and Reliance registered a nominal profit while all other companies were in loss. In 2005-06, only SBI Life was managed to earn small amount of profit and other companies were in loss on the contrary, in the year 2010-11 only HDFC and Reliance were in loss and all other companies registered profit In 2016-17, all major companies in private life insurance increased profit. ICICI and SBI were the top profit earning companies while Reliance and Met Life are earning lower profits. Initial years loss is due to the huge capital expenses as well as provisioning norms of reserves.

9) Total Assets :

In any business, assets held are treated as parameters to measure its performance. In insurance business also, higher the amount of total assets, more healthy is its financial position.

Table No. 4.22

Total Assets

(Rs. In crores)

Year	Birla	ICICI	HDFC	Max Life	Reliance	Tata	Met Life	SBI	Bajaj	Kotak
2001-02	169	331	198	192	119	189	111	139	152	132
2005-06	2838	9568	2999	1312	635	1489	521	2099	3543	1303
2010-11	21427	70187	28307	14486	20573	11995	7480	139525	39274	7950
2016-17	35549	121906	91286	44735	17798	21709	16710	99225	49399	20800

Source : Annual Report of IRDA

Table No. 4.22 the total assets held by the private life insurance companies in India canbe known. In the year 2001-02 almost all companies had assets of Rs. 100 to Rs. 200 crores except ICICI Prudife which had assets of Rs. 331 crores. In the year 2005-06, there was huge increase in the total assets and similar trend continued in the year 2010-11 also. SBI Life had the highest value of assets in the year 2010-11 followed by ICICI. But in the year 2016-17 a decline in the value of assets is observed in some companies. ICICI now has the highest assets followed by SBI and HDFC. This decline is because of shutting down of some of its branches. But most of the companies recorded increase in the value of total assets.

4.2.3 Insurance Regulatory and Development Authority (IRDA)

On the recommendations of R. N. Malhotra committee, establishment of a strong and effective regulatory authority to govern insurance sector in India was taken up seriously. This authority was expected to work on the similar lines as that of SEBI in financial markets. Ministry of finance, LIC and GIC, Trade Unions, Chamers of commerce and consumer interest groups were consulted to from the regulatory authority. The bill was presented in 1998 in the Loksabha. The same was kept with amendments on 16^{th} March, 1999. Finally it was passed in December 1999 and IRDA came into existence. The bill consisted of Six important chapters as follows.

Chapter one consisted preliminary, short title, extent and commencement with relevant definitions. Chapter two consisted of structure of the authority. Chapter three consisted of transfer of assets, liabilities. Chapter four consisted of duties, powers and functions of authority. Chapter five detailed about finance, accounts and audit. Chapter six consisted of miscellaneous provisions.

1) Sector and composition of IRDA :

Insurance Regulatory and Development Authority (IRDA) is a ten members body appointed by Government of India. It consists of following structure –

- One Chairman
- Five Whole time members
- Four part time members.

These members are appointed by Central Government from amongst persons of ability, integrity and standings who have knowledge and experience in life insurance, general insurance, actuarial science, economics, law accounting administration on other discipline which the government feels useful to the authority. Every member has a tenure of five years and has also eligibility to be reappointed as member. The maximum age as a member or chairman is fixed at 65 years. However, a part time member can be a member subject to the age limit of 62 years.

Presently Mr. T. S. Vijayan is a chairman of IRDA. Whole time members are Mr. R. K. Nair, Mr. M. Ramaprasad and Mr. D. D. Singh. The part time members are Mr. Anup Wadhwan, Mr. S. B. Mathur, Prof. V. K. Gupta and CA K. Raghu.

The IRDA has its Insurance Advisory Committee also which consists of not more than 25 members to represent interest of various stake holders. The advisory committee advises IRDA in framing regulations from time to time.

ii) Organizational set up of IRDA :

IRDA operates through its formal organizational setup which is elaborated below –

IRDA
Head office (Hydrabad)
↓
Regional Offices
↓

New Delhi RO (Operations)	Mumbai RO (Operations)	New Delhi RO (Admin. & Inspection)	New Delhi KO (Surveyors)
		Joint Director	Joint Directors
		↓	↓
		Dy. Directors	Dy. Directors
		↓	↓
		Sr. Asst. Directors	Sr. Asst. Directors
		↓	↓
		Jr. Officers	Jr. Officers
		↓	↓
		Assistants	Assistants

Organisation structure of IRDA is as follows –

H.O. Hydrabad :

- Mr. T. S. Vijayan, Chairman
- Mr. R. K. Nair, Member (Finance and Investment)
- Mr. M. Ramprasad, Member (Non-Life)
- Mr. D. D. Singh, Member (Distribution)
- Mr. Sriram Tarnikanti – Executive Director, Admin.
- Mr. Lalit Kumar Chandel – Financial Advisor.
- Mr. M. Pulla Rao – Jr. Jt. Director, A/c & HR
- Mr. Suresh Mathur – Jr. Jt. Director, Non life
- Mr. Randip Singh Jagyal – Jr. Jt. Director, Intermediaries
- Mr. A. R. Nithiyanatham – Jr. Jt. Director, I. T.
- Dr. Mamta Suri – Jr. Jt. Director, Inspection
- Ms. J. Mena Kumari – Jr. Jt. Director, Actuarial
- Mr. S. N. Jayasimhan – Jr. Director, F & A (Non Life)
- Ms. Y. Bharath - – Jr. Director, Health
- Mr. H. Ananthkrishnan – Jr. Director, Legal & TAC
- Mr. V. Jayanth Kumar – Jr. Director, Life, Off Language
- Mr. Ramana Rao Adhikari – Jr. Director, Investment
- Mr. Sanjeev Kumar Jain – Jr. Director, Non Life
- Mr. T.S. Naik – Jr. Director, Agency Distribution

Regional Office – New Delhi

- Mr. Mukesh Sharma, Joint Director, Admin.
- Mr. Rakesh Bajaj, Joint Director, Surveyor

The various departments of IRDA Function as follows –

IRDA

Registration, Licensing, Regulations, Supervision	Support Services	Market Conduct	Protection Grievances Education	R & D
- Dept. of Acturaries	- Accounts Dept	- Inspection and Compliance Dept	- Consumer Affairs Dept	- Sectoral Devel Opment Dept.
- Dept of Agency distribution	- Admin. Dept			
- Dept. of Finance & A/cs	- Corporate Service Dept			
- Dept. of Health	- HR Dept.			
- Dept. of Intermediaries	- I..T. Dept.			
- Dept. of Investment	- Internal Audit			
- Non Life Department	- Vigilance Dept.			
- Life Insurance Dept.	- Office Language			

3) Functions of IRDA :

IRDA, as an independent regulatory authority has to work for promotion as well as regulation and ensure orderly growth of insurance business in India. Following functions are performed by IRDA for complying with its objectives.

1) To issue the certificates regarding registration.

2) To protect the interest of the policyholders in matters relating to policy assignment, nomination, claim settlement, surrender value etc.

3) To specify qualification, code of conduct and peretial training for intermediaries / agents.

4) To specify the qualification and code of conduction for surveyors and loss assessors.

5) To promote efficiency in conduct of insurance business.

6) To promote and regulate professional organizations connected with insurance and coinsurance business.

7) To levy the fies and other charges for carrying out purposes of the authority (IRDA)

8) To call for information, conduct enquiry, investigate and conduct audit of insurers, intermediaries and other connected organizations.

9) To control the rates, advantages, terms and conditions that may be offered by insurers.

10) To specify the forms and manners in which books of accounts shall be kept and statement of accounts shall be rendered by insurers and intermediaries.

11) To regulate investment of funds by insurance companies.

12) To regulate maintenance of margin of slovenly.

13) To adjudicate the disputes between insurers and intermediaries.

14) To supervise the function of TAC (Tariff Advisory Committee)

15) To specify the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations referred to for the same.

16) To specify the percentage of life and general insurance business to be undertaken by the insurer in rural and social sector.

17) To exercise such other power as prescribed by the Act.

4.4 Key words

Life Insurance, IRDA, LIC, Privatisation.

Check your progress

A) Choose the right alternative from the following and fill in the blanks.

1. SBI Life Insurance Co. Ltd. is a ………………. Company.

   a) Government b) Private c) foreign d) None of the above.

2. …………… is a dominant company in life insurance in India.

   a) LIC b) SBI Life c) Kotak Life d) ICICI Life

3. There are in all …………… companies in Insurance sector in India.

   a) 21 b) 24 c) 07 d) 20

4. IRDA was established in the year ……………

   a) 1947 b) 1991 c) 1969 d) 2000

5. Head office of IRDA is situated at ……………

   a) Delhi b) Mumbai c) Hydrabad d) Chennai

B) State whether the following statements are true or false.

1. SEBI is a regulating authority for insurance sector in India.
2. Due to emergence of private companies, competition is increased in life insurance business in India.
3. LIC was nationalized in the year 1956.
4. Member of IRDA are appointed by Central Government.
5. IRDA was established on the Recommendation of Malhotra Committee.

4.5 Answer to check your progress

A) 1 - b, 2 – a, 3 – b, 4 – d, 5 - c

B) 1 – false, 2 – True, 3 – True, 4 – True, 5 – True.

4.6 Exercise

A) Essay type questions

1. Explain the progress of insurance sector in India after privatization.
2. What are effects of privatization on insurance sector in India?
3. Explain the objectives are formation of IRDA.
4. What are the functions of IRDA?
5. Explain your view on privatization of insurance sector in India.

B) Write short notes

1. Organization structure of IRDA.
2. Ned for establishment of IRDA.

3. Performance of LIC of India.
4. Performance of private life insurance companies of India.
5. Privatisation of insurance sector : Merits and demerits.

4.7 Books for additional reading

1. Theory and Practice of Insurance – Arif Khan.
2. Principles and Practice of Insurance – Kothari and Bahl.
3. Insurance – Principles and Practice – M. N. Mishra
4. Annual Reports – IRDA.
5. Handbook of IRDA.
6. Life Insurance – IRDA.

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Sem. II

Unit-1

Fire Insurance

INDEX

1.0 Objectives

The study of this unit will help students to understand clearly-

- The meaning of Fire Insurance
- The procedure of taking Fire Insurance
- The terms and conditions of Fire Insurance
- Cancellation and forfeiture of Fire Insurance Policy
- The renewal of Fire Insurance Policy
- The procedure of settlement of claims

1.1 Introduction

Fire Insurance is one of the most popular forms of general insurance. In the field of insurance business, Marine Insurance is the first insurance. Later in 17^{th} century, the fire insurance has come into existence. After industrial revolution fire insurance business has been developed along with development of trade and commerce. Today every field of human life, necessity of fire insurance is increasing day-by-day.

1.2 Subject Matter

1.2.1 Meaning of Fire Insurance

The insurance which gives protection against the loss incurred due to fire is called as fire insurance. It is a device which provides compensation for the loss of property due to fire. It is a contract between two parties i.e. insurer and insured, in which insurer provides protection to insured against risk of fire to insured property.

Definition

Section 2 of Insurance Act, 1938 has defined Fire Insurance business as under:

"Fire insurance business means the business effecting otherwise than incidentally to some other class of insurance business, contract of insurance against loss by or incidental to fire or other occurance customarily included among the risks injured against in fire insurance policies".

In short Fire Insurance is a device to cover loss of property caused by fire.

Characteristics of Fire Insurance

Following are the characteristics of the fire insurance, from which we can understand the meaning of fire insurance in details.

1. **Contract of Indemnity –**

The fire insurance is a contract of indemnity. Under fire insurance insured shall be paid compensation only when actual loss is occurred due to fire.

2. **Amount of compensation –**

Under the fire insurance, insured has right to get the compensation equal to amount of actual loss or policy amount whichever is less.

3. **Insurance of Property –**

Under the fire insurance, insured can take out policy only for tangible or physical property, which may be moveble or immoveble. e.g. building, plant and machinery, furniture, raw material, finished goods etc.

4. **Property Measurable in Money –**

Under fire insurance, insured can take out policy only for property which is measurable in terms of money.

5. **Consiquential Losses –**

Under fire insurance, insurance company indemnifies not only material losses but also consequential losses due to fire. e.g. loss of profit.

6. **Provisions of Indian Contract Act –**

General provisions of Indian Contract Act are applicable to fire insurance contract- e.g. proposal and acceptance, consideration, competent parties, free consent and lawful object.

1.2.2 Procedure of taking Fire Insurance policy

If any person want to take fire insurance policy, he should follow the following procedure.

1. **Selection of company –**

The first step of taking the Fire Insurance policy is to select the insurance company. In India there are four public sector companies of General Insurance. i.e.

i) National Insurance Company Ltd.

ii) New India Assurance Company Ltd.

iii) Oriental Fire and General Insurance Company Ltd.

iv) United India Insurance Company Ltd.

There are also private companies in insurance business. For the purpose of taking fire insurance policy insured has to select a suitable company considering convenience and company's performance, reputation and service.

2. Filling the proposal form –

The second step of procedure of taking Fire Insurance policy is to fill the printed proposal form available in the insurance company. A printed proposal form contains the following information.

- The name, address and business of proposer.
- Description of the property.
- Amount to be assured.
- Details of the previous fire insurance.
- Period of insurance.
- Recommendation by an agent / development officer.
- Declaration, signature of the proposer.

As per principle of utmost good faith proposer must be fill all true and factual information. On the basis of information, insurance company evaluates risk and amount of premium.

3) Evidence of Respectability –

After receiving the proposal for the fire insurance policy, insurance company asks for evidence of respectability. Generally, such evidence of respectability is required from a new proposer. The proposer has to receive the certificate of respectability from respectable person in society and submit it in the office of the insurance company.

4) Scrutiny of the proposal form –

After receiving the proposal, officer of insurance company scrutinizes the proposal form. He looks for all the details whether properly filled in or not. If all the required information is filled, he enters the proposal in a proposal registration book and gives a temporary serial number to proposer. The scrutiny officer also considering the nature of risk decides the premium to be paid by proposer.

5) Survey of the property –

After the scrutiny of the proposal form, if the risk is high, insurance company appoints survey or to inspect the property and risk involved in surveyor inspect the property and estimate the degree of risk involved, its scope and nature. He submits his report to insurance company. On the basis of such report, insurance company decides whether proposal accepts or not.

6) Acceptance of proposal –

After studying the proposal form, evidence of respectability, surveyors report and other documents insurance company decides whether to accept the proposal form or not.

7) Payment of proposal –

After acceptance of the proposal, the insurance company intimates the proposer about the payment of premium. As per intimation of insurance company proposer paid the premium. Once the premium is paid, the contract of fire insurance is come to exist and risk transfer to Insurance Company.

8) Cover Note –

The preparation of a fire insurance policy takes some time. Hence after payments of premium insurance company gives temporary provisional policy to the policy- holder is called as cover note. Cover note is the proof of fire insurance contract till the final fire insurance policy is received.

The cover note contains the following information –

- Name and address of the insured.
- Details of property.
- Amount of Insurance.
- Period of Insurance.
- Amount of Insurance premium.

- Accepted Risk.
- Temporary policy No. etc.

9) Final policy –

It is last step in the procedure of taking fire insurance policy. To replace the cover note, the insurance company prepares and sends the final fire insurance policy to insured. This insurance policy is proof of contract between insured and insurance company. Generally the following information included in the final policy.

- Name and address of the insured.
- Commerncement of the risk and the expiry data.
- Policy amount.
- Amount of premium.
- Description of the property.
- Nature and kind of insurance.
- Terms and condition of policy.
- Policy number etc.

The final policy is affixed with proper stamp and is signed and sealed by the responsible authority.

1.2.3 Terms and conditions in Fire Insurance Policy

Fire Insurance is a written contract between the insured and insurance company. This contract is based on certain terms and conditions. There terms and condition are printed on fire insurance policy. Following are the terms and conditions of fire insurance policy.

1) Misdiscription –

This is the first policy condition which related with principle of goods faith. According to these conditions insured must supply the true, correct and factual all information about insured property to insurance company. If the insured provides any wrong information related to insured property, then insurance company will not be responsible for compensate the claim.

2) Payment of premium –

As per this condition, insured must have to pay insurance premium to insurance company in advance. The authorized person of the insurance company gives the receipt with properly signed and stamped for the payment of insurance premium.

3) Excluded losses –

In the Fire Insurance following losses are not included –

i) Loss by theft during or after the fire.

ii) Loss due to inherent vice, natural heating or spontaneous combustion.

iii) Loss by order of government or public authority to destroyed properly.

iv) Loss or damage caused by nuclear weapon, radiation, or nuclear fuel.

v) Loss caused by subterranean fire ignited under ground.

4) Excluded perils –

The following perils are excluded from the Fire Insurance –

i) War, attack and similar of war situation.

ii) Earthquake, volcanic eruption and such natural calamities.

iii) Mutiny, riot, Military action.

iv) Bush fire, praire, pumps or jungle fire.

5) Excluded articles –

The following articles have been excluded from the scope of the Fire Insurance.

i) Goods held in trust or on commission.

ii) Gold, silver or any precious stones.

iii) Antique work of art or curiosity not exceeding amount of Rs. 1000/-

iv) Manuscript, plans, drawings, designs, models or moulds.

v) Any kind of stamps, coins or paper money, cheques, account books, computer system record.

vi) Explosives, coals and inflammable goods etc.

6) Alteration –

In this condition insured has not any right to make any changes in insured property after contract. If there is any alteration or change made without prior permission then insurance company not liable to pay any loss and contract comes to an end. e.g.

i) Change in the place of business, nature of business, or building.

ii) Change in the place of insured property.

iii) The building, the insured property remains unoccupied or vacant for a period of more than 30 days.

iv) Insurable interest passess from insured otherwise than by will or operation of law.

Insured can make above type of change with prior permission of insurance company. However, the company can make the necessary changes in the premium amount and conditions.

7) Fraud –

If the insured are damaged insured property by willfully and obtain monetary benefits from this action, it is treated as fraud. If Insurance company has any doubt about fraud and it proves then contract comes to end and forfeited all the benefits of policy.

8) Rights of the Insurance company –

On the happening of any loss or damage to insured property due to fire following rights generated to insurance company.

i) Enter and take possession of insured property and place.

ii) Remove the affected goods from the affected place or building.

iii) To make inspection, evaluation, classification and other required changes in insured property.

iv) Sell or dispose any such property on behalf of the insured.

9) Reinstatement –

It is right of the insurance company how to settle the claim. Insurance company can discharge his liability by paying cash or reinstating / replacing the damaged insured property. Insurance company sees the expenditure on reinstatement must be less than the sum assured.

If insurance company accepted option of reinstatement of insured property, the insured must gives blue prints, maps etc. to insurance company, at his own cost.

10) Subrogation of Rights-

This condition provides that after the payment of compensation to the insured, the rights of ownership of insured property shall be transfer to the insurance company. On the basis of this right insurance company can easily investigate facts and takes steps against responsible person or third party. Insurance company files case against third party who damaged property.

11) Other Companies Insurance –

Though an insured takes fire insurance policy of same property and same risk from more than one insurance companies, compensation amount should not exceed the amount of actual loss. All these insurance companies come together and distribute the loss in ratio of sum assured.

12) Marine Clause –

According to this condition, if any insured takes both marine insurance and fire insurance of same property then marine insurance policy is free from the liability of fire.

13) Fall or Displacement of Building –

If an insure building or part of building fall or damage caused by reasons other than fire i.e. heavy rains, flood, earthquake etc. it is to be intimated within seven days, otherwise a fire insurance policy automatically comes to end. However after receiving such intimation insurance company can continue the same policy with certain changes in policy.

14) Loss Procedure / Notification of Loss –

As soon as loss occurs to insured property, it is responsibility of insured to inform insurance company immediately. After this intimation, insured has to follow the procedure of settlement of claim. The insured has to submit the claim form within

15 days. He has also submitted the required documents. If all these required documents are not submitted within six months, the insurance company assumes that the insured is not interested in compensation and the claim for it is cancelled. If the insured does not submit his claim within a year; the insurance company is not liable to pay any compensation for the loss.

15) Contribution clause –

This is sub clause of principle of indemnity. As per this clause, if the property is insured with more than one insurance company then all the companies shares the loss in proportion with their policy amount. The liability of insurance companies is limited to their proportion of insured sum. It means an insured not allow to make profit from contract of insurance.

16) Average clause –

Average clause is included in the fire insurance policy to penalize for under insuring the property than its real value. In such case the loss will be paid in proportion to the insured amount and the real value of the property. e.g. Mr. X has taken out a fire insurance policy of Rs. 1,00,000/- on his house of Rs. 2,00,000/-. He suffers the actual loss by fire worth Rs.80,000/-. He is liable to get the compensation half of the actual loss, as he has taken out insurance policy only for half of the actual values of his house. Hence he will get only Rs. 40,000/- as compensation

$$\left(\frac{1,00,000}{2,00,000} \times 80,000 = 40,000\right)$$

17) Arbitration –

As per this condition one person is appointed for settlement of dispute among insured and insurance company. The disputes generally related with compensation amount. The person appointed for settlement of dispute is called as 'Arbitrator'. Arbitration is simple process than court process and it requires less time and money. The decision of arbitrator is binding on both parties i.e. insured and insurance company.

18) Time limit for company's liability –

In this condition insured must submit the compensation within 12 months from the date of loss or damage. After 12 moths insurance company is not responsible for settlement of claim.

19) Cancellation of Insurance –

As per this condition insurance company and insured have right to cancel policy. Both parties within policy period, anytime cancel the policy by giving notice of cancellation. Insurance company can cancel insurance policy without intimation or notice also. In this case insurance company received premium for only those days when policy is in force and remaining amount of premium is repaid to insured.

20) Notice –

This condition gives information about mode of communication. Insurance company and insured both communicate each other with written format, any oral communication or transaction is not considered. The written documents used a proof at the time of settlement of claim.

1.2.4 Kinds of Fire Insurance Policy

In the past there was only one kind of fire insurance policy. But today, as the nature of perils changed the different kinds of fire insurance policy also came into existence. Today fire insurance companies issue different kinds of policies, which are explained as follows.

1) Ordinary fire insurance policy –

This is common type of fire insurance policy. This policy gives security against fire. If loss of insured property occurred due to fire, insurance company indemnify the loss. This policy not covered any other perils like theft, flood, earthquake etc. It is one of the simple and low rate policy.

2) Valued policy –

Under this policy value of the property is predetermined at the inception and it specify in the policy, as sum assured. At the time of loss insurance company will pay the amount which is specified in the policy. This policy is very useful for the insurance of pictures, sculpture, jewellery, fine arts, antique articles, historical articles etc. of which values can not be easily ascertained at the time of loss. This policy is not fulfilling the principle of indemnity because actual loss is not measured and paid at the time of loss.

3) Specific policy –

This is a policy by which insurance protection is given up to the specific amount. The amount of claim is payable to insured up to the specific sum. In short under this policy insurance company fix the specific limit up to which compensation is to be payable. At the time of loss insurance company will pay an actual loss or sum assured (sum specified) which ever is less as compensation.

4) Average policy –

In this policy average clause is included. Under this policy compensation paid in the proportion of sum insured and actual value of insured property. According to this policy amount of compensation is calculated by using following formula.

$$\text{Amount of compensation} = \frac{\text{Sum assured}}{\text{Value of the property}} \times \text{Actual loss.}$$

The average clause of policy is used only when a property is under insured.

5) Decleration policy –

Under this policy the insure takes out an insurance for the maximum amount which will be the value of maximum stock. The insurance protection is given as per declerations made by insured about the value of stock in the warehouse for each month or a specific period. The amount of premium is fixed as the 75% of the value of maximum stock. The actual premium is calculated at end of the year on the basis of stock declaration made during the year. The great advantage of this policy is that the premium is limited to the actual amount of risk irrespective of the sum insured. This policy gives better protection where the stock fluctuates from time to time. This policy is beneficial for businessman.

6) Floating policy –

Floating policy is one which covers different kinds of property located in different places. Since the different kinds of property scattered at different places, it is difficult for owner to take out separate policy for each property. He can take floating policy for different property situated at different places in same city, town or village. This policy is useful to businessman whose goods are stored in different warehouses at different places of city or village. Under this policy premium is charged at higher rate.

7) Reinstatement policy –

This policy is issued only for building and plant and machinery. Under this policy insurance company reinstate or replace the damaged property insteed of paying cash as compensation. The insurance company reinstates the damaged property in its original condition. The expenditure needed to bring the damaged property to it's original form is borne by insurance company. This policy is also called as "New for old" policy, because old property is replaced by new.

8) Consequential loss policy –

Under this policy insurance company provides protection not only against fire loss but also includes the consequential loss of fire. e.g. Loss of profit due to stoppage of work in factory. Due to fire there is not only the damage of business building or machinery but there is a reduction in business activities or production which resulted in reduction of profit. The fixed charges such as rent, rates, taxes, salaries etc. remain burden on business till it is re-started. The consequential loss policy protects the insured against such losses also.

9) Sprinkler leakage policy –

In developed countries new advance technology comes for effective fire-fighting equipments is called 'Sprinkler'. This sprinklers installed in the building which are automatically operates when fire starts. Sometimes mistakaly or accidently water discharge from sprinkler which damage the insured goods or property. sprinkler leakage policy provides protection against such losses.

Under the following situation, the losses caused due to the sprinkler leakage system, the policy does not cover the risk.

i) Due to the heat of fire.

ii) Due to the building repairs.

iii) Due to repairs of sprinkler system etc.

10) Special perils policy –

Along with fire this policy covers the special perils like flood, cyclone, and earthquake etc. Insurance company charge extra premium for special perils.

11) Comprehensive policy –

This policy covers all risks such as fire, burglary, theft, flood, earthquake, explosion, riots etc. The list of the risks covered is clearly mentioned in the policy. The insured has to pay a premium at the higher rate.

12) Adjustable policy –

An adjustable policy covers the risk in respect of goods in stock for a period of 12 months. Under this policy insurance company charge insurance premium on the value stock available at the time of taking out insurance policy. After periodical interval insured declear the value of stock, on which basis insurance company adjust the premium. In short under this policy there is facility to adjust the amount of premium at the end of the policy period on the basis of value of stock declared by insured, periodicaly. The premium is adjusted on pro-rata basis.

13) Loss in profit policy –

Sometime due to fire business close and stop the production for certain period, which effects the loss of profit. This policy covers the loss of profit which sustains due to fire. In such circumstances insurance company compensate the loss of profit on the basis of previous years average profit.

14) Transit policy –

Under this policy insurance company paid the compensation if the insured goods destroyed by fire in transit. This policy covers the risk from loading of goods transporting to unloading of goods.

1.2.5 Cancellation and Forfeiture of Fire Insurance Policy

1. Cancellation of Fire Insurance policy –

An insurance policy is a legal contract between two parties. e.g. insured and insurance company. As per terms and condition of the fire insurance these both the parties has right to cancel the contract any time before the period specified in the policy. For cancellation of policy both parties has to give notice of cancellation before 15 days. In cancellation insurance company adjust the insurance premium for the period of policy in force and remaining amount of premium is return to insured. After the cancellation of insurance contract insured have not right about compensation and Insurance Company have not right about insurance premium for the period of insurance contract cancelled.

2. Forfeiture of Fire Insurance Policy –

If the policyholder violates any of the conditions laid down in the fire insurance policy, insurance company cancel the policy without preintimation is called as forfeiture of fire insurance policy. As per law insurance company has the right of forfeiture of policy. In case of forfeiture of policy insurance company follow the legal procedure. After forfeiture of policy insured have not a right of any compensation or right to get any amount paid against insurance premium. Following are some reasons of forfeiture of fire insurance policy.

i) Provides wrong information of inured property.

ii) Without permission of insurance company the removal or change in the place of insured property.

iii) Violates the principle of Utmost good faith.

iv) Transfer of insured property without consent of insurer.

v) Violates the any conditions of the policy.

vi) An insured himself set the property on the fire.

vii) Insured makes a false claim of compensation.

viii) Not submitted proper evidence of fire etc.

Due to any of the above reasons insurance company forfeit the fire insurance policy with or without notice.

1.2.6 Renewal of Policy

Generally the fire insurance policy is issued for the period of one year. Therefore, it is essential to renew the policy for further period, when policy period is over. Insurance company sends renewal notice to the insured few days before the expiry of the policy period. As per this notice insured has to get it renewed within the stated period. The policy is renew by paying fresh premium. Generally insurance companies give 15 grace days for payment of fresh premium for the renewal of policy.

If the policy is to be renewed, the insured must be disclose all the material facts and intimate any change in the property. If there is any change in the property the insurer may change the terms and conditions on the renewal of policy. After the renewal of policy insurance company sends new policy documents to insured.

1.2.7 Procedure of Settlement of Fire Insurance Claim

Fire insurance is the contract of indemnity. According to this contract insurance company compensate the loss of insured property due to fire. When insured property is damaged due to fire, insured has to submit the claim to insurance claim the following procedure is adopted.

1) Notice of fire –

After the occurrence of fire the insured is required to give information to the insurance company immediately about the fire. He has also called to firebrigade and police station immediately. To protect the insured property or to reduce the loss by fire, it is very important to take all necessary steps and care.

After that the insured has to give notice of loss to the insurance company so that the formal claim is registered. If insured not informed or send the notice of loss to insurance company in time, it creates doubts against intention of insured.

Insured has also to collect firebrigade report and first investigation report (FIR) for proof of fire take place.

2) Formal claim form –

After notice of loss received from insured, insurance company see the policy record and send discharge / claim form to insured. Insured has to fill this claim form carefully. He has to fill the following information in the claim form.

i) Name and address of Insured.

ii) Insurance policy No.

iii) Date, time and reason of fire.

iv) Address of property.

v) Description of property damaged in fire, value of property lost and value of property saved.

vi) Information of other policies, if any.

All above true and actual details are carefully filled in the form and sent to the insurance company.

3) Evidence of loss –

The insured has to give required evidences of losses along with claim form. Following documents should be enclosed along with claim form as evidence.

i) Original fire insurance policy.

ii) Ownership of property documents e.g. stock register, sales book, purchase book, various receipts etc.

iii) Statement of valuation of property.

iv) Firebrigade and police station report (FIR).

4) Inspection of loss –

After receiving the claim form with other documents, insurance company appoints surveyors to inspect the damaged property. The surveyor's is also known as assessor. They visit the place of property damaged by fire and inspect or investigate causes, collect all information about damaged property and evaluate the loss. The surveyor's prepare the detailed report containing the following information.

i) The cause of fire and cause of loss.

ii) Amount of loss.

iii) Details of the saved property or salvage.

iv) Expenditure incurred at the time of fire to protect the property.

v) If same property have more fire insurance, an evaluation and distribution of loss.

vi) Opinion of surveyor.

After completion of report, it is submitted to insurance company.

5) Acceptance of claim –

After receiving the surveyors report insurance company take decision for accepting the claim amount or not. If insurance claim is rejected, it is informed to insured with reasons of rejection, if claim is accepted; it is also informed to insured.

6) Payment of claim –

After claim is accepted by insurance company, insured is informed about the settlement of claim. As per policy terms and condition insurance company liable for settlement of claim by any one of the following way –

i) Payment of claim in cash.

ii) Repairing the property.

iii) Reinstatement or replacement of property.

If the insured thinks that the compensation paid by the insurance company is less than the worth, he can file an appeal in the court.

1.3 Summary

Today with the development of trade and commerce, importance of fire insurance increasing day by day. Under fire insurance, insurance company provides compensation against insurance premium, for the loss of insured property due to fire or consequences of fire. Fire insurance is a contract of indemnity. This contract is based on certain terms and condition. As per this contract insured is liable to get the compensation equal to amount of actual loss or policy amount whichever is less. Today in India four public sector companies of General Insurance and other private companies are doing general insurance business. Fire insurance is one of the form of general insurance. These companies issue different kinds of policies according to the requirements of insured. For taking policy or settlement of claim insured has to be follow certain procedure. Insured or insurer can cancel, any time the contract of fire insurance, before policy period. Generally Fire insurance policy is for one year, after policy period insured can renew the policy.

1.4 Key Words

- **Fire** –There should be actual fire and it should be accidental.
- **Peril** – It is a cause of loss to the property. e.g. fire, theft, earthquake etc.
- **Claim** – Application for compensation.
- **Reinstate** – Restore to a former position.
- **Arbitration** – A legal arrangement made for quick disposal of disputs between the insured and insurer.

Questions for self study/Check your progress

A) Fill in the blanks with suitable words.

i) Fie insurance is a …… contract.

ii) The properties which are not covered under fire insurance is called as …… property.

iii) In case of under insurance, insurer includes ….. clause in the fire insurance policy.

iv) Decision of …… is final against which insured have not right to appeal in court.

v) In specific policy …… is fixed at the time of taking out policy.

B) State whether the following statements are true or false.

i) Fire insurance is a long term insurance.

ii) Loss of profit is not covered in fire insurance.

iii) Insured has right to cancel the fire insurance contract before policy period.

iv) Insured can take out the fire insurance policy of tangible as well as intangible property.

v) The cover not remains effective till the final policy is issued.

1.5 Answer to self study questions

A) i) Indemnity

ii) Excluded

iii) Average

iv) Arbitrator

v) Claim amount

B) i) False ii) False iii) True iv) False v) True

1.6 Exercise

A) Write short notes –

i) Meaning of fire insurance

ii) Forfeiture of fire insurance policy

iii) Excluded perils

iv) Excluded property

v) Specific policy

vi) Reinstatement policy

vii) Floating policy

viii) Declaration policy

ix) Arbitration

x) Sprinkler Leakage policy

B) Long question –

i) What is the meaning of fire insurance.

ii) Describe the procedure of taking a fire insurance policy.

iii) Explain the eight condition in fire insurance policy.

iv) Explain the kinds of fire insurance policy.

v) Discuss the procedure of settlement of fire insurance claim.

1.8 Books Recommended for Further Reading.

i) M. Arif Khan – Theory and Practice of Insurance.

ii) G.S. panda – Principles and Practice of Insurance.

iii) M.N. Mishra – Insurance Principles and Practice.

iv) S. Balchandran – General Insurance.

v) Kothari and Bahl - Principles and Practice of Insurance.

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Unit-2

Marine Insurance

INDEX

2.0 Objectives

Study of present topic 'Marine Insurance' will enable students -

- to understand the concept, definition and nature of marine insurance.
- to comprehend the procedure of taking marine insurance.
- to explain the difference between fire insurance & marine insurance.

- to comprehend the clauses and conditions of Marine Insurance.
- to get information regarding Marine Perils and Marine Losses.
- to understand the types of Marine Insurance.

2.1 Introduction

Marine Insurance is more traditional than any other type of Insurance. We can find origin of marine insurance in Italy at the end of 12^{th} Century. As far as India is concern, Marine Insurance developed in 19^{th} century. Marine travelling helps to accelerate the international trade. Marine insurance is known as an important and ancient type of insurance policy which secure from marine perils & losses. That's why, in international trading system, it has a vital role. Insurance Act was sanctioned in 1938, in which marine insurance concerns lot, but marine insurance agreement was so impressive and complicated by nature that 'Marine Insurance Act' was sanctioned in 1963.

2.2 Subject Matter

2.2.1 Concept and Definition of Marine Insurance

The Marine Insurance Act 1963 defines marine insurance as, "Marine insurance is a contract, whereby the insurance undertakes to indemnify the assured, in manner and to the extent thereby agreed against marine losses, that is to say, the losses incidental to marine adventure".

It means that, Marine insurance is a kind of agreement between insured and insurance company through which insurance company undertakes to pay for damages against marine losses. Under the marine insurance, insurance company gives insurance cover against marine losses. Marine insurance contract is very technical and complicated, that's why it must be technically complete one.

- **Nature and scope of Marine Insurance is as under.**

1. Ship Insurance –

Mariner invests lot of money in their ships, so it is very essential to have marine policy of their ships. Owners of the ships secure their ships from marine perils by taking marine policy of their ships.

2. Cargo Insurance –

Sea voyage is mostly preferred for the import and export trading system. The cargo may include Machinery, Raw Materials, Petrol, Food grains, Sugar, Cotton, Paper, Coal, Gas, Wood, Fruits etc. There is always risk of marine perils so it is better to have Cargo Insurance.

3. Freight Insurance –

Freight insurance is an insurance of charges payable for chartering or using vessel. These are the charges or payment received from the persons, whose goods are transported from one part to another part. But some time marine perils or accidents occur and vessel cannot reach at the place where transporter wants to transport his goods. Her ship owner or Vessel Company has to face big loss. That's why; fright insurance is unique solution for it.

4. Liability Insurance –

In sea voyage collision of one ship with another ship or running down the ship may cause great loss. Such loss has to be compensated by the responsible ship owner to the other ship owner. Liability Insurance helps the ship owner or Vessel Company to pay compensation of third party.

All above insurance are included in to the marine insurance.

2.2.2 Procedure of taking Marine Insurance Policy

Following procedure is applied for taking Marine Insurance policy.

1. Selection of the Company

The person or organization interested in getting marine insurance policy has to select insurance company because, it is first stage of taking Marine Insurance Policy. There are four General Insurance public sector companies in India and other private insurance companies are also there, so the person or organization interested in getting marine insurance must choose one of them.

2. Selection of Agent or Broker

The proposer of marine insurance policy may not have enough experience and information of technical things in the procedure of taking marine insurance policy, that's why he needs to select a agent or broker. Agents and brokers have enough and advance information regarding the Marine Insurance Policy. With the help of information given by the proposer, he tries to get Marine Insurance Policy. That's why, agent or broker are essential part of this procedure.

3. Marine Declaration from –

Policy agent makes a proposal of 'Declaration form' on behalf of the proposer of marine insurance. He does it with the help of information given by the proposer. This Declaration form itself considered as proposal form. Declaration form consists information such as name and address of insured, the number of cases, description of goods, name of the vessel, marks on the packing, vessel owners, name, the port of destination, way of the vessel, nature of risk, policy amount, where the claim if any is to be payable etc. Given information is always obey the principle of faithfulness.

4. Assessment of the Risk –

After receiving the proposal for marine insurance, the insurance company assesses the Declaration form and with the help of Survey Company, tries to guess the nature of risk. Such kind of work is done by experts. After the observation of risks, insurance company fixes the premium payable by the insured.

5. Payment of Premium –

The proposer pays the payment of premium decided by the Insurance Company. After the payment of such premium, Insurance company gives receipt of payment.

6. Issue of Cover Note –

It needs lot of time to prepare policy documents of acceptance of proposal that's why insurance company issues covernote after the payment of premium, as a written evidence of insurance. Covernote consists all the essential details regarding marine insurance. It is very necessary to preserve covernote carefully till the final policy is received.

7. Issue of Policy –

Insurance company prepares policy documents in given format with concern details and with the signature of concern officers. Prepared policy documents are sent to the insured by register post. Sometime insured get their policy documents after the voyage has completed. In such a conditions policy documents become a formality.

In this way one can take marine insurance by following above procedure.

2.2.3 Difference between Fire Insurance and Marine Insurance

Points	Fire Insurance	Marine Insurance
1. Definition	"Fire Insurance is the contract of insurance against loss by on incidentals to fire or other occurance customarily included among the risks insured against in fire policy".	"Marine insurance is a contract whereby the insurance undertakes to indemnify the assured, in manner and to the extent thereby agreed against marine losses, that is to say the losses incidental to Marine adventure".
2. Act	It follows the conditions mentioned under, The Fire Insurance Act 1938.	It follows the conditions mentioned under. The Marine Insurance Act 1963.
3. Risks And Premium	Comparatively perils and risks in fire insurance are less, that's why it has less premium compare to Marine Insurance.	Marine insurance has more risks and perils compare to fire insurance so, it has big amount of premium.
4. Insurable Interest	It is very necessary to have insurable interest in cargo both time, at the time of taking fire insurance and at the time of indemnity.	Marine Insurance doesn't expect insurable interest at the time of taking marine insurance but it is necessary to have insurable interest in cargo at the time of indemnity.
5. Indemnity	In case of fire insurance one con get indemnity as per the loss is concern.	In case of Marine insurance proposer can get indemnity and 10% to 15% extra amount as a profit of indemnity.
6. Nature	Fire Insurance strictly follows principle of Indemnity.	Comparatively, Marine Insurance doesn't strictly follow principle of Indemnity.
7. Assignment	The fire insurance policy is not freely assignable without permission of Insurance company.	The marine policy is freely assignable, it doesn't require any kind of permission from Insurance policy.

2.2.4 Clauses of Marine Insurance

Marine insurance is a contract between insured and insurance company. This contract is complicated in nature. All conditions in the contract and other special type of conditions are applicable for marine insurance. Such kind of conditions clearly mentioned in policy documents in the written form. Those conditions in the written contract are known as 'Clauses', with the help of those clauses insurance company gives indemnity. Some important Clauses in Marine Insurance are as below –

1. Name Clause –

Marine policy documents consist name of insured person, policy agent owners of cargo etc. Name of these people are clearly mentioned in marine policy.

2. Assignment Clause –

Under assignment clause one can easily transfer his marine policy to another person. The marine policy is freely assignable. In short, once person sales his subject matter to another person, he has to give its ownership with policy documents to another one. Insurance company gives them intimation regarding it. But in case of vessel policy, one has to take permission from insurance company.

3. Cargo Details Clause –

Under the cargo details clause, details of insured cargo is given. It consists of correct and objective information regarding vessel and cargo on the vessel.

4. Vessel Clause –

Marine policy consists name of vessel which carries the cargo. In case of cargo insurance there is no need to mention name of vessel, if it is mentioned then it is not allowed to change the name; for that we have to take permission form Insurance Company. If a vessel has problem during the voyage, then goods/ cargo can be carried by other vessel and in such kind of conditions cargo is insured by marine policy.

5. Deviation Clause –

As per this clause all the details of route of voyage are given and it is mandatory to lead the voyage on the mentioned way. If the vessel changes its route or coast, insurance company will not be responsible for any kind of damage. This clause is very important one in marine insurance. In critical conditions voyagers are allowed to change their route or coast, but without such condition, there must be specific clause in insurance policy to change their route. If the insurance policy doesn't consist of route, then it is important to lead voyage through the traditional way. In this sense as per deviation clause vessels are not allowed to change their route or coast mentioned in insurance policy.

6. Premium Clause –

In this clause premium decided by insurance company is mentioned. If the different marine risks have different premium, then under this clause divided and total premium is mentioned.

7. Specific Perils Clause –

Under this clause all the secured risks during the voyage mentioned voyage consists of marine perils such as pirates, fire, enemies, jettison, arrests, barratry, war perils, tsunami, vessel damage, accident among to ships etc. in marine insurance specific and common clauses are mentioned. The perils which are secured by insurer are known as, 'specific perils'. Any loss taken place due to specific perils covered by the policy, is to be met by insurance company.

8. Valuation Clause –

This is the clause of marine policy in which value of the goods insured is mentioned. Value of ship, value of cargo, value of goods with voyagers etc. is mentioned under this clause. Loss caused by the damage of cargo the mentioned amount of cargo can be paid by insurance company. Under this cause, if the valuation is not mentioned in the policy, then process of valuation can be done after the damage of cargo.

9. Average Clause –

During the voyage, there is possibility of losses to the ship, to the cargo the losses may be of total losses or average losses. Total and average losses are clearly mentioned in the average clause. Total losses, Total average losses, Normal average losses etc. clauses are mentioned under the average clause. 'Free from total average losses' clause secures all kind of losses in the voyage. In this way average clause plays vital role in marine insurance.

10. At and form Clause –

This clause is included in the marine policy to specify the time, form which risk of the insurance company commences. Technically, the responsibility of insurance company begins from the beginning of the voyage, but sometime there may be possibility of loss on coast. That's why, insurer adds clauses of "At and form" in insurance policy. Under this clause ship and cargo get insularity at coast, during the voyage, coast of export and process of unloading the goods.

11. Extra Perils Clause –

Except normal perils, if insured wants security of insurance form extra perils then they can insure it under this clause. Extra perils are mentioned in this clause. For e.g. war peril.

12. Warehouse to Warehouse Clause –

'The warehouse to warehouse clause' in marine policy is added with an intention to provide cover to the goods form the original warehouse to the warehouse of final destination. It insures the marine voyage and transport inside the country as well. Insured goods can get security during the voyage and even from the export coast to the import coast warehouse. This clause is rarely used in marine insurance.

13. Suez Canal Clause –

This clause consists of international marine transport. Canals such as suez, panama, Manchester. These canals are not deep so ship get crushed with the surface of earth and one has to face loss. Under this clause, it is clearly mentioned; that such kind of losses is not entertained. Lot of marine transport has been done in Suez canol that's why this clause is known as, 'Suez canel clause.'

14. Continuation Clause –

When the vessel is in transit and the period of the policy likely to be completed before completion of voyage, then it is very problematic to renew the policy, so under this clauses, one can extended the policy for the period of one month by sending a notice to insurer. For that insurance company takes premium of one month after reaching the port of destination. If insured unable to renew his insurance policy then automatically it ends.

15. Procedure and Expenditure Clause / Sea and Labour Clause –

Under this clause insured has right to get expenditure caused, while saving the insured vessel or cargo. He is expected to take all the reasonable measures to minimize the loss and pay expenses to reduce the loss. The expenses made by assured, or his servants to avert the losses are to be payable by insurance company as per this clause.

16. Waiver Clause –

Under this clause, if the insured fails to save his insured vessel or cargo form marine perils and has to abandon the ship. The notice of abandonment has to be served by insured to insurer, so as to make a claim for the loss. The insurance company will take charge of abandoned ship and pay full claim to the insured.

17. Tender Clause –

Under this clause, the insured is free to do expected expenditure on repairing of vessel if necessary in any port during its voyage and claim expenses made for the said purpose. If repairing work is required and it is not done, the insurer is authorized to deduct 15% amount from the claim as per this clause.

18. Free of Capture and Seizure Clause –

During the war and in warlike condition, if vessel or cargo would be caught or charged by other country, in such condition insurance company will not responsible for the claim. Insurance company clearly mentions this clause in marine policy.

19. Attestation Clause –

This is the last clause of the policy. Under this clause, the responsible and authorized officer of insurance company signs the policy.

20. Memorandum Clause –

In this clause all conditions regarding the foot notes are given after attestation clause. The main object of this clause is to save the insurance company form small claims arising due to the perishable nature of goods.

2.2.5 Marine Perils

According to Marine Insurance Low, marine perils should be accidental, sudden or goddly in nature, otherwise expected situations can't be marine perils, following situations are known as marine perils.

1. Perils of the sea-

There is lot risk in sea voyage. The risks which are caused by sea are known as perils in the sea. For example storm in the sea, accident among two vessels, bad weather, crashing to stone, big waves of sea etc. are sudden and accidental types of perils in the sea.

2. Fire –

Fire in vessel and damage caused to cargo by fire is known as marine peril. If the cause of fire is irresponsibility and mistake of workers, then it will not be included into marine perils.

3. War Perils –

Risk caused by the attack of opposite country concerns with war perils, such kind of perils get security form marine insurance.

4. Attack of Pirates or Rovers –

Sometime pirates attack and steal the cargo and owner has to face loss. But it is known as marine peril so such kind of perils can be insured by marine insurance.

5. Robbery in the Sea –

A planned and violent robbery on the vessel considered into marine perils but if the robber is passenger or worker on the vessel then it will not be considered as marine peril.

6. Taking at Sea / Charged vessel or Cargo –

Sometime other countries charge on the vessels and cargos and seal it for some reasons. Such kind of conditions and situations are included into marine perils.

7. Jettison / Throwing cargo in the Sea –

In accidental situation for sake of safety of cargo and people, they throws cargo into the sea, which can lighten the weight on the vessel. It is known as a kind of marine perils.

8. Barratry -

Barratry means purposefully done wrong deeds sometimes captain, workers or other people in ship try to damage vessel and cargo purposefully for e.g. setting fire in vessel, throwing cargo in water, sinking the vessel etc. deeds known as marine perils, but if the loss caused by irresponsibility and ignorance is not considered in marine perils.

In this way, loss caused accidentally or uncertain reason is secured by the marine insurance.

2.2.6 Marine Losses

During voyage there are number of perils in the sea and therefore marine losses have taken place. Marine Losses may be divided into two broad categories.

1) Total Loss

When the Subject matter of the insured material is completely destroyed or lost is known as total loss. It can be actual total loss or constructive loss.

A) Actual total loss : When the subject matter is completely destroyed or damaged, that it ceases to be a thing of the kind insured or when insured is deprived of the possession of the subject matter, which can not be recovered, such loss is called the actual total loss.

B) Constructive total loss : A constructive total loss occurs, when the ship or cargo is abandoned for certain reasons because its actual total loss seems unavoidable or when its subject matter can not be preserved from its total loss with incurring expenditure which would be more than its actual value.

2) Partial loss

When the subject matter of the kind insured is partially destroyed or damaged or lost, it will be case of partial loss. Partial loss is of two types.

A) Particular Average loss : It is defined as "a partial loss of the subject matter insured, caused by a peril insured against and which is not general average loss". If some tins of oil are shipped and few of the tins are destroyed by a sea water in the course of vayage, this loss will be known as particular average loss.

B) General Average loss : 'A General Average loss is one, which is caused by an extra ordinary sacrifice or expenditure voluntarily and reasonably made or incurred under special circumstances for the only purpose of preserving the common Interest from impending peril.' It is an extraordinary loss, damage or expenditure voluntarily incurred for the purpose of preserving all or any of the Interest of the ship, cargo etc.

2.2.7 Types of Marine Policies

Insurance Company plans different types of marine insurance to secure vessel and cargo from different types of marine perils. Each marine policy have different clause. Here are some prominent types of Marine Insurance.

1) **Time Policy :** When policy is taken for a definite period of time, it is called time policy. In this period, insured vessel can voyage anywhere and loss caused by marine perils will be refunded by Insurance company.

2) **Voyage Policy** : When the policy is issued for a particular voyage from one port to another port or one place to another place is called voyage policy. In this type policy 'At and from clause' is applicable. Voyage policy is particularly of cargo and the security of policy ends with the end of voyage.

3) **Mixed Policy :** The mixed policy cover both time factor and voyage factor, hence it is called mixed policy. For e.g. time policy for vessel & voyage policy for cargo this combination of these two policies for particular period. (e.g. 1 year to 2 years) will know as mixed policy. If transport of cargo frequently happens on particular way, then it is best to have mixed policy.

4) **Valued Policy :** Valued policy is a kind of policy in which the value of the subject matter is agreed. The loss to be compensated, if occurred, is also fixed. This policy is given for those goods, whose valuation is agreed between insurer and insured and such value is mentioned in the policy.

5) **Unvalued Policy :** The policy in which the value of subject matter is not fixed and which will be fixed later on, when actual loss takes place, is known as unvalued or open policy. In this type of policy, it becomes very complicated to do valuation of subject matter after loss taken place and it is always inconvenient for insured.

6) **Floating Policy :** The floating policies are taken by the persons and organizations doing import and export of goods regularly to different ports. It is difficult for them to take a marine policy every time, mentioning the name of the ship, value of cargo and voyage. In this condition it is better to have floating/open

policy. The details of name of ship or ships, voyage and details of consignment etc. are notified later on by making declaration for the same.

7) Vessel/Hull Policy : One has to pay big amount to buy a vessel and there is always risk of loss from marine perils. Policy through which single vessel is insured during voyage is known as vessel policy. Generally vessel is insured with time policy and valued policy.

8) Fleet Policy : Fleet policy is a single policy under which fleet of ships (number of ships) are insured. This kind of policy saves the time and energy to take a policy for each ship. Even fleet policy have less premium compare to single vessel policy. Fleet policy includes all old and new ships. The owner of the fleet has to make declaration about the value of fleet and whenever new vessels are added, full description of such new vessels is required to be given.

9) Vessel Rent Policy : In marine transport vessel rent is always taken from the importer, but sometime importer refuses to give rent, because of less or damaged cargo or any other reason. In such conditions vessel company has to face loss. The policy under which Vessel Company can secure their loss from the vessel rent risk is known as vessel rent policy.

10) Ship Construction Policy : Ship Construction is a very costly and long process which takes lot of time & risk. The policy which secures the loss caused during the ship construction is known as ship construction policy. Such kind of policy is more helpful for the ship constructor.

11) Policy Proof of Interest : The policy proof of Interest is a policy which is issued in absence of insurable interest. The policy itself is taken as a proof of insurable interest and words marked on the policy like “Policy is taken as proof of Interest”. Without insurable interest, it is not possible to take insurance. But on the other hand it is not always possible to show insurable interest clearly. Whenever it is difficult to give proof of interest, company gives policy proof of interest.

12) Blanket Policy : The policy which covers all types of losses caused by marine perils are known as, ‘Blanket policy’. This type of policy have big amount of premium compare to other policies. This policy covers all the types of losses during the policy period and within particular time and geographical area.

2.3 Summary

Marine insurance is the oldest form of insurance business which accelerates the international transport. All the conditions mentioned in "Marine Insurance Act 1963" are applicable for Marine Insurance business. Marine Insurance follows the principle of indemnity, principle of insurable interest, principle of Utmost good faith, principle of subrogation, principle of ownership etc. Marine Insurance has particular procedure of taking it. The marine transport consists of different marine perils such as fire, risks in sea, war, pirates or rovers, jettison, taking at sea, arrests and detainment, barratry etc. Marine Insurance means effecting contract of insurance which covers the damages due to marine losses. This is contract between insured and insurance company. To insure the loss from marine perils and as per the need of insured there are different types of marine policies, such as Time Policy, Voyage Policy, Mixed Policy, Vessel Policy, Fleet Policy, Blanket Policy etc. Each policy has its own characteristics and clauses; with the help of those clauses claimed amount is decided.

2.4 Key Words :

- **Marine Insurance :** "Marine Insurance is a contract whereby the insurer undertakes to indemnify the assured, in manner and to the extent thereby agreed against marine losses, that is to say the losses incidental to marine adventure, by Marine Insurance Act."

- **Clauses of Marine Policies :** Marine insurance consists of some conditions, which are clearly mentioned in written form. Those written conditions in marine insurance contract known as 'Clauses of Marine Policies.'

- **Marine Perils :** Marine perils happen suddenly or accidently or godly in nature, e.g., fire, war, pirates, robbery, jettison etc. risks are faced while sea voyage.

- **Jettison :** It is a type of marine perils. In critical condition to save the vessel and to reduce the weight in the vessel, all the cargo and tools are thrown into the sea. Insurance Company secures the loss caused by jettison.

2.5 Check your progress

A) Fill in the blanks

1. ………… is the oldest form of insurance business.
2. Marine Insurance Act has been passed in …………….

3. The Marine Insurance Contract is a Contract of …………..

4. …………….. Form is prepared by Agent and handed over to the Insurance Company.

5. …………. has a special value as it works as a evidence of insurance.

6. Conditions in the written contract in policy are known as …………..

7. ………….. clause is the last clause of the Marine Policy.

8. …………. should be accidental, sudden or godly in nature.

9. ………….clause is specify the time from which risk of insurance company commences.

10. The marine policy is freely …………..

B) Say whether the following statements are true or false.

1. Fire Insurance is the oldest form of Insurance business.

2. Procedure of taking Marine Policy is very technical and complicated.

3. The insured is expected to have insurable interest in the subject matter.

4. The covernote has not to be preserved carefully till the final policy is receivable.

5. Valuation clause is the clause of Marine Policy in which value of the goods insured is mentioned.

6. When policy is taken for a definite period of time, it is called Voyage Policy.

7. Jettison is a type of Marine Perils.

8. Expected situation is called as Marine Perils.

9. Blanket Policy covers only four types of losses.

10. Memorandum clause included in foot notes given after attestation clause.

2.5 Answers to check your progress

A) 1 – Marine Insurance, 2 – 1963, 3 – Indemnity 4 – Declaration

5 – Cover note, 6 – Clauses, 7 – Attestation clause, 8 – Peril,

9 – At and form, 10 – Assignable.

B) 1 – False, 2 - True, 3 – True, 4 – False, 5 – True,

6 – False, 7 – True, 8 – False, 9 – False, 10 - True

2.6 Exercises

A) Answer the following questions in brief.

1) What is Marine Insurance?
2) State the nature of Marine Insurance.
3) What is a marine peril?
4) State types of marine losses.
5) What is Floating Marine Policy?

B) Answer the following questions in details.

1) Explain procedure of taking Marine Policy.
2) Explain different clauses of Marine Insurance.
3) Explain different types of marine policies.
4) What is Marine Insurance? State its nature.
5) What is a marine peril? State different marine perils.
6) What is a marine losses? State different types of marine losses.
7) State difference between Fire Insurance and Marine Insurance.

C) Write Short Notes.

1) Nature of Marine Insurance.
2) Procedure of taking Marine Policy.
3) Assignment clause.
4) At and from clause.
5) Warehouse to warehouse clause.
6) Mixed Policy.
7) Policy Proof of Interest.

8) Floating Policy.

9) Fleet Policy.

10) Difference between Fire Insurance and Marine Insurance.

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Unit-3

Accident Insurance

INDEX

3.0 Objectives

The study of this unit will help students to understand -

- The meaning of Accident Insurance.
- The different kinds of Accident Insurance.
- The meaning and coverage of Motor or Automobile Insurance.
- The features of Personal Accident and Sickness Insurance.
- Fidelity Guarantee Insurance.
- The meaning and coverage of Cattle Insurance.
- The importance of Crop Insurance.
- The Medical Reimbursement Insurance Policy/Health Insurance and its features.

3.1 Introduction

The business of insurance was begun with 'Accident Insurance'. Accident Insurance is a separate Insurance type which found its development and wide spread after industrial revolution and more particularly after the Second World War The rise and development of this kind of Insurance effected with the prime purpose of extending coverage from losses of all kinds of damages or perils. The Accident Insurance today is inforce after many changes from time to time as needed after 1882 Fatal Accident Act, Workmen's Compensation Act, 1923 and Motor-Vehicle Act, 1939. This kind of Insurance has become extremely necessary in the modern life of severe competition, full of hectic' industrial and social ethos.

The Accident Insurance witnessed many changes, particularly after 20th century due to immense increase in the dangers and losses in human life and that of to property. The coverage of this insurance has been extending in the direction of Personal Accident Insurance, Property Insurance, Liability Insurance etc.

The Accident Insurance is very much essential for economic and business development. To increase the speed of all business activities, accident insurance is required. Today’s life is very fast and complicated where accidental insurance support is required. At present more than 22 companies have been working in the general insurance sector.

3.2 Subject Matter

3.2.1 Various Kinds of Accident Insurance

3.2.1.1 Motor Vehicle or Automobile Insurance

This is one of the important kinds of Accident Insurance. Under this insurance, all the automobiles are insured. However, it does not cover the accidents caused to railways and aeroplanes.

This Insurance covers private motor cars, trucks, trollies, auto-rickshaws and such commercial automobiles, mopeds, scooters, motor-cycles and such two-wheelers, vehicles for professionals, vehicles showcased, those received for repairs at the garages, cranes, bull-dozers, road-rollers, tankers and fire-brigade and such heavy vehicles. For all these vehicles, by Motor Vehicles Act 1939 and the Motor Vehicles Amendment Act 1988, the owner has to take out a Third Party Liability Insurance. This insurance promises to indemnify the losses incidental to accident.

The motor vehicle insurance secures from three major perils namely peril to vehicle, danger to third party and danger to property. It indicates that in motor vehicle insurance complete financial coverage has considered. To protect the motor accident related financial losses, motor vehicle insurance has taken. This insurance secures following perils.

1) Peril to vehicle

The insured vehicle is proned to meet various perils, for instance, accident to the vehicle, fire, burning out of the engine, losses caused due to thunder-bolt, plundering and breakage, breakdown of the machine. All this effects either accident or causes damages, which are compensated by the insurance company. It includes all vehicle related losses which will be compensated by the insurance company.

2) Third part compensation

While using the vehicle or handling it, if the third party gets injured or dies, under the insurance coverage, the company extends economic security. In reality, the losses caused to a third party are to be compensated by the owner of the vehicle. But if the third party is insured, the responsibility of indemnity falls on the insurance company and it is observed by the company. Vehicles are on road, while traveling there is a possibility of third party damage, where insurance company will pay to the sufferer.

3) Danger to Property

The vehicle can cause dangers to the property of a third party. If the vehicle goes out of control of the driver, the houses, shops and such property on sides of the street get damaged. As well as when one vehicle collides with the other, it causes damage and losses. All this is to be compensated by the owner of the vehicle. However, if the vehicle is insured, the insurance company does it.

The Motor Vehicle Insurance covers all the risks incidental to the vehicle. It is done under the comprehensive policy. This comprehensive insurance policy undertakes to compensate the losses due to damage of all kinds, such as, by fire, explosion, theft, striking of lightning, third party's damage due to motor accident injury or loss of life to third party, expenditure incurred on court-cases etc. The motor vehicle insurance has covered perils to vehicle, third party compensation and property losses due to vehicle.

However, under the following circumstances, this policy does not indemnify

1) If the vehicle is driven by a person other than a driver violating the clause of 'Limitations to use the vehicle'.
2) If the vehicle is driven by the driver outside the contract list and he happens to meet an accident.
3) If the damages or losses take place due to the natural calamities.
4) The damages caused when the vehicle is run by the driver under intoxication of drugs or liquor.
5) If the losses are caused due to accident outside the agreed geographical area.
6) If the vehicle is used for any other purpose not agreed upon in the policy and damage is caused.
7) If the vehicle gets damaged out of or in connection with war,riots,strikes etc.
8) If the damages relate to depreciation, attrition, breake-down etc.

Motor Vehicle Insurance has made it obligatory for the owner of every vehicle to take out the Third Party Insurance. By this the third party remains liable to get the compensation of the damages or losses caused by the vehicle and to his property.

According to the Motor Vehicles Act, the absolute responsibility of an accident falls on the driver or the owner of the vehicle, hence, to take out a Motor-Vehicle insurance is absolutely vital or the whole financial risk will have to be born by the driver. Therefore, this insurance has become very popular.

3.2.1.2 Personal Accident and Sickness Insurance Policy

Fast industrial development, urbanization and fierce competitions have made human life today extremely fast and dangerous. Under such conditions, due to the human mistakes and mechanical errors, human life and property have been greatly endagered. If, unfortunately, an earning hand, the head of the family meets an accident and dies, the great economical and family problems may arise. To extend help in such conditions personal accident insurance was begun. By this insurance, the insured is liable to get compensation for losses by accidental injuries, sickness, disability and death to the extent agreed upon in the policy document. This, is not a contract of indemnity, but a contingent contract. Because, in any condition it is not possible to measure the value of a man's life or health in monetary terms. Hence the amount decided at the time of contract is compensated along with the medical expenditure incurred on. Under this policy, the following types of risk are covered.

1) Death in accident
2) Death due to the effects of accident
3) Disability
    a) Permanant absolute disability
    b) Permanent partial disability
    c) Temporary absolute disability
    d) Temporary partial disability
    e) Insurance against sickness caused by accident and effects of accident
    f) Accident and All Sickness Insurance (This type of insurance is not very common in India)
    g) Accident and Collective Insurance Policy

h) Insurance against medical treatment and admission to the hospital

i) Insurance for domestic medical expenditure

j) Insurance for medical expenditure incurred in hospital stay

k) Insurance for medical expenditure on delivery.

l) Other kinds of Accident insurance

m) Permanent Sickness Insurance

n) Specific Sickness Insurance

o) Air-Freight Accident Insurance

In this personal accident and sickless Insurance only accident policy, Accident and specificied Oiseases policy, Accident and sickness Insurance policy, Group insurance policy, medical benefits and Hospitalization schemes policy, permanent sickness policy, Air travel accident policy etc. policies have offered.

3.2.1.3 Burglary Insurance

Burglary Insurance is considered as one of the important kinds of insurance. This policy covers loss due to burglary and theft, loot (plundering), dacocity, shoplifting etc. Under Indian Penal Code this is a criminal offence and by the contract in this policy, after the police investigation, the amount agreed upon is paid as compensation. As such after the payment of compensation, if the burgled goods or property is recovered, the ownership and the rights on them automatically *go* to the insurance company. Burglary Insurance covers the following risks.

1) Burglary at the places, such as, trade, canteen, warehouses, offices, exhibition halls, offices, commercial complex etc.

2) Losses due to theft, plundering and dacocity at private habitated houses.

3) Theft or plundering caused while carrying cash from one place to another.

4) Theft of important documents, such as agreements, bills of exchange, promissory notes, manuscripts etc. from the house, office etc.

5) Theft of luggage i.e. camera, expensive goods, watches etc.

Under the Burglary Insurance, company issues the following various types of policies:

a) Private House Burglary Insurance

b) Trading House Burglary Insurance

c) Expensive Goods and Jewellery Theft Insurance

d) Insurance against theft of money while carrying it

e) Plundering of cash from Treasury Insurance

f) Luggage Insurance

g) All Risks Comprehensive Insurance (inclusive of theft, burglary, fire and accident)

This insurance policy protects the losses caused due to burglary. It is an accident policy. This insurance covers all type of burglary, theft etc. Burglary is the criminal offence, so, insurance company has started this policy.

3.2.1.4 Employer's Liability Insurance

The owner of the industrial unit is liable to provide security to his employees. Unfortunately if an employee sustains some injury or disease due to industrial accident, the owner has to pay compensation to the affected. But the owners or the employers, for this reason can take out the 'Liability Insurance'. This Employers Liability Insurance covers the risks arising out of accidents due to machinery, implements, process of work, the work place etc, which causes physical disability, diseases due to accident, death etc. In such conditions, the employee and his family suffer monetary losses, which are compensated by the insurance company. For this purpose the employer takes out insurance on his employees. Under the enactment of Factories Act, the Workmen's Compensation Act covered the employer is liable to compensate an employee or his dependents. This can be through Employers Liability Insurance. At the time of insuring, the medical expenditure and amount for losses are agreed upon in the policy. The premium of insurance and the amount to be compensated is ascertained according to the salary drawn by the employee. This Liability Insurance covers the following risks:

a) Accidental death

b) Physical disability-partial /absolute .

c) Occupational disease

d) Adverse effects of fibers and dust particles

The diseases associated with lungs, the trachea, throat, eyes, skin, stomach and such limbs.

Under the following conditions, Employers Liability Insurance does not remain liable to pay compensation to the employee:

1) When an injury is caused under the influence of liquor or drug
2) When an employee gets injured by the willful disobedience
3) If the employee disregards the safety measures or removes such devices and injury is caused
4) If the employee is sued, penalized or punished in a civil court
5) If the damaged work place is hired on rent or possessed on lease.

In this insurance employee liability categories have decided. The insurance premium has decided as per the employee's salary or wages. This insurance has operated under Death Accident Act 1855, Employees Compensation Act 1923, Employees State Insurance Act 1948 etc. for determination of compensation.

3.2.1.5 Fidelity Guarantee Insurance

Fidelity means 'Loyalty' or 'Faithfulness'. Therefore Fidelity Guarantee Insurance is a type of insurance which protects the employer against losses due to dishonesty of his employees. Various business transactions, i.e. buying, selling, storing, transportation of goods, give and take of money, financial transactions in banks, stamps etc require very honest employees. If in such dealings an employee cheats or defaults, his dishonest behavior may cause damage to the employer. Hence the employer or a businessman takes out Fidelity Guarantee Insurance Policy to secure himself from such risks. The premium is paid by the employer.

In short, this insurance covers the risk arising out of dishonesty on the part of the employee. This insurance covers the risks, such as, misappropriation, fraud, forgery, deception, dishonesty, willful or deliberate failing in duty, theft etc.

The following types of insurance fall under Fidelity Guarantee Insurance

1) Personal Insurance : A Specific Employee's personal type of insurance
2) Collective Insurance : All or some selected employee's Collective Insurance

3) Position Insurance : Liability Guarantee Insurance on specific position of an employee in institute

4) Comprehensive Insurance : All Employee's Liability Guarantee Insurance.

5) Open Insurance : It is a floating policy, a collective insurance covering the total amount, instead of individual limits of guarantee.

6) Business Guarantee Insurance : This covers the risk from the property, goods handled by the employees or it is a monetary guarantee insurance.

The compensation under Employers' Liability Insurance, as agreed upon in the policy is paid to the employer three months after the expiry of the policy (in exceptional cases, the company can extend the period upto twelve months)or before six months after the employee retires or terminated or resignes (whichever falls earlier) and the losses caused are discovered. This insurance covers employee’s loyalty, where direct pecuniary loss can be covered. It also covers dishonesty of course of duties, foregery, embezzlement, larceny, fraud, default and misappropriation etc.

3.2.1.6 Cattle Insurance

India having been agriculture oriented country, Cattle Insurance is a very vital kind of insurance. This is known as 'Cattle Wealth Insurance' also. As supplimentary occupation to agriculture, farmers in India rear cows, buffalows, bulls, goats, sheep, hens, ducks, horses etc. These cattle can be insured, for which a certificate from veterinary doctor is necessary.

The real India lives in villages and the 'Cattle' happens to be the real wealth for the villagers. This Cattle Insurance can be taken out by any person who rears cattle. This insurance policy covers the risks of death of cattle in accident, inability of reproduction, inability in yielding milk, death of cattle by epidenic, death while delivering off springs etc.

In the event of cattle death, the insured has to inform the company within twelve hours from death. The insured should have properly taken care of the cattle by preventing medicinal treatment. He has to produce the certificate of death of his cattle from either the Veterinary Officer or Sarpanch or the President of VIKAS Society or the Secretary of milk collection centre, or Inspector of Central Co-Operative Bank or Supervisor of Integral Rural Development Scheme, autopsy report of a veterinary officer, proof of medicinal treatment, proof of vaccination. After submission of all these proofs, the Insurance Company pays either the amount of animal loss or as is mentioned in the policy document, which ever is less, as compensation. The period for this insurance is of one year and the assured cattle are given an identity mark.

For the following reasons the compensation is paid :

1) When the cattle stops yielding milk permanently and absolutely.
2) When the cattle losses reproductive ability permanently.
3) When bulls, buffaloes, camels sustain the permanent disability.

Under the following exceptional conditions, the cattle are not covered :

1) The loss caused by deliberately effected injury
2) Deliberately performed slaughter
3) Cattle theft
4) Immediate partial inability
5) Losses caused to cattle due to war, riot, attack etc.
6) Losses to cattle due to infection of disease before taking out insurance.
7) Damage caused to cattle when driven for more than 50 kms or carried in a truck for more than 25 kms transit.

Cattle insurance is very much useful to the farmers. Farmers can take insurance policy of milking animals, bulls, buffaloes, hens, ducks etc. Under this insurance intentionally injured animal, wrong medicines, animal burglary etc. losses have not covered.

3.2.1.7 Crop Insurance

The Central Government of India has begun Crop Insurance programme through the General Insurance Corporation since 1985. It also has set-up Crop Insurance Fund in collaboration with the state government and the risk has been distributed at 2:1 ratio between them. This insurance is applicable to 'Kharip' and 'Rabbi' crops. The regional area is taken into consideration, such as, taluka panchayat, village, circle areas, under this insurance. According to the nature of the area, the premium is fixed. As well as for the payment of the compensation, the average crop yield for the last ten years is considered.

This crop insurance scheme is implemented through the banks and institutions who provides crop loan to the farmers. They are the State Co-operative banks, district central co-operative banks, Regional Rural banks, Development Co-operative banks, Co-operative banks, Co-operative credit societies, commercial banks etc. These institutes collect the premium amount from the farmers and send to the crop insurance fund. The amount of premium of this insurance is nominal. It is one percent for oil seeds and legume and two percent for food-grains. Fifty percent concession is allowed to small land-owners. The central crop fund scrutinizes the applications for compensation and sanctions them.

In India, the crop insurance policy has been implemented in the states of Kerala, Karnataka, Maharashtra, Orisa, West Bengal, Andhra Pradesh, Gujarat, Hariyana and Himachal Pradesh.

The Crop Insurance covers the following types of risks :

1) Famine : The losses caused by famine.

2) Excessive Rain : The losses caused due to excessive heavy rains.

3) Natural Calamity : The losses caused due to flood, storm and such natural calamnities.

4) When the yielding falls bellow the specific percentage of the infertile insured crop

5) Infection by pests and disease : The losses caused by infections of pests and diseases.

If the losses in yielding of the crops like wheat, rice, jawar, oil-seeds, pulses, soyabeen etc. fall below the percentage guaranteed in the policy, The General Insurance Corporation decides the amount of compensation and it is paid from the Crop Insurance Fund to the concern farmer.

3.2.1.8 Medical Reimbursment Policy/Health Insurance

Medical Reimbursement Insurance policy is a new kind of insurance in the area of Accident Insurance. Under this policy, the expenditure incurred on medical treatment due to sickness or accident either during the stay in the hospital and or the medical services obtained at houses are compensated by the insurance company. Under this policy, the insurance for specific amount for specific period can be taken out. This compensation is paid either to the insured or the doctor that provides medical services. The compensation paid is either the actual expended amount or the maximum amount agreed upon in the policy.

The compensation under this policy includes the room charges in the hospital, nursing charges, consultation fees, surgery fees, anasthetia fees, blood charges, oxigen, x-ray, special diagnosis fees, kemothetapy, radio-therapy, artifical limbs costs etc. As well as the expenditure incurred on asthama, blood pressure, cough, cold, psychic ailments, blood sugar, tounsils and such illnesses are also compensated.

The following expenditures are not compensated :

1) The expenditure incurred on illness before taking out the policy.
2) The expenditure on sickness within 30 days after taking out the policy.
3) The expenditure incurred on sickness during the war time, emergent foreign attack etc.
4) The expenditure incurred on unnecessary treatment, such as cosmetic surgery, plastic surgery etc.
5) The expenditure on spectacles, contact lenses, hearing aids etc.
6) The expenditure under common conditions on vitamines, tonics etc.
7) The expenditure incurred on natural treatment
8) The expenditure incurred on healing injuries and sickness caused by nuclear weapons etc.
9) Expenditure incurred during pregnancy, at abortion, delivery etc.
10) Expenditure on curing disease like AIDS etc.

Under this insurance policy, a person between 5-80 years of age can avail of the facility. If the insurance is taken out collectively for husband and wife, dependants and relatives, the insurance company requires to be informed within seven days about the sickness and within 30 days with all the documents for final intimation.

After submission of all the required documents, the company compensate in Indian currency. The compensation is paid for the treatment undergone only in India; it includes accumulated bonus and medical consultation fees.

Under this policy, the insurance company can render the policy void by paying a 30 days notice and returns the premium amount in accordance with the remaining period.

Check your progress

A) Fill in the blanks

1) The business of insurance was begun with '..................' insurance.
2) The Motor Vehicle Insurance covers all the risks incidental to the ....
3) .... Insurance covers losses due to theft, plundering & dacocity.
4) .... insurance is a type of insurance which protects.
5) The expenditure on Sickness with in .... days after taking out the policy is not compensated.

B) State true or false

1) According to Motor Vehicle Act, the absolute responsibility of an accident falls on the driver or the owner of the vehicle.
2) When an injury is caused under the influence of liquor or drug does not remain liable to pay compensation under Liability insurance.
3) Veterinary doctors certificate is essential for crop insurance.
4) The losses caused by famine is covered under cattle insurance.

3.3 Summary

The Accident Insurance includes all kinds of insurance except the Fire Insurance and Marine Insurance. With the industrial development, the number of accidents also has increased immensely. Therefore, in order to protect people from the losses and damages from accidents, the Accident Insurance has found its wide growth. The Insurance Company covers various kinds of insurance for various risks. Individual accident, sickness, motor vehicle accident, burglary, fidelity guarantee, liability, crop, cattle insurance etc are the kinds. This kind of insurance infact, has given a real impetus to the industrial and economic development in our country.

The Accident Insurance is the protection system for different sectors and different industries. Motor, Personal Accident, Sickness, Burglary, Liability, Fidelity, Cattel, Crop and Health insurance etc. insurance facilities have been providing by the insurance companies. These insurance policies are helping for sustainable economic development of the nation. These policies have been boosting the industrial and agricultural sector.

3.4 Key words

- **Accident:** Injury or breakage caused unexpectedly to a person or property
- **Burglary :** When a theft is effected by way of entering a house forcibly and violently is called burglary.
- **Risk :** The responsibility of a person related to some person or institute in respect to safeguard the interest of the concerned
- **Fidelity:** It is associated with the faith in an employee, the faithfulness of an employee, his honesty, his truthfulness, good character and morality.
- **Cattle Wealth :** Cows, buffaloes, bullucks, off-springs, hens and cocks, goats and sheep, camels and horses, pigs etc tame animals useful to a farmer.
- **Crop :** Food-grains, pulses, oil-seeds, sugarcane, potato etc.
- **Hospital :** The house that admits the patients suffering from sicknesses and injuries and treats them, which is registered and has expert doctors and nurses for rendering medical services. It is known as 'Nursing Home' also.

3.5 Answer to check your progress

A) Fill in the blanks

1) Accident 2) Vehicle 3) Burglary 4) fidelity guarantee 5) 30

B) 1) True 2) Truee 3) false 4) false

3.6 Exercises

1) Explain the meaning of Motor insurance and discuss its various kinds.

2) Discuss what is Personal Accident and Sickness Insurance and the risks covered under it.

3) Explain, in detail, the 'Burglary Insurance'

4) Write short notes

   a) Crop Insurance

   b) Liability Insurance

   c) Fidelity Guarantee Insurance

   d) Cattle Insurance

   e) Medical Reimbursement Insurance

3.7 Books for Further Reading

1) G. S. Panda, (1995), "Principles and Practice of Insurance", Kalyani Publishers,' Ludhiana.

2) Dr. P. Periasamy, (2003), "Principles and Practice of Insurance", Himalaya Publishing House,' Mumbai.

3) Dr. C. J. Joshi, (2003), “Insurance", Phadke Prakashan, Kolhapur.

4) Dr. V. S. Patil and Dr. N. V. Shah, (2003), "Insurance", Smart Publication, Kolhapur.

5) Dr. G. Kollreshwar, "Risk Management-Insurance and Derivatives", Himalaya Publishing House, Mumbai.

6) M. Arif Khan, “Theory and Practice of Insurance".

7) Motor Insurance.lnsurance Institutes of India."

8) Radhaswamy and Vasudevan, "Insurance - Principles and Practice".

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Unit-4

General Insurance Business in India

Index

4.0 Objectives of the unit

After studying this unit, students should be able to understand -

1. Growth of general Insurance business after privatization
2. Evaluate performance of public and private companies.
3. Foreign Direct Investment in insurance business- merits, Demirts.
4. Concept of Bank assurance

4.1 Introduction

The General Insurance Corporation of India was formed on 22nd Nov. 1972 under the General Insurance Business (Nationalization) Act, 1972 and by virtue of the same Act, 55 Indian general insurance companies became subsidiaries of the General Insurance Corporation of India and the undertaking of other erstwhile insurance were merged in undertakings of one or other four selected ultimate companies which were to operate in the nationalized set-up, viz, National Insurance Co- ltd., New India Assurance Co. Ltd., Oriental Fire and General Insurance Co. Ltd., and United India Fire and General Insurance Co. Ltd.

4.2 Subject Matter

4.2.1 Growth of general insurance business after privatizatiom

Introduction

Privatization is expressed as the supporting pillar on which is the edifice of new economic policy of our Government has been erected and implemented since 1991.

Meaning

Privatization implies the introduction of private ownership in publicly owned enterprises, but in a border sense, it connotes besides private ownership (or even without change of ownership), the induction of private management and control in the public sector enterprises. Barbara Lee and John Nellis define concept in this manner: “Privatization is the general process of involving the private sector in the ownership or operation of the state owned enterprises. Thus, the term refers to private purchase of all or part of the company. It covers ‘contracting out’ and the privatization of management through management contracts, leases or franchise arrangements.

Background of Privatization

Privatization, which has gathered momentum since around the 1980, has become the hallmark of the new wave of economic reforms sweeping across the world. More than 8,500 state owned enterprises have been privatized in over 80 countries during 1980-92.

Privatization means transfer of ownership and/or management of an enterprise from the public sector to the private sector. It also means the withdrawal of the state from an industry or sector, partially or fully. Privatization marks a change from dogmatism to pragmatism and amounts to a reversal of policy.

The trend towards privatization has been observed in developed and developing economics; in market oriented and socialist, including communist countries; and cuts across socio cultural systems.

The fundamental reason for the reversal of policy from nationalization to privatization is the growing disappointment with the functioning of the public sector undertaking and state owned enterprises. In 1960, there was a trend towards nationalization in Britain. But in 1970, this trend has been reversed and privatization gathered ground by selling state owned enterprises. Besides UK; countries which announced the policy of privatization included Argentina, Bangladesh, Brazil, Germany, France, Italy, Japan, Mexico, Nigeria, Spain, Turkey etc. A number of other countries including India have deregulated or liberalized the industrial sector in varying degrees. In late 1970, China also started privatization and spread to other communist countries like former USSR, East European countries and Cuba.

Ways of Privatization

There are several ways of achieving privatization and each country adopted its own method. In Britain, the staff of the privatized company had the priority in buying shares and was entitled to a discount. For instance, 96 percent of British telecom employees took a share in their company in defiance of the trade union opposition. Although some of them later sold them at a higher rate, they derived certain benefits financially through privatization of ownership, through the sale of equity. IN countries where there are well functioning capital markets, this entails selling stock to the public. In industrial countries, privatization had taken place mainly through divestiture of government economic activities. Bangladesh, Pakistan, Brazil, Peru and Sudan are some of the examples of this method. According to Elliot

Berg, divestiture has become so common in the Western Europe that “hardly a week or month goes by without some new evidence of sale of state enterprise by such Western European countries as France, Italy, Sweden, the Federal Republic of Germany and, of course, the champion industrial company privatiser, Britain.”

There is another way of privatization. It takes the form of denationalization or re-privatization. Several large enterprises were denationalized in Pakistan, Bangladesh and Chile. Franchising is also one of the methods of privatization. It this, certain services are designated in certain geographical areas which will be delivered by private companies. This is common in utility services and transport. Contracting is also common in public works. Where suppliers compete for contract and there is no less economics of scale, contracting is efficient. But there is scope for corruption in contracting. Long term contracts tend to encourage monopolistic tendencies in private companies.

Privatization may also take the form of privatization of management, using leases and management contracts. A public enterprise while retaining ownership may lease out to a private bidder for a specific period for use.

Contribution of Private Sector

Private sector has played a great role in the Indian economy, It may include:

(a) Promotion of economic growth

(b) Contribution to national exchequer

(c) Working to solve the problem of unemployment

(d) Contribution to global business

(e) Promoting research and development

(f) Contribution to ancillary development

(g) Concern for rural industrialization

(h) Export development

(i) Acting as complementary and providing patronage to small scale and medium scale sectors.

(j) Stimulating the overall economic activity in India

(k) Motivating capital formation and

(l) Stimulating resource mobilization

Role of Government in Promoting Private Sector

In promoting and developing an effective private sector, the Government plays a crucial role in India. Some of the important measures adopted by the Government for promoting and developing a responsible private sector include:

(1) Providing financial assistance to private entrepreneurs

(2) Developing infrastructural facilities

(3) Industrial area development

(4) Promoting raw material, particularly scarce raw materials

(5) Developing a market, particularly export market

(6) Tax incentives are provided for new units, sick units and units in industrially backward areas

(7) Providing assistance for the revival of sick units

(8) Government's liberalization process is envisaged to encourage private sector

(9) Appropriate industrial policy resolution and regulatory measures are adopted

(10) Providing incentives for industrial and regulatory measures are adopted

(11) Rationalization of the tax structure

(12) Providing assistance to entrepreneurs and industrialists through District Industrial Centres and Industrial Development Centres

(13) Providing special incentives and assistance for small scale, village and tiny industries.

Private Life Insurance Operating in India

The Indian insurance sector was opened for private insurance sectors when the Government enacted the Insurance Regulatory and Development Authority Act 1999 leading to the establishment of IRDA. The main objective of setting up the IRDA was to protect the interest of policy holders and to regulate, promote and ensure orderly development of the insurance sectors. It is also aimed at ending the monopoly of the Life Insurance Corporation (LIC) and General Insurance Corporation (GIC) in the insurance sector of the company. The first private life insurance company was registered with IRDA in October 2000 and started operations shortly thereafter, thereby ending 44 years of public sector monopoly. Since then, many more private companies have been registered bringing the total number to a dozen as of July 2002 all of which are joint ventures between major business houses or banks in India and renowned international insurance giants. Today after nearly fifty years, the insurance sector is a buyer's market where the consumer has the choice to select from variety of insurers. The table shows ate lists of new entrants of insurers are associated with foreign shareholders to sell insurance products in India as on 2002 is given below:

List of Private Life Insurance in India

Company	**Foreign shareholder**	**Major Local shareholder**	**Business of Local shareholder**
1. Allianz Bajaj Life	Allianz	Bajaj Auto	Auto Manufacturer
2. AMP Samnar	AMP	Sanmar	Diversified Conglomerate
3. Birla Sun Life	Sun Life of Canada	Birla Global Finance	Diversified Conglomerate
4. Dabur CGU	CGNU	Dabur	Medical & Consumer Products
5. HDFC Standard Life	Standard Life	HDFC	Investment & Finance
6. ICICI Prudential Life	Prudential (UK)	ICICI	Investment & Finance
7. ING Vysya Life	ING	Vysya Bank	Bank & other Investors
8. Max New York Life	New York Life	Max India	Diversified Conglomerate
9. Met Life India	Met Life	Jammu & Kashmir Bank : Pallonji Group	Bank and Diversified Conglomerate

10. OM Kotak Mahindra	Old Mutual	Kotak Mahindra	Investment & Finance
11. SBI Life	Cardiff	SBI	Bank
12. TATA- AIG Life	AIG	TATA	Diversified Conglomerate

Performance of Private Life Insurance

The healthy development of the insurance industry in India has been boosted by the private insurers which have contributed substantially high percentage in overall performance. The private sectors brought with them international experience, cutting edge technology, new products and had the advantages technology, new products and had the advantages starting off in the current regulated environment rather than changing over from an old environment.

Privatization of General Insurance Business

The performance of the nationalized General Insurance industry was commented upon by the Malhotra committee set up the Government in the year 1994 to examine the insurance sector and suggest reforms required. It recorded in its report that objectives of nationalization had been substantially achieved. As results of the recommendation made by the committee, a major change in the last couple of years has been the dismantling of the monopolistic state run insurers. The field is no longer confined to them and has been thrown open to private insurers also. Six of them have commenced commercial operations and a few more are waiting in the wings. All of them have been promoted by major business groups and with one notable exception have tie-ups with foreign insurers. The minimum capital requirements of Rs. 100 Corers has resulted in only heavy weights of Indian commerce venturing into this area. There is now a restriction on the foreign holding, the maximum being limited to 26 percent.

This has given a new dimension to the competitive market. While in the previous era competition was among four organizations which were similar in almost different culture, capabilities and value systems. There is one company promoted by co-operative organization and five companies started by leading business houses.

Growth of General Insurance

On nationalization, GIC was formed with four subsidiaries, viz.,

1) New India Assurance Co. Ltd.
2) United India Assurance Co. Ltd.
3) Oriental Insurance Co. Ltd. and
4) National Insurance Co. Ltd.

All business is transacted through these four subsidiaries. General Insurance Corporation is the controlling body. Except crop Insurance, aviation business of Indian Airlines and Air India, GIC does not involve itself directly in insurance business. Each of the subsidiaries has about 1,000 divisional offices and 40,000 operating offices spread all over India. The total manpower employed by the industry is 86,000, the main income and expenditure of the insurance companies is as follows. Income from (a) premium (b) interest on investment and other income. Expenditure on (a) claims (insures) (b) establishment and other expenses (c) commission to agents (d) dividends to shareholders. And 2002 -2003 and number of policies achieved in 2002-2003

In 1970, the total premium income of 108 insurance companies was Rs. 105 crores. Today, the four nationalized insurance company's premium income totals up to Rs. 10,000 crores. The GIC and its four subsidiaries gross premium and profit before tax from 1990-91 to 1998-99 are given below.

Statement of Gross Premium and Profit (1986-90 – 2000-01)

Year	Gross Premium Rs. In Crores	Profit (Before tax) Rs. In Crores
1989-90	2279	371
1990-91	2931	482
1991-92	3503	669
1992-93	4070	779
1993-94	4766	1082
1994-95	5271	503

1995-96	6377	8311
1996-97	7348	1084
1997-98	8066	1623
1998-99	9158	1467
1999-2000	9982	1153
2000-01	10772	729

Evaluation/ Performance of Public and Private Companies

In an industry like general insurance, premium income growth indicated the efficiency and quality of financial strength of insurance companies. The following table shows the performance of public sector insurers and private sector insurers of non-life insurance business based on gross direct premium income earned during 2001-2002-2003 and No. of policies achieved in 2002-2003.

The above table indicates that there had been a significant growth of total gross direst premium income earned by the public sector insurers and private sector insurers went up from 1,22,730,69 millions in 2001-2002 to Rs. 1,442,794,11 millions in 2002-2003. It is seen from the table that public sector insurers still lead the pack, both in premium and number of policies issued. Among the total insurers, New India has captured a top rank market share holder by 34.20% in 2001-2002 and it has declined to 27.51% in 2002-2003. The share of gross direct premium income of United India has declined from 22.66% in 2001-2001 to 20.80% in 2002-2003. Similarly, the share of premium income of Oriental Insurance has gone down from 20.35% in 2001-2002 to 19.48% in 2002-2003. On the other hand in National Insurance, it has increased from 19.87% in 2001-2002 to 20.25% in 2002-2003. During the year 2002-2003, the share of number of policies has been achieved by public sector Insurance – New India 39.55%; United India 22.71%; National Insurance 19.77% and Oriental 19.02% respectively. It is clear indication that the public sector insurers are doing the ensure that their commanding position in the insurance market. At the same time, public sector insurers face major challenges in the coming days.

Performance of Major Business Segments

Market share of the major business segments pertaining to general insurance business and the increase in the activities of the non-life insurance market in India have significantly influenced the development of general insurance business. This is an indicator of the financial strength and solvency of the Insurance. The table given below shows the market share of Public Sector Insurers and Private Sector Insurers in major non-life business segments during the year 2002-2003

General Insurance: Major Business Segments in 2002-2003

Line of Business	Public Sector Rs. In Crores	% to Total	Private Sector	% to Total	Combined Rs. In Crores	% to Total
Fire	2557	20	412	31.52	2969	21.39
Marine	1123	8.92	83	6.35	1206	8.69
Motors	5038	40	382	29.23	5420	39.06
Engineering	590	4.69	128	9.79	719	5.18
Health	963	7.66	82	6.27	1045	7.53
Others	2301	18.33	220	16.84	2520	18.15

Source : IRDA Journal – 2003

It is seen from the table that the market share of Public Sector Insurers in 2002-2003 has mainly been in major business segments such as Motor Insurance 20%; other areas of Insurance 18.33%; Marine Insurance 8.92%; Engineering Insurance 4.69% and Health Insurance 7.66% respectively. Similarly, the market share of Private Sector Insurers during the year 2002-2003 has to be seen against the growth of its market such as Fire Insurance 31.52%; Motor Insurance 29.23%; other areas of Insurance 16.84%; Engineering Insurance 9.79%; Marine Insurance 6.35% and Health Insurance 6.27% respectively. Thus, it is clear indication that the satisfactory performance of both Public Sector insurers and Private Sector Insurers and their growth are mainly in Motor Insurance, fire Insurance and other areas of insurance. In areas such as engineering, cargo transit insurance and health insurance, their presence is very low.

As a result of liberalization, came with the setting up of the Insurance Regulatory Authority (IRA) and then the Insurance Regulatory and Development Authority (IRDA), which culminated in the entry of private players on the scenario, till then a state monopoly. Today, there are 11 private sectors operating in the general insurance market. The progress of general insurance business can be measured on the basis of gross premium income and newt premium income during the period from 1997-98 to 2001-2002. The term gross premium income refers to the total premium earned from the customs. Insurers normally avail reinsurance on their policies to hedge against huge losses impacting their financials. For this they pay reinsurance a portion of the premium earned. On the other hand, the term net premium refers to the premium after paying premium to reinsurance protection. The table given below shows that t hat the growth of premium income of Indian non-life insurers (including private sector) from 1997-98 to2001-2002

Growth of General Insurance Business from 1997-98 to 2001-2002

Year	Gross Direct Premium Rs. In Million	% to Total	Net Premium Income	% to total Rs. In Million
1997-98	73,571	16.52	80,856	16.08
1998-99	84,025	18.11	91,575	18.22
1999-2000	93,634	21.16	99.822	19.85
2000-2001	1,02,721	23.21	1,07712	21.42
2002-2003	88,540	20.00	1,22,731	24.42
Total	4,42,491	100	5,02,696	100

Source: IRDA Journal

Source: (The Indian Insurance Industry (Non-life) purchased by Interlink Reinsurance Consultant Pvt. Ltd., 2003)

The above table shows that the premium earned by the public sector insurers and private sector insurers. It is seen that the progress of both gross direct premium and net premium income is regular and constantly increasing. The percentage of gross direct premium income has increased from 16.52 % in 1997-98 to 18.11% in 1998-99, and further to 21.26% in 1999-2000. It has increased to 23.21% in 2000-2001 and declined to 20.01% in 2002-2003. On other hand, the rate of net premium income as percentage to total net premium income has increased from 16.08% in 1997-98 to 18.22% in 1998-99. It has further increased to 19.85 % in 1999-2000. Similarly, it has increased to 21.42% in 2000-2001 and further to 24.42% in 2001-2002. Thus, it is clear that there is positive growth in general insurance market. The above findings indicate that the high proportion of net premium to gross premium reveals high security and financial health.

Market share of the insurance business of GIC and its four subsidiaries is given below

Company	Market share %
United	25
Oriental	22
National	20
New India	32
GIC	1

(Source: K.N. Bhandari "Agenda for Insurance" Economic Times 31, Jan 1999.)

Despite this, India remains one of the least insured countries in the world. While India ranks tenth in terms of corporate presence among the 78 industrial nations in the world, in terms of insurance covers it ranks 51st .

The GIC not only does the mobilizing of resources and redistribute the funds to those who suffered losses but also as per the government guidelines the funds are invested for industrial development, social oriented sectors such as housing sector and State and Central Government Securities. In 1997, out of the total investment of Rs. 14,392 crores, the GIC subsidiaries invested Rs. 2,648 crores in Industry, Rs. 856 crores in State and Central Government Securities and crores in housing sector.

Presently, the insurance industry contributes only 0.55% to GDP against 4% to 5% in developed countries like the USA, Canada and Japan etc. It is expected that current level of premium of 2 billion dollars in non-life Market liberalization will also bring new challenges.

The opening up of the insurance sector, therefore, would immensely help the Indian economy, particularly in mobilizing substantial amount of resources which could then be channeled into infrastructure development. But it is also true that insurance companies would command huge funds at their disposal which make reform critics to voice apprehensions for throwing open this sector to the private sector and foreigners, more so because these funds could be utilized to procure equity stake in Indian Companies as has been cone by the LIC and the GIC.

4.2.2 Evaluation of Performance of Public and Private companies

Introduction

The Insurance Act 1938 was a well thought out legislation and was passed to perform the control of working and activities of the companies carrying on the business relating to life, marine, fire and accidents. But the act has seen many amendments, since it was passed, required from experience in the implementation of the Act. In 1963, the marine Insurance Act was passed to regulate the contract of marine insurance. In 1971, the Government nationalized the insurance business and passed a General Insurance Business (Nationalization) Act in 1972 . A provision was made in 1972 Act relating to general Insurance (Fire, Marine and Miscellaneous) business being taken over by the Central Government.

General Insurance Business (Nationalization) Act,1972

Objectives of the Act

1. To provide for the acquisition and transfer of shares of Indian insurance companies and undertaking of other existing insurers.
2. To serve better the needs of the economy by securing the development of general insurance business in the best interests of the community.
3. To ensure that the operation of the economic system does not result in the concentration of wealth to the common detriment.
4. For the regulation and control of such business and for matters connected therewith or incidental thereto.

Establishment of General Insurance Corporation of India (GIC)

The General Insurance Business (Nationalisation) Act 1972 provides that the Central Government shall form a Government Company in accordance with the provisions of the Companies Act 1956 to be known as General Insurance Corporation of India for the purpose of superintending , controlling and carrying on the business of General Insurance.

The objectives of GIC are to carry on the general insurance business other than life , such as accident , fire etc. to aid and achieve the subsidiaries to conduct the insurance business and to help the conduct of investment strategy of the subsidiaries in an efficient and productive manner.

Sources of Funds

Its sources of funds are paid- up capital, reserves, profits and premium income. It can also like the LIC, Operate in the money and capital markets, earn on underwriting and making of loan term loans and investments. Its investment policy is governed by the Insurance Act like LIC and its investments are accordingly spread in specified proportion in Central and state Government Securities, semi government bonds,debentures,preference shares and equity shares of companies , deposits with companies and other loans and advances.

The authorised capital of Rs.75 crores of the corporation out of which Rs.5 crore is the subscribed capital wholly contributed by the Central Government.

GIC with its Subsidiaries

General Insurance was nationalised by the passing of the General Insurance Business (Nationalisation) Act 1972, Under which all the shares of the Indian Insurance companies on the appointed day (Jan. 1, 1973) vested first in the central Government and after that in the General Insurance Corporation Of India. On nationalization, General Insurance Corporation was formed with four subsidiaries, viz.

1. New India Assurance Co.Ltd. – Head Office – Mumbai
2. United India Insurance Co.Ltd. – Head Office – Chennai
3. Oriental Insurance Co.Ltd. – Head Office – New Delhi
4. National Insurance Co.Ltd. – Head Office – Kolkata

All general business is transacted through the above four subsidiaries.

The primary function of Divisional Offices relate to development of business and its administration including supervision of branches, if any in their jurisdiction. The development function involves appointment of inspectors and agents and marketing, planning and procurement business. The administrative function involve issue of policies , settlement of claims, maintenance of accounts and general administration, e.g., personal establishment etc.

The function of branch offices are similar expect that they are not empowered to appoint inspectors and settle claims, expect motor own damage, cattle claims and other claims within certain limits. Broadly speaking the function of the branches would includes development of business direct and through inspectors and agents , collection of premium .issue of receipts ,cover notes , policies etc., and minor payments like commissions , rents etc., and maintenance of accounts in the respect and coordination and control over inspectors.

Function Of GIC

The functions of the corporation shall include:

a. Carrying on of any part of the General Insurance business . if it thinks it desirable to do so .

b. Aiding assisting and advising the acquiring companies in the matter of setting up of standard of conduct and sound practice in General Insurance business.

c. Rendering efficient service to holders of policies of General Insurance.

d. Advising the acquiring companies in the matter of controlling their expenses including the payment of commission and other expenses.

e. Advising the acquiring companies in the matter investing of their funds.

f. Issuing directions to acquiring companies in relation to the conduct of general insurance business.

g. Issuing directions and encouraging competition among the acquiring companies in order to render their services more efficiently

Growth of General Insurance Business

In India, the general insurance has grown tremendously over the last three decades. Accordingly, the public sector general Insurance – National Insurance, New

India Assurance, Oriental Insurance and United India Insurance which had been the sole players in the market for over 25 years.

4.2.3 Foreign Direct Investment in insurance business Merits, Demerits and current scenarios

Foreign Direct Investment would be a direct investment by any corporation in a commercial venture in another country. It is an investment made by a company or individual in one country in business interests in another country, in the form of either establishing business operations or acquiring businesses assets in other countries, such as ownership or controlling interest in a foreign company.

Foreign Direct Investment does not mean portfolio investment in which equities of the other company are being purchased; instead, it means the taking of effective control or at least substantial influence over the decision making of a foreign business.

Thus, FDI is the process whereby residents of one country acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country.

Broadly, foreign direct investment includes “mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans”.

Insurance is an equitable transfer of risk of a loss , from one entity to another in exchange for payment. It is a form of risk management which primarily was used to hedge against the risk of an uncertain and contingent loss.

Foreign Direct Investment in India

Insurance in India is a growing and flourishing industry with both international and national players competing and growing at rapid rate together with Banking and Real Estate, it constitutes 12.9% of Gross Domestic Product (GDP) in India.

Insurance sector was liberalized in 2001. Even after the liberalization of the insurance sector, the public sector insurance companies have continued to dominate the insurance market. They were enjoying 90% of market share. FDI in Insurance sector would increase the penetration of insurance in India. FDI can meet India’s long term capital requirements o fund the buildings and infrastructures.

Aside from being a basic driver of monetary development, foreign direct investment (FDI) is a noteworthy wellspring of non-obligation budgetary asset for the financial advancement of India. Remote organizations put resources into India to exploit generally bring down wages, extraordinary speculation benefits, for example, charge exclusions, and so on.

The government administration has taken numerous activities as of late, for example, unwinding FDI standards crosswise over parts, for example, protection, PSU oil refineries, telecom, control trades, and stock trades, among others.

According to Department of Industrial Policy and Promotion (DIPP), the total FDI investments India received during April – September 2016 rose 30 per cent year-on-year to US$ 21.6 billion, indicating that government's effort to improve ease of doing business and relaxation in FDI norms is yielding results.

During April – September 2016, India received the maximum FDI equity inflows from Mauritius (US$ 5.85 billion), followed by Singapore (US$ 4.68 billion), Japan (US$ 2.79 billion), (US$ 1.62 billion), and USA (US$ 1.44 billion).

Impact investments in India is expected to grow at a compound annual growth rate (CAGR) of 20-24 per cent to touch US$ 6-8 billion by 2025, from US$ 1 billion in 2015.1

Insurance Sector In India

The insurance industry of India consists of 53 insurance companies of which 24 are in life insurance business and 29 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers.

Role of FDI In Insurance Sector

The role of Foreign Direct Investment in the present world is noteworthy. It acts as a lifeblood in the growth of the nations. The wave of liberalization and globalization sweeping across the world has opened many national markets for the international business.

Insurance sector has the capability to raise long term capital from the public as it is the only market in which people invest their money for a long period of time, say 30 years. An increase in FDI in insurance sector would indirectly be a boom for the Indian Economy.

Increase In FDI

The Cabinet of Narendra Modi has approved the hike of the Foreign Direct Investment in the insurance sector from 26% to 49%. The Parliament has passed Insurance Laws (Amendment) Bill, 2015. It was first passed in Lok Sabha on 4th March 2015 and later in Rajya Sabha on 12th March 2015 which becomes an Act as soon as the President signs it.

The Amendment bill aims to bring improvement and revisions in the existing law relating to insurance business in India. Insurance Regulatory and Development Authority (IRDA) is in favor of an increase in foreign equity capital in insurance joint ventures. The public sector insurance companies have been continuing to dominate the insurance market of the country.

The stock market has reacted positively to the news and the shares of Reliance Capital and Max India gained more than 4.5% in intra-day trade today. The higher FDI cap will immensely help the insurance sector which is extremely short on investments.

Benefits of Increase in FDI

Listed below are some advantages from the increase of foreign direct investment in insurance sector in India from 26% to 49%.

1. Increased Insurance Penetration

With the number of population in more than 100 crores, India requires Insurance more than some other country. Be that as it may, the insurance penetration in the nation is just around 3 percent of our Gross Domestic Product as for general premiums endorsed every year. This is far less when contrasted with Japan which has a insurance penetration of more than 10 percent. Expanded FDI cutoff will fortify the current organizations and will likewise permit the new players to come in, thereby empowering more individuals to purchase life cover.

2. Level Playing Field

With the expansion in foreign direct investment to 49 percent, the insurance agencies will get the level playing field. So far the state claimed Life Corporation of India controls around 70 percent of the life insurance market.

3. Increased Capital Inflow

Most of the private sector insurance companies have been making considerable losses. The increased FDI limit has brought some much needed relief to these firms as the inflow of more than 10,000 crore is expected in the near term. This could go up to 40,000 crore in the medium to long term, depending on how things pan out.

4. Job Creation

With more cash coming in, the insurance agencies will have the capacity to make more employments to meet their objectives of wandering into under guaranteed advertises through enhanced framework, better operations and more manpower.

5. Favorable to the Pension Sector

If the pension bill is passed in the parliament then the foreign direct investment in the pension funds will also be raised to 49 percent. This is because the Pension Fund Regulatory Development Bill links the FDI limit in the pension sector to the insurance sector.

6. Consumer Friendly

The end recipient of this change will be basic men. With more players in this part, there will undoubtedly be rivalry prompting to aggressive quotes, enhanced administrations and better claim settlement proportion.

7. Benefit to the common man & actuaries being

More options from the foreign company (if the same was not already available with Indian). Also now since the capital is more than earlier, the Insurance company can diversify their sectors of Insurance (like Motor, Mortgage, Health etc). Take more risks than earlier since there is more money & more support. More competition leads to better offers, so better benefits for common man.

8. Effect on Economy

More Foreign capital flows into the Indian Economy. Also this more investment will lead to demand for Indian Rupee in International Money Market (Because one has to invest in Rupee in India), there by decrease in Rupee to Dollar rate of exchange. This to a common man will reduce the cost of Imported goods (since the exchange rate is low 1$=40Rs??). Also the Forex reserves will be maintained. As well the market speculation will also play an important role, leading to Sensex hike

& better confidence in Business makers in India. More business will lead to need risk protection & Insurance.

Disadvantages in The Increase of FDI

The following are some of the demerits if the FDI gets increased in the insurance sector:

1. Household organizations might expect to get their businesses being taken over by the foreign organizations.
2. Small scale organizations may fear that they might not be able to compete with the Multi National Companies and may therefore, be forced to vacate the market.
3. Such big foreign and Multi National organizations may not be interested in investing in the wages of the local people of the country. Instead they focus on investing more in the machinery, building, and intellectual property.
4. Government has less control over the working of such organizations as they generally work with completely possessed backup of an abroad organization.
5. Our interest rates are today, as high as 14 percent to 16 percent. How do we compare with the economies of the country which have an interest rate of 4 percent.

OVERVIEW OF INSURANCE SECTOR POST PRIVATISATION IN 2000

REGULATOR	Insurance Regulatory and Development Authority of India (IRDAI)
NUMBER OF PLAYERS	General Insurance Companies: 28 Life Insurance Companies: 24
NUMBER OF PRIVATE PLAYERS	General Insurance Companies: 22 Life Insurance Companies: 23
NUMBER OF RE-INSURER	One
FOREIGN INVESTMENT LIMIT	Increased to 49% from 26% (in 2015)
FDI AS OF MARCH 2016	Rs. 8,031 Crores

NUMBER OF LISTED INSURANCE FIRM	None

The Insurance division likewise assumes a crucial part in the financial improvement by giving different valuable administrations like preparing reserve funds, intermediating in back, advancing speculation, balancing out monetary markets and overseeing both the social and monetaryhazard. Understanding the capability of protection segment in activating the investment funds for the profitable utilize and social wellbeing, Government has made different steps to enhance its quality, reach and fame.

With target to give protection cover to all, the Government last year presented Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJBY) to bring more individuals under the insurance cover. Going ahead, expanding future, good funds and more prominent work in the private division is relied upon to fuel interest for insurance and pension plans. In like manner, solid development in the car industry throughout the following decade would be a key driver for the engine insurance market.

Post capital raising, the insurance segment is required to see more prominent development among main five insurance market on the planet in the following 10 years.

FDI in Insurance Sector in India

After increasing the FDI cap in the Multi-brand Retail sector, Aviation sector, Power Trading, and Broadcasting sector, the Indian Cabinet Committee on Economic Affairs (CCEA) is strongly expected to raise the FDI ceiling in the Insurance and Pension sectors and the Pharmaceutical sector of India. A robust proposal for raising FDI threshold to 49% in the Insurance sector from the existing limit of 26%, has been submitted to the cabinet for proper approval in the quickest possible period. Such an increment in the FDI ceiling in the insurance sector of India, will certainly be highly and greatly appreciated by domestic and foreign insurance companies, for the purpose of expanding and enriching their insurance and re-insurance businesses under diverse insurance categories. More information regarding the insurance sector of India, is separately offered in the following section in details. Here, it may be noted that, the existing limit of foreign direct investment in the insurance sector of India, which is just 26%, is permitted to be made through the Automatic Route with proper license from the Insurance Regulatory and Development Authority (IRDA) of India. It means that a foreign investor cannot acquire more that 26% stake in the private insurance companies anywhere in India. As in all other economic sectors of India, ours prestigious and globally reputed law firm well-based in India, has been providing perfect and swift legal services for secure and profitable foreign direct investment in the insurance sector of India or abroad, for a long successful period.

Described explicitly in the Seventh Schedule of the Constitution of India, Insurance is one of the significant economic sectors of the country, which at present has extensive scope for expansion and development, to be at par with the insurance sectors in developed countries of the world. Progressing fast with an average yearly growth rate of over 30%, the current worth of Indian insurance industry is about $41 billion. Based on these statistical facts, the insurance industry of India has been ranked as the fifth largest and booming insurance market in the whole world. At present, merely two million Indians are covered under any insurance schemes like Mediclaim, which is just 0.2% of the total Indian population of one billion. In developed countries like USA, this percentage is about 75%. Hence, there is vast scope for development and refinement in the insurance sector of India in future times. But, at present, only about 50 life insurance and general insurance companies are active in the insurance sector of India. For such purposes, the Insurance Regulatory and Development Authority (IRDA) of India requires a capital infusion amounting to over US $12 billion in the next five years, by domestic and foreign insurance companies.

4.2.4 Bancassurance

Insurance and Banking are coexisting financial institution while complementing and supplementing each other. The Insurance Regulatory and Development Authority Act, 1999 have created more opportunities to them for expansion of their markets. They can serve the society in a very effective manner. Banking Institutions have got opportunities to enter in insurance business while insurance institutions have already under the autonomy of starting their banking business. Many non-banking institutions have been opened acquired funds and dissolved with public money at their stakes. Since they were totally in the hands of private persons, the

Government control became ineffective. Banking institutions in India are mainly under the control of Reserve Bank of India. People need insurance but they prefer investment over risk coverage although latter is more important. Indian mentally for insurance is very bleak people do not feel need of insurance although they have dire - necessity for that. Insurance institutions in India have not considered forced insurance. The voluntary – purchasing of insurance policies is rare phenomena. They prefer to go to bank-offices rather than going to insurance offices for getting risk between people and the company. Agents' attitude and environment may work against the free will environment of insurance. The IRDA, Act is expected to mobiles insurance coverage and resources for investment in the economy. The Government has assured that there would not be any disinvestment in the LIC, GIC and their subsidiaries. Insurance Act, 1938, has not been sufficient to regulate the insurance business in India. Foreign companies would not be allowed to hike their equity in the country through their Indian subsidiaries. It has opened a great opportunities for the banking and insurance institutions. They can perform both the functions.

Insurance as Banking Institute

The life insurance and general insurance corporations are performing their respective functions with the help of banks. LIC and GIC have opened their accounts with banks. Policy holders have to approach the banks for realization of cheques. Indirectly banks have to intervene in their business. If the insurance companies perform the business of banking institutions, they get benefits of business in financial transactional. Policy holders are also benefited as they have not to run from pillar to post. The claim amounts will be deposited in insurance banks. The account holders get benefits and facilities of banks. It can be analyzed under premium Collection, claims, payments, pension plans, funds, investment, consultant and employment opportunities.

Premium Collection

Insurance as bank will facilitate deposits of premium. The burden on cash-counter is lessened or the cash transaction is shifted to insurance bank. The premium amount is regularly collected without any pressure on other activities of insurance. Insurance business is expanded with extra zeal and effort as people working in the marketing areas develop specialization. They devote with additional knowledge and equipment for the expansion of insurance business on the other hand. Management of premium collection becomes easy as the insurance banks have diversified its activities. New bank customer gets information about insurance. They collect, analysis and reinforce the available information at insurance bank counter from the fellow depositor of premiums and receivers of claims-amount. Insurance policy accepted by its realization of actual benefits towards which Indian population is apathetic. The premium account is regularly collected as the customers visit often the insurance-bank for their daily transaction. They are reminded of premium-deposits. The premiums collected are deposited in a commercial bank who use the money for their transactions and investment. If so much money is obtained by insurance- bank, it would be utilized by them for getting some profit on the money.

Premium Collected (Rs. In Corers)

Years	Life Insurance corporation of India	General Insurance	Total
1990-91	5600	2742	8342
1991-92	6960	3450	10410
1992-93	7987	3868	11855
1993-94	9735	4427	14162
1994-95	11527	4879	16406
1995-96	14182	5956	20138
1996-97	16240	6734	22974
1997-98	19252	7357	26609
2000-01	34207.78		
2004-05	75083.37		

Table : Reveals that the total premium collected by insurance industries has gone from 8,342 crores in 1990-91 to Rs. 26,609 crores in 1997-98 by 3.18 times during the period of 7 years. If this much money is retained by insurance industry they would earn enough profit margins. But, at present insurance industry operates its financial functions through a commercial banks should be performed by the insurance industry itself. There are many other come than the premium income which are also deposited in banks.

Total Income (Rs. In crores)

Years	Life Insurance	General Insurance	Total
1990-91	8518	3308	11,826
1991-92	10691	4202	14,893
1992-93	12244	4727	16,971
1993-94	15212	5384	20596
1994-95	18102	6029	24,131
1995-96	22047	7431	29,478
1996-97	25821	8431	34,252
1997-98	30732	8335	40,067
2000-01	53968.46		
2004-05	112346.24		

The public is accustomed to get insurance and banking services at a place. Insurance industry work like a multiple shop store were in all the financial functions would be performed by them. The investor would also come to the insurance offices for getting all the information and services filled. However the insurance-bank should not have to confine only on insurance- investment but should have widen its horizon to help all types of people seeing financial suggestion.

Payment of premium would be easy and prompt if the policy holder has opened account with the insurance-bank. It would be like salary saving scheme wherein no policy holder would bother for monthly remittance of premium. Merely accounting transaction in the insurance-bank facilitates the payments. The account holder would be reminded of the minimum balance in the account for payment of premium. The insurance bank becomes total bank of people as it takes cares of all financial transactions. Payments of electricity bill income tax and business- invoices would be easy by insurance bank.

Total income received by insurance industries comes through banks. In other-words, banks maintain its total income which increased from Rs. 11,826 crores in 1990-91 to Rs. 40,067 crores in 1997-98 by 3.39 times during the period of seven years. If this amount is not deposited or transacted through commercial banks all these money is used by insurance industries as bank too. Therefore, it is advisable for the insurance industry to start its own bank wherein public is also invited to transact as bank-customer. Thus the deposit of insurance industry in a year would exceed Rs.50 thousand crore at the minimum. Bank certainly gets some benefit on the amount deposited by insurance. They maintain their liquidity level and invest rest of the money received from insurance. This earning would be earned by insurance companies as commercial banks if they transact business of a commercial bank.

Claims Payment

The claims- amount paid by the insurance industry is not immediately used by the clients. It is deposited in the bank from whereby they withdraw their amount from time to time leaving a sufficient amount with the bank for their investment as per rules. If this amount is retained by the insurance – bank, the money would be utilized for further investment. The client's account in the insurance- bank is immediately credited with the amount of claim from which they withdraw amount from time to time, SUCH TYPES of facilities of premium- deposits and claim-settlement by bank motivate public to deal with the insurance, bank wherein they would prefer to deposit their other savings. Old-age people get monthly withdrawal of the amount. They would not suffer any more by making que commercial banks. The technological development wherein phone and computer facilities would serve their clients at their home. Employment opportunities would increase as expert people would have been appointed to meet the clients at the residence who would pay cash at the time of need. Only telephone facilities would do all the jobs as automatic-services would be completed on computers. If the client has personal computer it would be more useful and efficient services to them. The claim amount of insurance industry reveals the bank or banking business based only on it.

Amount of claim (Rs. In crores)

Years	Life Insurance	General Insurance	Total
1990-91	1951	1898	3849
1991-92	2422	2303	4725
1992-93	3580	2839	6419
1993-94	3845	3050	6895
1994-95	4666	4289	8955
1995-96	5353	4427	9780
1996-97	6599	5105	11704
1997-98	7823	6525	13448
2000-01	11666.82	--	--

The claim amount of insurance industry has increase from Rs. 3,849 crores in 1990-91 to Rs. 13,448 crore in 1997-98 by 3.49 times during seven years. It reveals that amount Rs. Thousand crores money would have been with the insurance – bank for a time- being as is put in commercial banks. The commercial bank collect to much of funds from insurance industry. They credit the amount with accounts of their depositors who do not withdraw all the amount at a time. They gradually withdraw saving a major portion with the bank. Similarly a major portion of claim amount remain in float i.e., of writing the cheque to the date of realization in account. This float would be abolished if the farance – bank is Opened as it would do all the payments merely passing certain entries. It is thus assure that insurance bank would use a major portion of claims-payments for its transactions which are by commercial banks. The clients would get pension regularly from which would in help insurance – expansion. The clients would get pension regularly from the insurance bank such can start door to door financial services. There exists a large potential of business of financial are in adopting insurance – banking systems.

Pension Plans

People are investment- oriented. Risk of the life universal truth but people by their nature are least concerned with life insurance coverage. If insurance- bank is opened, people will enjoy the benefits of pension plans by depositing the saving, claim amount and purchasing pension plans.

Group Superannuation Schemes

Years	Number of Members in Lakhs	Amount of Annuities per annum
1990-91	2.43	253.12
1991-92	2.54	301.77
1992-93	2.69	358.93
1993-94	3.14	403.51
1994-95	3.54	427.66
1995-96	4.19	483.05
1996-97	5.54	545.59
1997-98	6.71	682.84
2000-01	14.91	
2004-05	21.57	

The number of persons insured under group superannuation scheme has increased from 2.43 lakhs in 1990-91 to 6.71lakhs in 1997-98 by two fold and the amount of annuities increased from 253.12 crores to Rs. 628.94 crores in the corresponding year by the same proportion. The rising reveals that LIC can manage a significant amount by its insurance bank. All the money is not immediately paid. A certain portion is paid as different interval. The rest of amount is managed as money for credit and investing in the growing economy of India. Insurance – bank would perform than the commercial bank. The claim amount would also be deposited with the insurance – bank where a new pension –plan can be purchased. The total claim amount is usually converted into pension-plans. People would be benefited by such schemes. They are given option either to take all money at the time of claim or convert some of them or all of them into pension –plan. This facility benefit a large number of policy holder who would enjoy it and the LIC would get sufficient amount for financial transactions. The employment opportunities would increases and the contribution economic development would increase and the contribution economic development would be appreciable.

Funds

The insurance fund is significant contribution to national income as it is invested for economic development. The amount of fund available with LIC would increase further as saving in form premium income. Claim amount and other out go would also enhance as a result of establishment of insurance bank.

Life Insurance Fund (LIC) (Rs. In Crores)

Year	Total income	Outgo	Excess of Income cover outgo added to fund	Total Fund
1990-91	8,517	3588	4929	28,400
1991-92	10,690	4400	6290	34,691
1992-93	12,244	5937	6306	40,998
1993-94	15,212	6544	8667	49,665
1994-95	18,102	7789	10313	59,978
1995-96	22,047	9245	12801	72,780
1996-97	25,821	10841	14979	87,760
1997-98	30,732	12659	18072	1,05,832
2000-01	53,968.96	21987	-	31,981.02
2004-05	1,12,346	48460	-	63,885.54

Expected Investible Funds of LIC

(Rs. In Crores)

Year	Total Life Insurance	50% of the out go	50% of premium income	Total Insurance Bank Funds	% Increase over life

				for Investment	
1990-91	28400	1794	2800	32994	116
1991-92	34691	2200	3480	40371	116
1992-93	40998	2968	3993	47959	116
1993-94	49665	3272	4867	57804	116
1994-95	59978	3894	9763	69635	116
1995-96	72780	4622	7091	84493	116
1996-97	87760	5420	8120	101300	(115)
1997-98	105832	6329	9626	121787	(115)
2000-01	175491.18	21987			
2004-05	413800.95				

The investible funds for LIC has been Rs. 1,05,832 crore in 1997 -98 as compared to Rs. 28,400 crore in 1990-91 an increase of 372.6 percent. It is a welcome step. If LIC starts its banking business, the life insurance functions only will enhance the investible bank fund would by more than 15 percent of the total life fund. It is clear from table that the investible fund would have been Rs. 14,787 crore in 1997-98 if insurance had started its banking business because about 50 percent of outgo will remain in the bank for gradual withdrawal and the premium income would increase by 50 percent as a result of banding operation. The total bank investible fund was expected to be Rs. 32994 crore in 1990-91 an increase of 369 percent over the period of seven years.

Cash at Bank (Life Business) (Rs. In Crores)

Year	Deposit A/c	Call Short Notice Deposit A/c	Current A/c	Remittance	Total
1990-91	31.67	631.35	174.93	51.42	889.39
1991-92	80.84	761.06	157.39	77.61	1,076.91

1992-93	88.70	314.28	416.61	118.91	938.50
1993-94	111.91	121.12	418.31	314.21	965.56
1994-95	38.71	653.59	519.27	258.46	1,570
1995-96	55.64	230.53	559.17	258.46	1,570.04
1996-97	284.97	272.84	563.76	539.88	1,661.47
1997-98	715.95	789.24	728.24	485.02	2,718.74

The deposits at banks have revealed that Rs. 2,718 crore was lying with commercial banks in 1997-98 which was Rs. 889 crore in 1990-91. The banks are not bothering for the remittance in transit which was Rs. 485 crore in 1997-98. On current account LIC is earning nothing which accounted Rs. 728 crore in 1997-98. On deposit account would have been properly utilized by LIC. Thus, it is clear that LIC would have earned sufficient income if it has opened its own bank.

Investment Consultant

The life Insurance business as well as allied business would have been increased if LIC starts investment consultancy. People should approach to the offices of LIC for expert advices on investment. The present position is that LIC agents approach to people for procuring insurance business. But the people are investment oriented. They go to take expert advises for investment to their relatives or private investment agents. The share –brokers and others are charging exorbitant fees from the investors. Their money is not properly invested. If would benefit a lrge number of investors.

Employment Opportunities

Employment opportunities would increase if insurance bank starts functioning along with insurance- business. In foreign countries, insurance and banking business are co-existent. They perform better than pure insurance or banking business. Direct and Indirect employment generation is possible if insurance – bank starts functioning. The LIC Act 1956 and GIC Act 1972 would have to be amended sufficiently to permit LIC and GIC to start their banking business.

Bank as Insurance Institution

The IRDA Act, 1999 has opened wide challenges to financial institution. Now banks can also enter in insurance business. The insurance is the basic need of life. Uncertainty of life and death is reducing the working capacities of people because of tension involved. Once it is secured, person feels happy to perform life job effectively. IN a bank where he has his bank account, if he gets facilities of insurance; he would certainly purchase insurance policies. Insurance link deposit would be more attractive to the account holders. With payment of slightly a higher amount at the time of despite, he can secure term insurance. Term insurance would be the most appropriates form of life insurance to be sold by banks. The banks should chalk out the earliest to start new business of life as well as general insurance. In Canada, many banks have been successfully doing this job.

Co-ordination

The banking and insurance institutions would be working an competitive units but they are working in the same environment of India. Their coordination would strengthen their business. Plans formulation, Strategies implementation socio-economic development and technological upgrading are coordinately achieved by both the institutions although Insurance Regulation and Development Authority are there to guide them. Their own thinking and mutual discussion would benefit them. The age is competition but survival is possible with coordination. It is know that both institutions would interchange experienced employees for their development.

Market Expansion

People are aware of the product when there are a number of sellers. They go to the market where selective bargaining is present for purchasing a describe article. People want to purchase a insurance policy e.g. Health and accident which is not available. People do not want to purchase money back which are sold by LIC. These are mere examples. If people can find products of their choice in a market that is full of good sellers, they remain in the market. Ultimately insurance business would increase. A firm propagates his own product but at the same time propagates indirectly others product of the same line. If Banks are telling about insurance benefits, LIC and GIC are also benefited. If insurance industry is telling banking, facilities, the bank are also indirectly. Market expansion is inevitable if insurance area.

Margin of weak banks with LIC or GIC

Several banks are unable to maintain their profitability an account of non-performing assets and non circulation of investable fund. They should merge with LIC or GIC who should be starting banking business, too for their development to achieve leadership. Competence in view of ecoming tough competition from outside country. Once banks have merged with LIC or GIC, they would perform better under their guidance that would need basis infrastructure for expansion of insurance banks. The bank would be performance a fresh. The employment would get a change of revival. They would get proper training and motivation. The productivity and performance would boost their morale. Highly motivated employees would share more responsibility of insurance and banks. The educated people would get opportunities to demonstrate their capabilities. Indian economy would get sufficient funds from insurance and banking institutions. Resource mobilization would help development of people's health, economic conditions and entrepreneurship. India will emerge a powerful Nation

4.3 Summary

The General Insurance Corporation of India was formed on 22nd Nov. 1972 under the General Insurance Business (Nationalization) Act, 1972 and by virtue of the same Act, 55 Indian general insurance companies became subsidiaries of the General Insurance Corporation of India and the undertaking of other erstwhile insurance were merged in undertakings of one or other four selected ultimate companies which were to operate in the nationalized set-up, viz, National Insurance Co- ltd., New India Assurance Co. Ltd., Oriental Fire and General Insurance Co. Ltd., and United India Fire and General Insurance Co. Ltd.

The Insurance Act 1938 was a well thought out legislation and was passed to perform the control of working and activities of the companies carrying on the business relating to life, marine, fire and accidents. But the act has seen many amendments, since it was passed, required from experience in the implementation of the Act. In 1963, the marine Insurance Act was passed to regulate the contract of marine insurance. In 1971, the Government nationalized the insurance business and passed a General Insurance Business (Nationalization) Act in 1972 . A provision was made in 1972 Act relating to general Insurance (Fire, Marine and Miscellaneous) business being taken over by the Central Government.

The General Insurance Business (Nationalization) Act 1972 provides that the Central Government shall form a Government Company in accordance with the provisions of the Companies Act 1956 to be known as General Insurance Corporation of India for the purpose of superintending , controlling and carrying on the business of General Insurance.

The objectives of GIC are to carry on the general insurance business other than life , such as accident , fire etc. to aid and achieve the subsidiaries to conduct the insurance business and to help the conduct of investment strategy of the subsidiaries in an efficient and productive manner.

Growth of General Insurance

On nationalization, GIC was formed with four subsidiaries, viz.,

1) New India Assurance Co. Ltd.
2) United India Assurance Co. Ltd.
3) Oriental Insurance Co. Ltd. and
4) National Insurance Co. Ltd.

Insurance and Banking are coexisting financial institution while complementing and supplementing each other. The Insurance Regulatory and Development Authority Act, 1999 have created more opportunities to them for expansion of their markets. They can serve the society in a very effective manner. Banking Institutions have got opportunities to enter in insurance business while insurance institutions have already under the autonomy of starting their banking business. Many non-banking institutions have been opened acquired funds and dissolved with public money at their stakes. Since they were totally in the hands of private persons, the Government control became ineffective. Banking institutions in India are mainly under the control of Reserve Bank of India. People need insurance but they prefer investment over risk coverage although latter is more important.

The insurance industry of India consists of 53 insurance companies of which 24 are in life insurance business and 29 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers.

The role of Foreign Direct Investment in the present world is noteworthy. It acts as a life blood in the growth of the nations. The wave of liberalization and globalization sweeping across the world has opened many national markets for the international business.

Insurance sector has the capability to raise long term capital from the public as it is the only market in which people invest their money for a long period of time, say 30 years. An increase in FDI in insurance sector would indirectly be a boom for the Indian Economy.

4.4 Key words

1) Bancaassurance - Selling of insurance products and services by banking institutions.
2) Premium - An amount to be paid for a contract of insurance.
3) Claim - demand or request for something considered one's due.
4) performance - The action or process of performing a task or function.
5) segment

4.5 Check your Progress

A) Fill in the blanks

1) Policy of privatization is implement since ___________ .
2) Privatization means transfer of ownership of Enterprises from __________ to ______________ sector.
3) Establishment of IRDA act __________ .
4) Development of insurance industry in India has been boosted by ______ .
5) Government passed General Insurance Business (Nationalization) Act in ____________ .
6) General Insurance Corporation was formed with ________ subsidiaries.

4.6 Answers for self-study questions

1) 1991
2) Public to Private sector

3) 1999
4) Private Insurance
5) 1972
6) Four

4.7 Exercise

A) Short answer type questions (5 marks)

1) Privatization of Insurance Business.
2) Explain need of privatization
3) Growth of G.I.C.
4) Evaluation of public and private companies.
5) Merits of Foreign Direct Investment.
6) Explain demerits of foreign Direct Investment.
7) Explain the berm 'Bancaassurance'?

B) Short Notes (5 Marks)

1) Bancaassurance
2) F.D.I. - Merits and Demerits
3) Growth of G.I.C.
4) Need of Privatization

4.8 Books for further study

1) M. N. Mishra - Insurance Principles and Practice.
2) Kothari & Bahi - Principles & Practice of Insurance.
3) IRDA Annual Reports.
4) Theory & Practice of Insurance - Arif Khan.
5) Annual Reports - GIC of India.